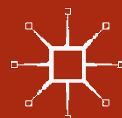
THE PALGRAVE HANDBOOK OF HETEROGENEITY AMONG FAMILY FIRMS

Edited by
Esra Memili and Clay Dibrell



The Palgrave Handbook of Heterogeneity among Family Firms

Esra Memili • Clay Dibrell
Editors

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ISBN 978-3-319-77675-0 ISBN 978-3-319-77676-7 (eBook)
https://doi.org/10.1007/978-3-319-77676-7

Library of Congress Control Number: 2018952061

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The registered company address is: Gewerbestrasse 11, 6330 Cham, Switzerland

This book is dedicated to our families and their sacrifices,
which have made our careers and this book possible.

Acknowledgments

We would like to acknowledge and to thank the great many authors who participated in the creation of this book. Without their insights and time, this book would not have moved forward. Further, we would like to thank those who we have discussed family business heterogeneity with over the years through journal reviews, presentations, conference sessions, or over a coffee or two. Without the forethought of the scholars who preceded us and developed the family business domain, this book would not be possible. Likewise, we would like to acknowledge the contributions of younger scholars who continue to enhance the quality and rigour of the family enterprise research to where we can now consider research questions which have evolved beyond the unique form of a family business, so we can now study patterns within the context of family businesses, as all are not the same.

In closing, we wish to acknowledge the assistance and support from Marcus Ballenger and his staff at Palgrave Macmillan who allowed us the latitude to be creative, while working diligently to see the book through from an idea to publication.

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1

A Brief History and a Look to the Future of Family Business Heterogeneity: An Introduction

Clay Dibrell and Esra Memili

Introduction

In 1998, the first edition of the *Family Business Review* was published marking a seminal point in the development of family businesses as a legitimate field of study. A preponderance of this early research focused on indicating the importance of family businesses to the economy (Shanker and Astrachan 1996), the unique form of ownership of family businesses compared to other nonfamily forms of ownership (e.g., Daily and Dollinger, 1992, 1993), definitional issues of what is a family business (e.g., Chua et al. 1999; Litz 1995), life cycles of the family business (Gersick 1997), and the theoretical foundations of a family business (e.g., Gedajlovic et al. 2012; Sharma et al. 1997; Tagiuri and Davis 1996).

Following this pattern, family business scholarship has often been a context comparison *between* family versus nonfamily firms (e.g., Dibrell and Moeller 2011; Gentry et al. 2016; Kim et al. 2017). Although the definitions of what is a family firm vary (e.g., levels of ownership, family involvement, intention

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E. Memili, C. Dibrell (eds.), *The Palgrave Handbook of Heterogeneity among Family Firms*,
https://doi.org/10.1007/978-3-319-77676-7_1

Form of Evidence	Between (Family Firms vs. Nonfamily	Within (Family Firms vs. Family
Empirical-Based Evidence	Anderson & Reeb (2004) Dibrell & Moeller (2011) Gentry et al. (2016) Kim et al. (2017) Neubaum et al. (2017) Villalonga & Amit (2004)	Cannella et al. (2015) García-Álvarez & López-Sintas (2001) Moores & Mula (2000) Hoopes & Miller (2006) Miller et al. (2013) Olson et al. (1999) Stockmans et al. (2013)
Anecdotal-Evidence	Danes et al. (2009) Salvato & Moores (2010) Songini et al. (2013) Stewart (2003)	Chandler (2015) Chua et al. (2012) Breton-Miller & Miller (2006) Howorth et al. (2010) Miller & Breton-Miller (2006) Moores (2009) Nordqvist et al. (2014) Stafford et al. (1999)

Context Comparison

Fig. 1.1 Organizing framework for family

to pass the firm ownership to the next generation), there has been relatively limited research done on the differences *within* family firms. Further, a preponderance of the research which has been done has been more conceptual or *anecdotal*-based evidence rather than *empirical* based. The intent of this book is to call upon future authors, reviewers, and editors to focus more on *within* family firms with a greater emphasis on *empirical*-based evidence. Figure 1.1 illustrates an organizing framework for this book through inclusion of applicable family context references provided in the introduction preceding the chapter highlights.

One of the first studies to consider differences within family businesses was Moores and Mula (2000). These authors discovered evidence of management control system differences among a class of family firms based on the life-cycle stage using Ouchi's markets, clans, and bureaucracies to provide the first empirical-based evidence of heterogeneity. Building on this research, family business heterogeneity entered the family business vernacular through García-Álvarez and López-Sintas' (2001) empirical taxonomy of differing values among founders of family businesses. This study considered how the different founder values influenced the behavior of their respective family businesses. As such, family businesses behaved differently than other family businesses based, in part, on the values of the founding family and therefore should be treated differently than a homogenous group. Family business heterogeneity

is described as each family business being uniquely different than another family business based on diverse attributes of the firm. These heterogeneous attributes can take many forms such as the associated familial values embedded in the venture or the level of business family involvement in the business (e.g., Chua et al. 2012).

This research was further extended through the works of Miller, Breton-Miller, and their co-authors (e.g., Breton-Miller and Miller 2006; Miller and Breton-Miller 2006; Hoopes and Miller 2006; Miller et al. 2013). These authors articulated how family firms can differ in a variety of ways including in their forms of corporate governance, ownership concentrations, founder versus multiple generational involvement, and resource configurations. Nordqvist et al. (2014) further advanced the field by identifying nine different configurations of family involvement in ownership from controlling owner to cousin consortium. This work is of interest as it considers family beyond the immediate family (e.g., father succeeded by the daughter) to include different configurations of the family (e.g., cousins with family investors) with an emphasis on the family dynamics.

In their seminal article on sustainable family businesses (e.g., Danes et al. 2009; Olson et al. 2003; Stafford et al. 1999), a group of scholars with a background in family social sciences considered how the family impacts the family business. Drawing from sociology and family sciences, these authors considered family dynamics (e.g., family conflict) and how these relationship dynamics influence the decision-making behaviors of the family business.

Moreover, we see heterogeneity of family businesses from finance and accounting disciplines. From a corporate finance perspective, Anderson and Reeb (2004) considered the heterogeneity of boards through the inclusion of family into this conversation. Villalonga and Amit (2006) extended this conversation further by including family ownership, control, and management influencing the value of the firm in publicly traded firms. These conversations have now been more thoroughly integrated in the family business heterogeneity language (e.g., Cannella et al. 2015). From an accounting perspective, the seminal work by Moores (2009) and follow-up special issues in the *Family Business Review* (Salvato and Moores 2010) and *Journal of Family Business Strategy* (Songini et al. 2013) were instrumental in providing an accounting perspective of family for both the accounting field (e.g., Hiebl et al. 2013) and the family business domain (e.g., Stockmans et al. 2013).

The applications of these different traditions and disciplines add to the ability to delineate and to track how the family business domain has grown (e.g., Stewart's (2003) application of an anthropological perspective to family business) and the trajectory of the discipline. Through these myriad of lenses, the

confluence of differing perspectives enriches our research questions and broadens our audience. Family business/enterprise research has grown into a meta-discipline.

Antithetically, the study of family business heterogeneity mirrors other concepts from other disciplines, such as dynamic capabilities from the strategic management field. If dynamic capabilities are truly dynamic and ever changing, then how does a scholar define or capture a dynamic capability (Arend and Bromiley 2009)? The same can be said of family business heterogeneity. Chandler posits "families consist of heterogeneous individuals. The number of family members involved, the potential for role and affective conflict, generational effects, and the power exercised by family members could all influence the choice of control structures and subsequent outcomes" (2015: 1307–1308). Further, the context, organizational culture, and the temporal pace of decision-making and activities within the firm influence the extent of heterogeneity in a family business (Howorth et al. 2010), as well as the varying utility of ownership among the different family members and the life-cycle stage of the family enterprise. Given the potential for variance among family businesses, the idiosyncratic, complex nature of family business heterogeneity raises concerns about the reliability of generalizing findings outside of the immediate sample of studied firms. These criticisms are warranted and should be considered. Likewise, these same apprehensions point to the necessity for scholars to delve deeper among the gradations of how the business family, the family enterprise, and the family business are similar and dissimilar.

The purpose of this book is to build upon the framework in Fig. 1.1 by further fleshing out the heterogeneity nuances of family businesses and to extend the reach of the family business domain through the editorially reviewed chapters of family business scholars from diverse backgrounds with many originating outside of the management discipline. This edited volume is organized in five broad thematic areas: the present state of family business research, family governance, nonfinancial and financial dynamics, organizational behavior and human resource management, and strategies.

In Part I of this book, Jimenez-Castillo and Hoy (2018) discuss the early contributions to the family business research by both scholars and practitioners. The authors (2018) present the origins of family business research as measured by the citation count that set the foundation for the field and provide future research directions. Odom and colleagues (2018) then identify more recent and the most influential 21 articles between 2006 and 2013 that covered the five most commonly applied theoretical perspectives: agency theory, resource-based view, stewardship theory, socioemotional wealth (SEW), and institutional theory. In terms of methodological approaches, Fang et al.

(2018) highlight seven empirical approaches (i.e., direct effects, moderation, mediation, configurational approaches, convergence/divergence, conditional heteroscedasticity, and multi-level modeling) in testing for family firms' heterogeneity. In Part II, scholars address heterogeneity in relation to the family governance. Family firms exhibit unique governance characteristics, such as parsimony, personalism, and particularism that elevate family business leaders' discretion in decision-making (Carney 2005). In the initial chapter of Part II, Ponomareva et al. (2018) draw upon social identity theory to explain clan and financial family firm identities and how each dominant form of identity leads to different corporate governance needs and preferences. Concerning corporate governance, Dawson and Parada (2018) also draw attention to the presence of different generations and explore how intergenerational and intertemporal issues affect governance structures in the long run with a longitudinal case study of a 180-year-old family business.

Furthermore, in Part II, Sherlock and Marshall (2018) and Bettinelli and colleagues (2018) take a closer look at the Boards of Directors (BoDs) in family firms. In their review of family governance, Sherlock and Marshall (2018) apply input-mediator-output-input framework to identify family processes impacting the forming, functioning, and finishing stages of BoDs in family firms. Bettinelli et al. (2018) review the literature in terms of gender diversity in BoDs of family firms and explore BoD characteristics, diversity, and women's presence in BoDs. Aside from these works on the BoD, Van Helvert-Beugels and colleagues (2018) empirically examine Boards of Advisors (BoAs) in Dutch family firms by applying resource dependence theory. The findings of their analyses reveal that highly dynamic environments lead to the presence of BoAs. Moreover, the presence of BoDs results in having a BoA, suggesting complementarity between these two governance mechanisms.

Part II also includes Cater and Young's (2018) case study and grounded theory analysis on the changing roles of women and development as successors in family firms. The authors identify more visibility of women with positions of authority in family firms, unlike the traditionally prevalent male leadership. In addition, Frank et al. (2018) work conceptualize enterpriseness of business families by capturing the business influence on the family. According to the authors, business families are faced with the demands of both family and business with successful business families developing "enterpriseness" by accepting business-related rules. Furthermore, Prigge and Thiele (2018) examine the use of corporate governance codes in managing the bright and dark sides of family influence and whether the codes foster agency or stewardship tendencies in family firms. At the end of Part II, Diaz-Moriana et al. (2018) discuss definitional heterogeneity by identifying and classifying

82 definitions of family firms in the literature. The authors also provide a conceptual diagram to inform the choice of definition in different research contexts.

Part III involves chapters on the family firms' heterogeneity in terms of nonfinancial and financial dynamics. Indeed, family firms are driven by both noneconomic and economic goals and often face trade-offs or dilemma between these goals coupled with the bounded rationality (Chrisman et al. 2014). Williams et al. (2018) draw attention to the owning families' great freedom in goal selection, resulting in goal idiosyncrasy and heterogeneity. The authors also provide a review of the literature on family business goals and discuss relationships between financial and nonfinancial goals as well as processes of family business goal formation. Su et al. (2018) examine the distribution of family firm performance heterogeneity and challenge the normal distribution assumption concerning heterogeneity in family firm financial performance. The authors first provide a comprehensive literature review and analysis of previous studies on family firms' heterogeneous performance. Then, they examine the distribution of several samples of family firms' performance, assessing the extent to which the data fit a normal or a power-law distribution. Findings show that a power-law distribution would be a more appropriate approach to explain heterogeneity among family firms' performance.

Furthermore, Kempers et al. (2018) explore risk behavior in family firms. The authors integrate finance, management, and entrepreneurship literatures to explain that different definitions of risk underlying family firms' risk behavior and strategic decisions. Moreover, Prügl (2018) reviews scales directly measuring SEW and discusses challenges associated with them. By drawing upon the ability and willingness approach (De Massis et al. 2014), Pongelli et al. (2018) suggest that the combination of ability and willingness to pursue family-centered noneconomic (FCNE) goals results in less restructuring activities. Additionally, the authors argue that willingness to pursue FCNE goals depends on the geographical context and the generational stage. For the development of financial and nonfinancial dynamics in family firms, Seaman et al. (2018) highlight the critical role of family values. Through a systems perspective of the family business, Labaki et al. (2018) provide a dynamic process of myths formation and transformation with its impact on both family and business systems in the long run.

In Part IV, authors address family firms' heterogeneity in terms of organizational behavior and human resources management. Moores and colleagues (2018) explore the antecedents of heterogeneity in family firms (i.e., the presence of family and their pursuit of dual logics in decision-making) and develop a conceptual model by presenting the core philosophies of servant leadership,

trust, and stewardship referring to frameworks at both organizational and individual levels. The outcomes of the mindsets, philosophies, and frameworks the authors examine require family firms to have both family and business skill sets to lead, govern, innovate, and adopt.

Concerning justice perceptions in family firms, Marler et al. (2018) review the relevant literature, present valid measures of justice-related constructs, and provide future research directions on how the family may influence justice in family firms. Tabor et al. (2018) focus on the ethics-specific heterogeneity concerning family-related determinants and family firm outcomes of ethical cultures in their review. Conversely, Kidwell et al. (2018) develop a conceptual framework contrasting and classifying deviance types (i.e., dysfunctional, functional, and strategic) within the context of family firms. By applying the insights from identity process theory and transformative learning, Harrison and Leitch (2018) discuss the dynamics of identity work and identity formation. The authors draw attention to the interconnectedness between the leader's identity, experience, current context, and enactment of leadership. Furthermore, from collective psychological ownership perspective, Heino et al. (2018) explain the sociopsychological challenges of succession in family firms by identifying the main factors as well as the critical role of collective psychological ownership in a successful succession. At the end of Part IV, D'Allura and Bannò (2018) categorize family firm types based on the level of professionalization of the top management team by conducting a cluster analysis of 500 Italian firms.

Recent research shows how distinct types of family owners and managers influence strategies, as well as the heterogeneity of family firms' behavior (e.g., Chrisman and Patel 2012; Fang et al. Forthcoming 2018). Accordingly, the last part of this book, Part V, involves scholarly works on a wide variety of strategies such as innovation, exploitation and exploration, transgenerational value creation, likelihood of failure, international entry modes, entrepreneurial action, branding, and competitive advantages associated with the family firms' heterogeneity. In the initial chapter of Part V, Campopiano et al. (2018) develop a framework of family firm resilience by drawing upon prospect theory. In terms of goal-related antecedents of innovation strategies, the authors suggest that family firms innovate according to pursued family-centered noneconomic goals. Moreover, as a response to environmental jolts, family firms choose between closed versus open innovation by deploying slack resources. Furthermore, Arredondo and Cruz (2018) explore how owning families create value across generations through ambidexterity in exploitation and exploration in Latin American context. Drawing upon the density dependence model in organizational ecology and embeddedness theory, Caccamo et al.

(2018) theorize that family firm density can reduce the likelihood of firm failure. The authors also suggest that this effect can vary in family versus. non-family firms, urban versus rural areas, and fine-grained variable versus stable environments.

For internationalization, Löhde and Calabrò (2018) conduct an exploratory case study on German family firms and their entry modes in China and India by applying international opportunity identification-based approach. Findings show that for first-time entries, accidental or purposeful international opportunity identification influences the entry mode. Moreover, Goel and colleagues (2018) conceptualize and explore entrepreneurial action in family firms through a subjectivist view of entrepreneurial action suggesting entrepreneurial opportunities are constructed by the action taker. Specific to family firms, authors take a closer look at the impetus for action, cultivation of entrepreneurs, and crafting of opportunities.

Regarding the heterogeneity of family business branding strategies (Craig et al. 2008; Gallucci et al. 2015; Micelotta and Raynard, 2011), Botero and colleagues (2018) explore the role of family firm identity and market focus in family businesses, which explicitly and actively communicate the "Family Business Brand". Ramírez-Solís et al. (2018) examine how familiness is related to family firm performance in family firms in Mexico by drawing upon resource-based view. At the end of Part V, Boyd and colleagues (2018) examine the impact of internal succession on maintaining strategically relevant knowledge resources within the context of markets. The authors suggest that in some market environments, family-business-specific experiential knowledge can form a basis for competitive advantages and such knowledge can be transferred to internal successors more easily than to external successors.

In sum, the Palgrave *Handbook of Heterogeneity among Family Firms* presents 34 book chapters with 100 authors (including the co-editors) demonstrating state-of-the-art research by prominent scholars around the globe on family business heterogeneity topics, including governance, nonfinancial and financial dynamics, organizational behavior and human resources management, and strategies. The theorizing, research findings, and future research directions concerning family firms' heterogeneity in this book open up new avenues for research not only in the family business field but also across disciplines to investigate both internal and external factors such as the influences of firm size, industry, and many others associated with family firms' heterogeneity (e.g., Craig & Dibrell, 2006; Fang et al. 2016, 2017; Memili et al. 2017; Randolph et al. Forthcoming 2018).

In conclusion, we anticipate this book serving as a touchstone for future research. In addition to the topics outlined in the chapters, scholars may wish

to consider the heterogeneity in other areas of family business research not outlined in this book. We anticipate the development of the meta-discipline known as family business is in the early growth stage and will attract a broader global audience of scholars and practitioners. We call upon researchers across disciplines to move beyond the necessary but not sufficient comparison of family firms being different than nonfamily firms and consider the extent to which family firms act heterogeneously through empirical-based and anecdotal-based evidence.

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Part I

Family Business Research to Date

2

Origins of Family Business Research

Luis Jimenez-Castillo and Frank Hoy

Introduction

Intensive attention by scholars to family business is recent (Bird et al. 2002; Hoy and Verser 1994; Hoy and Laffranchini 2014), but stories of families in business have been circulating for millennia. Perhaps the earliest versions are of political and military dynasties that conquered and ruled territories and populations. Examples include epic poems such as *The Mahabharata*, compilations of tales such as *One Thousand and One Nights*, and the plays of Aeschylus and Shakespeare. Family businesses have been the subjects of fictional treatments in various novels, including *Cousin Bette*, *Middlemarch*, and *War and Peace*. These renditions have shaped thoughts and helped form stereotypes of the interactions among family members in their working relationships. In the twentieth century, historians published numerous books about families involved in businesses that both reinforced and contradicted the stereotypes. Among those profiled are the Birlas, the Cadburys, the Rothschilds, the Slims, the Waltons, and many more. While these categories of literary contributions may not be frequently cited in the academic body of literature on family business, they likely shaped both practice and research through the issues they raised and the portrayals they continue to provide of how family members relate within business structures. Just as multigenerational family firms must value the legacies of their founders, family business scholars must

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E. Memili, C. Dibrell (eds.), *The Palgrave Handbook of Heterogeneity among Family Firms*,
https://doi.org/10.1007/978-3-319-77676-7_2

review the origins of the field to capture how seminal academic contributions and influential works can guide new research toward filling gaps in our knowledge and advancing our understanding of families in business. In this chapter, we seek to demonstrate how reconsiderations of early studies can provide foundations and help frame future research.

The Beginnings

Although family business research publications by academic scholars began appearing in the 1950s (Sharma et al. 2007), the launch of *Family Business Review* (FBR) in 1988 is a critical point because it provided the initial opportunity for researchers to target a journal that concentrated on family business issues. Prior to FBR, books, and articles on family business dominated the early body of knowledge. A seminal contributor was Léon Danco (Ward 1987), described as a family business legend, as the leading expert on family business, as the founder of family business consulting, and other accolades. In his 1975 book, *Beyond Survival*, he identified the problems of the family business owner as (Danco 1975, p. viii)

1. He has been at it too long,
2. His experience is invalid,
3. He does not tell anyone anything,
4. He does not want other people to meddle in his affairs,
5. He is influenced by a corps of co-conspirators masquerading as advisors and sometimes as directors.

Danco is credited with being of valuable service to countless business owners. His advice in this and other books is a function of his experience in observing and counseling clients and has influenced both owners and other consultants. Note the use of the masculine pronoun, reflecting attitudes at the time of publication. He is consistent with that throughout the book, again based on his experience.

Other books written by successful consultants include *The Family in Business* by Paul Rosenblatt, Leni de Mik, Roxanne Marie Anderson, and Patricia Johnson. This book was published in 1985 with the intent of helping families deal with problems that could be expected as a result of business ownership and management. *Family Business, Risky Business: How to Make It Work* was written by David Bork in 1986 in his attempt to help family businesses achieve the goal of generating profits through overcoming the problems fami-

lies encounter through communication and the interference of family dynamics in business operations. Others could be cited to indicate how consultants viewed family businesses as needing assistance in addressing predictable difficulties that nonfamily firms might not experience.

Family business consultants also made early contributions through journal and magazine articles. A few examples are articles by Paul Bornstein in *Forbes* in 1983, Gerald Gaffner in *Trusts & Estates* in 1975, Everett Groseclose in *The Wall Street Journal* in 1975, Richard Kirkland Jr. in *Fortune* in 1986, Marshall Paisner in *Inc.* in 1986, and columns by Sharon Nelton in *Nation's Business* and by Steven Prokesch in *The New York Times* in 1986. Many other articles and authors could provide evidence of the attention given to family businesses by practitioners before academia began taking them seriously through rigorous research. The writings of the consultants tend to offer normative prescriptions typically resulting from experiences with their clients. Their prescriptions have some grounding in practice and may appear to be intuitively obvious and, in the opinion of practitioners, not in need of empirical justification. Subsequent scientific research applications have supported some of the consultants' observations, leading to theory development and application, while others appear to have gained general acceptance but are still in need of empirical testing.

It should not be surprising, therefore, that early scholarly investigations in the literature focused on the problems families in business were encountering. Practitioner writings often addressed governance and succession. These were early subjects of empirical studies and have continued to receive attention in academic journals and books. Other topics introduced by consultants included conflict, boundary issues between family and business, financial management, professionalization, and many more.

Academic Contributions

In this chapter, we identify scholarly studies, some empirical and some conceptual, which have gained significant attention in academic literature. We acknowledge the contributions made by other authors to approaches to classifying family business research streams. Our attempt is to document some of the seminal books and articles that underlie streams that have become meaningful to researchers and practitioners.

Bird et al. (2002) described family businesses as the backbone of ancient economies and civilizations, contending that they played an important role in the development of Western Civilization. It is surprising, therefore, that the field is so relatively new in academia. Acceptance appears to be growing rapidly,

however. In their follow-up to a review Sharma et al. published in 1996, De Massis et al. (2012) reported a marked increase in the publication of family business studies in top-tier journals, indicating legitimization of the field and multidisciplinary growth.

In their editorial note on the 25th anniversary of FBR, Sharma et al. (2012) stated that family business scholars recognize the ubiquity and complexity of issues faced by this organizational form. This recognition has driven family enterprise research and is gaining momentum. To comprehend the ubiquity, complexity, and momentum, we reflect on scholarly contributions that stand at the origins of what has become valued in research and practice.

Numerous authors have conducted reviews of the family business literature. A variety of approaches have been taken in efforts to identify dominant themes and contributors, as well as research gaps and directions for future research. Methodologies for selecting and reviewing and categorizing studies typically involved selecting articles from academic journals published over specified time periods. Articles were usually selected from a limited number of journals that are recognized for publishing family business studies. In some cases, the selected articles were ranked by citation count. In other cases, the reviews are more epistemological, using grounded theory approaches and relying on the authors' depth of understanding of the literature.

Searching for Influential Works

To ascertain scholarly contributions that generated and fostered research streams in family business, we chose a citation count strategy. We selected three key terms for our search: *family business, family firms,* and *family enterprise*. Three search engines were used: *Google Scholar*, *Scopus* and *Web of Science*. Results varied based on the search engine selected.

Our initial search was for the term *family business*. That resulted in 135,000 articles for *Google Scholar*, 3027 for *Scopus*, and 1555 for *Web of Science*. We then identified citation frequencies. The most frequently cited publication in *Google Scholar* had a count of more than 1500 works, whereas for *Scopus* it was fewer than 1000, and in *Web of Science* barely 500 citations. We concluded, therefore, that *Google Scholar* offered us the best engine for examining impacts. We thus restricted further searches to this engine. For the terms *family firms* and *family enterprise*, *Google Scholar* provided 23,900 and 15,900 results, respectively.

To determine the publications that affected the research of other scholars, we specified a cutoff of 1000 or more citations for those we labeled 'most influential', 750 to 999 for those labeled 'influential', and between 500 and 749 for those that were 'somewhat influential'. We then perused the titles of

Table 2.1 Number of works classified by influence based on citations

Classifications	# of works	% of works
Most influential: 1000 or more citations	19	25
Influential: between 750 and 999 citations	20	27
Somewhat influential: between 500 and 749 citations	36	48

the works in each of those groups and deleted four works that were not exclusively family business studies. Three fell more in the entrepreneurship discipline and one in finance. That resulted in a tally of 75 publications. The breakdown is shown in Table 2.1. Appendix 1 contains the final list that we concluded to be the most influential contributions to the family business literature.

The choice of citation counts for article and book selection skews the results toward older publications. There is obviously a lag time between the public availability of a scholarly contribution and its subsequent citation by other authors. The longer the length of time since an item appeared, the greater the opportunity it has to be cited relative to more recent publications. Such biases are appropriate for the purpose of this chapter because we are examining the origins rather than current research foci.

Analysis

The 75 works that met the selection criteria we chose were published over a 45-year period, 1971–2016 (Graph 2.1). Of those, 68 were journal articles, 6 were books, and 1 was a working paper. The journal articles were published in 19 different outlets, *Family Business Review* being the predominant publisher, producing 22 of the articles (Table 2.2).

Following the selection of the 75 publications, the next step was to group them by research topic. To develop categories for our classification, we drew from prior reviews and compilations. Most of the reviews of the family business literature were found in *Family Business Review*. Additionally, a number of research books have been produced over the years that provided guidance, including two bibliographies (Sharma et al. 1996; De Massis et al. 2012). The list of the sources we used for categorizing is contained in Table 2.3. The first of our sources was published in 1991 (Aronoff and Ward) and the most recent in 2014 (Melin et al.). This list is not exhaustive. There have been, for example, a number of literature reviews that focus on more narrow topics within the field of family business. Examples include Friedman (1991) (sibling

Graph 2.1 Number of publications by year

Table 2.2 Major publication outlets for family business academic works

Journal	% of works
Family Business Review	32.4
Entrepreneurship Theory and Practice	19.1
Journal of Business Venturing	10.3
Academy of Management Journal	4.4
Journal of Finance	4.4
Journal of Financial Economics	4.4
Administrative Science Quarterly	2.9
Journal of Corporate Finance	2.9
Journal of Management Studies	2.9
Journal of Economic Perspectives	2.9
European Financial Management	1.5
Harvard Business Review	1.5
International Journal of the Economics of Business	1.5
Journal of Accounting and Economics	1.5
Journal of Accounting Research	1.5
Journal of Law and Economics	1.5
Journal of Small Business Management	1.5
Journal of Vocational Behavior	1.5
Organization Science	1.5

relationships and intergenerational succession), Marshack (1993) (coentrepreneurial couples), and Wortman Jr. (1994) (strategic management). Additionally, there are an increasing number of dissertations that contain family business literature reviews.

The analysis led to a classification scheme consisting of 16 themes and 78 subthemes. The critical segments of each article and book reviewed were titles,

keywords, and abstracts. We anticipated and found that most works addressed more than one topic and were, therefore, classified into more than one theme and/or subtheme. The final tally totaled 321 subtheme mentions. The results of this classification can be viewed in Appendix 2.

The prior reviews in Table 2.3 are related to the 16 categories because they have been summarized in this chapter. The comprehensiveness of the classification involves and summarizes research books and other classifications that were pertinent to the 75 publications classified. The relationship of the themes among the reference books and literature reviews validates one another, giving confidence to these categories.

Table 2.3 List of sources used for themes

Source	Themes
Melin et al. (2014)	Financial performance
	Stakeholder management
	Governance
	Management succession
Hoy and Laffranchini (2014)	Succession
	Governance of the business
	Governance of the family
	Culture
	Strategic management
	Financial management
	Boards of directors and advisors
	Professionalization
Sorenson et al. (2013)	Governance
	Performance
	Social and economic impact
	Strategy
	Family dynamics
	Family business roles
	Succession
De Massis et al. (2012)	Goals and objectives
	Strategic formulation and content
	Strategy implementation and control
	Management and ownership
	Organization performance
Zahra and Sharma (2004)	Succession
	Performance
	Governance
Bird et al. (2002)	Succession
	Distinctiveness
	Conflict
	Management/strategy
	Helping family business
	Macro (economics, policy)
	Women

(*continued*)

Table 2.3 (continued)

Source	Themes
Dyer and Sánchez (1998)	Succession Interpersonal dynamics Conflict Firm performance Governance, professionalization Innovation Consulting to family firms Gender Ethnicity
Sharma et al. (1997)	Goals and objectives Strategy formulation and content Strategy implementation Strategy evaluation and control
Sharma et al. (1996)	Strategic management Family influence Ethnicity Professional advice Methodological issues
Aronoff and Ward (1991)	Succession Management and strategic planning Financial dimensions Professionalizing the family firm Boards of directors Family business growth Psychological issues Changes and conflict Family relations Women in the family firm The younger generation Raising rich kids Consulting to family business Family business and society

Examples of Influence

A review of citations confirms that some articles have influenced others on the list and across categories. A few examples demonstrate how studies cut across disciplines in their influence.

Anderson and Reeb's 2003 article has been cited in research addressing ownership, business performance, and comparisons between family businesses and nonfamily businesses. The study influenced financial dimensions, governance, social impact, roles in family business, and contributed to knowledge in disciplines such as finance, management, accounting, economics, and law.

A review of Astrachan and Shanker's (2003) investigation of the economic impact of family firms in the United States finds that it has stimulated research on succession, management, financial dimensions, governance, women in family business, entrepreneurship in family business, and the younger generation. Additionally, it has contributed to the literature on finance, entrepreneurship, management, and ethics.

Chua et al. (1999) proposed a theoretical definition on family business based on the firm's intention and vision, which helps to define family businesses from nonfamily businesses. This work has been widely cited throughout the family business literature touching most of the categories listed in this chapter.

In their 2003 article, Gomez-Mejia, Larraza-Kintana, and Makri looked at executive compensation in family businesses, making contributions to the financial and human resources literatures. Within family business, they have impacted the categories of management, strategy, financial dimensions, governance, change and conflict management, entrepreneurship in family firms, and social impact.

Discussion

The publication counts in the themes and subthemes listed in Appendix 2 suggest the impact of seminal contributions that represent the foundations of the current state of knowledge in family business and indicate areas of concentration on which researchers might direct their efforts for further advancements. For example, this classification approach could be a basis for an argument that there are more gaps to fill in the bottom three categories—Entrepreneurship in Family Firms, Women in Family Business, and Family Business Consulting—than in the top three—Governance, Roles in Family Business, and Financial Dimensions (Table 2.4).

It is well established that family business extends into multiple disciplines and innumerable topics. Cross-theme research would certainly be a viable path for future research where two or more themes can be addressed pertinently at once, for example, Family Business Consulting and Roles in Family Business or Women in Family Business and Governance. Researchers who focus on the dominant themes may find productive research streams flowing from the addition of a second or third theme.

Is it reasonable to assume that subthemes with only one influential work represent gaps in knowledge that need to be addressed (*cfr*. Appendix 2)? Have scholars found some of the subthemes difficult to investigate due to reticence on the part of family members to discuss them or reveal personal information (e.g.

Table 2.4 Major categories for family business academic works

Theme	% of works that have that theme
Governance	13.2
Roles in family business	12.3
Financial dimensions	11.7
Succession	8.0
Strategy	7.7
Management professionalization	6.8
Social impact	5.8
Psychological issues	5.5
Change and conflict management	5.2
Family dynamics	5.2
The younger generation	4.0
Management	4.0
Theoretical perspectives	3.4
Entrepreneurship in family firms	3.1
Women in family business	2.8
Family business consulting	1.2

compensation of successors, substance abuse, or widows taking charge of the leadership)? Other subthemes may require collaborations with scholars from multiple disciplines. Researchers must acknowledge their limitations when looking at the complexity of the family firm. Does anyone of us have sufficient expertise in anthropology, business law, family science, finance, human resource management, sociology, and so on, when such knowledge may be relevant to a given research question under investigation? Reviewing the list of themes and subthemes could also lead to the conclusion that there are topics and sets of topics that are still in very early and evolving stages of development, such as social impact on regulatory and business environment for family businesses, portfolio entrepreneurship for families, and father-daughter relationships.

Although our review did not address the geographic location of the studies or the composition of samples, it is clear that variations in political, economic, sociocultural, technological, and other environments demand caution in efforts to generalize from family firms in particular countries and regions. We propose, therefore, that there are opportunities in any of the themes and subthemes for comparative analyses. Advances in communications and transportation should facilitate multinational comparisons that build on the seminal pieces referenced in Appendix 1.

There are, of course, always limitations on money, time, and other resources when conducting a research project. Yet, the abundance of information now accessible electronically can be a barrier, forcing researchers to make judgments about which information is relevant and which can be ignored. This brings us to the assessment of quantitative and qualitative methodologies

appropriate for designing projects, collecting and tabulating data, and reporting results. Early studies in any discipline were a function of research tools available at the time they were conducted. It is very likely that it is time to replicate some of the seminal scholarship with more sophisticated designs and methodologies to determine if the findings hold up (Xi et al., 2015). Fletcher et al. (2016) state there is a huge opportunity in utilizing more qualitative research in the field. Pertinent qualitative methodologies can help fill knowledge gaps, especially in the previously called difficult topics.

Conclusions

The review of research origins was unsuccessful in identifying studies published in languages other than English for analysis. We did not locate any non-English publications that had more than 500 citations according to the *Google Scholar* search. Previously, Litz et al. (2012, p. 21) tabulated locations of family business studies and found that 'the biggest single country represented was the United States (43.7% of respondents). Ten percent of the respondents came from Canada, while 31.3% of respondents represented an array of different European countries. Other countries represented also included Australia, Chile, Uruguay, Philippines, Israel, and Nigeria'. Language barriers may be preventing the enrichment of the field, limiting the ability of non-English speakers to publish.

In comparison with other business disciplines, family business as a research field is relatively new. The reliance of the field on the experience of practitioners can be seen from the beginning, since so many of the early publications were from family business consultants. Academic scholars have added much to the body of knowledge by applying rigorous research methodologies, leading to both confirmation and refutation of some of the consultants' observations. Advances in analytical techniques (e.g. Bickman 2000; van der Velde et al. 2004) have increased our confidence in research findings. Some of the guidance family business scholars have received has focused on the study of small businesses (e.g. Carsrud and Brännback 2014; Curran and Blackburn 2001), while others concentrate on entrepreneurship (e.g. Fayolle et al. 2013). These efforts to support researchers in finding improved techniques will continue to be valuable in moving the field forward.

Future research can add new knowledge as well as clarify generally accepted but unsupported opinions. In this chapter, we have suggested numerous ways in which scholars can build on work that has proved valuable to understanding the dynamics of family enterprises. These suggestions should not, how-

ever, stifle innovative approaches to adding to the body of knowledge. Our final conclusion is that it is important for scholars to balance rigor and relevance so that consultants and entrepreneurial families can apply the findings from scholarly investigations.

Appendix 1

Most Influential

Aldrich, H. E., & Cliff, J. E. (2003). The pervasive effects of family on entrepreneurship: Toward a family embeddedness perspective. *Journal of Business Venturing*, *18*(5), 573–596.
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Davidoff, L., & Hall, C. (2013). *Family fortunes: Men and women of the English middle class 1780–1850*. London: Routledge.
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Influential

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Appendix 2

Theme	Subtheme	Theme total	Subtheme count
Governance		43	
	Family ownership		9
	Governance structure		8
	Decision-making		6
	Board of Directors		5
	Family control		5
	Family business philosophy		4
	Role of outsiders		4
	Family council		2
Roles in family business		40	
	Family involvement in business		18
	Family members attitude toward family business		9

(*continued*)

(continued)

Theme	Subtheme	Theme total	Subtheme count
	CEO relationship to family business		6
	Nonfamily members attitude toward family business		5
	Role of spouse/coentrepreneur		2
Financial dimensions		38	
	Financial performance		16
	Company valuation		7
	Wealth management		6
	Estate planning		5
	Going public		2
	Ownership transfer		2
Succession		26	
	Succession process		11
	Succession plans		9
	Transition events		3
	Business outlasting		1
	Compensation		1
	Inheritance		1
Strategy		25	
	Strategies for family firms		9
	Strategic planning		6
	Survival and growth		4
	Internationalization		3
	Investments and finance strategy		3
Management professionalization		22	
	Organizational performance		14
	Transition to professional management		5
	Human resources management		3
Psychological issues		18	
	Values in family business		6
	Trust and family business		3
	Coping with intergenerational transfer		2
	Emotions		2
	Family business therapy		2
	Health in the household		2
	Substance abuse		1
Change and conflict management		17	
	Family business conflicts		8
	Life-cycle changes		5
	Managing change		3
	Family feuds		1
Family dynamics		17	
	Family business characteristics		9
	Sibling relationship		4
	Family and business balance		2

(*continued*)

(continued)

Theme	Subtheme	Theme total	Subtheme count
	Commitment		1
	Satisfaction		1
Social impact		17	
	Family firms and economic development		8
	National impact of family firms		4
	Business, faith and the family		2
	Social innovation and family firms		2
	Regulatory and business environment		1
Management		13	
	Managing the family business		8
	Operations in the family business		4
	Identity		1
The younger generation		13	
	NxGen entry		4
	Perspective of the senior generation		3
	Perspective or the junior generation		3
	Raising the NxGen		3
Theoretical perspectives		11	
	Family business research		4
	Psychology		2
	Anthropology		1
	Business history		1
	Economy		1
	Family science		1
	Sociology		1
Entrepreneurship in family firms		10	
	Enterprising families		5
	Corporate entrepreneurship		4
	Portfolio entrepreneurship		1
Women in family business		9	
	Women leadership		3
	Role of female family members		2
	Women and brothers		2
	Father-daughter relationship		1
	Widows taking charge		1
Family business consulting		4	
	Consulting to the business		2
	Consulting to the family		2

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3

The Most Influential Family Business Articles from 2006 to 2013 Using Five Theoretical Perspectives

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Introduction

Since 2010, more than 800 peer-reviewed articles on family business research have been added annually to ABI Inform. This research volume indicates an explosive growth of scholarly interest in the field of family business. Albeit a welcome development, this growth presents a challenge for scholars in keeping up with theoretical and empirical progress in the field. In order to make

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© The Author(s) 2019
E. Memili, C. Dibrell (eds.), *The Palgrave Handbook of Heterogeneity among Family Firms*,
https://doi.org/10.1007/978-3-319-77676-7_3

sense of the growing literature, family business scholars have paused from time to time to take stock of what we know or do not know, consolidate knowledge, and identify future research directions (e.g., De Massis et al. 2013; Gedajlovic et al. 2012).[1]

The purpose of this chapter is to take stock of recent scholarship, an endeavor that Boyer (1990) considered as critical for the growth of a professional field of study—rivaling knowledge creation, pedagogy, and application. Most previous reviews have been framed around topics such as succession (e.g., Daspit et al. 2016), entrepreneurial exploration and exploitation (e.g., Goel and Jones 2016), or methods (e.g., Evert et al. 2017). To complement these works, this chapter focuses on the most prevalent theories used in family business literature and identifies the most influential articles from each theoretical perspective. Our main purpose is to examine how different theoretical lenses have contributed to the understanding of the heterogeneous behaviors found among family-owned firms. We then further suggest additional research directions to expand the domain of family business studies.

Based on input from 19 well-established scholars in the field, we identified the five most prevalent theories used between 2006 and 2013. We then searched for the most frequently cited works using each theory to represent the state-of-the-art family business research. In all, 21 influential articles were identified and reviewed. While collectively these articles illustrate the diversity of family firms as an organizational form, they also shed light on the sources of this heterogeneity and help identify interesting research questions using these multiple theoretical lenses. These articles also point toward other perspectives that can help to deepen the understanding of family enterprises around the world.[2]

Methodology

Building on the work of Chrisman et al. (2010), we used a three-step process for determining the articles to review in this chapter. First, we identified the most influential theories used in family business research since 2006. Next, we consulted an expert panel of 19 scholars whose main research focus is family businesses and asked them to identify the theories that were most influential in family business research. Five theories were mentioned at least ten

[1] Also see review articles at http://journals.sagepub.com/topic/collections/fbr-1-selected_review_articles/fbr

[2] Our original purpose was to review the top five articles per theory; however, we ended with 21 articles because 4 articles used more than one of the theories.

times. In order of frequency they were: agency theory, resource-based view, stewardship theory, socioemotional wealth (SEW), and institutional theory.

Second, we searched the keywords and abstracts of articles in 35 journals that have published family business articles (cf., Debicki et al. 2009) between January 2006 and December 2013.[3] The search resulted in 167 family business articles. Together, these articles have been cited almost 20,000 times.[4] Finally, we used the average number of citations per year to determine the most influential articles for each theory.[5] We included the top five articles per theory but overlaps reduced the total number of articles to 21. Table 3.1 presents the articles ordered by citations per year.

Theoretical Perspectives

In the following sections, we review the articles by each theoretical perspective and highlight how they provide insights into the heterogeneity of family business behavior.

Agency Theory

Family firms were originally believed to have reduced agency costs due to the close emotional and biological bonds shared between members of the business (Jensen and Meckling 1976). However, subsequent work has suggested that family firms are not immune to agency issues. For instance, agency problems emanating from asymmetric altruism, as well as conflicts among owner and managers, owner-managers and lenders, majority and minority owners, and

[3] American Economic Review, Academy of Management Journal, Academy of Management Review, Administrative Science Quarterly, Business Ethics Quarterly, Corporate Governance: An International Review, California Management Review, Entrepreneurship & Regional Development, Entrepreneurship Theory and Practice, Family Business Review, Harvard Business Review, Human Relations, International Small Business Journal, Journal of Business Ethics, Journal of Business Research, Journal of Business Venturing, Journal of Family Business Management, Journal of Family Business Strategy, Journal of Finance, Journal of Financial Economics, Journal of Management, Journal of Management Studies, Journal of Organizational Behavior, Journal of Small Business Management, Leadership Quarterly, Long Range Planning, Management Science, Organizational Dynamics, Organization Science, Organization Studies, Quarterly Journal of Economics, Small Business Economics, Strategic Management Journal, Sloan Management Review, and Strategic Organization.

[4] In order to allow a fair representation of citations per year, the searches for influential articles were limited to family business articles that were published between January 2006 and December 2013. However, articles published after December 2013 were considered for enhancing the review and future research directions.

[5] Citation counts were conducted using the Google Scholar's database on September 4, 2017.

Table 3.1 The 21 most influential family business articles, 2006–2013 (Ranked by Cites per Year)

Cites per year	Total cites	Authors	Year	Theory	Article type
146.50	1465	Gómez-Mejía, Haynes, Núñez-Nickel, Jacobson, and Moyano-Fuentes	2007	SEW	Empirical
125.60	628	Berrone, Cruz, and Gomez-Mejia	2012	SEW	Conceptual
111.29	779	Chen, Chen, Cheng, and Shevlin	2010	Agency	Empirical
107.50	1075	Arregle, Hitt, Sirmon, and Very	2007	RBV	Conceptual
83.86	587	Berrone, Cruz, Gomez-Mejia, and Larraza-Kintana	2010	SEW/ Institutional	Empirical
73.80	369	Chrisman and Patel	2012	SEW	Empirical
73.36	807	Miller and Le Breton-Miller	2006	Agency/ Stewardship	Conceptual
70.18	772	Dyer	2006	Agency/RBV	Conceptual
60.78	547	Pearson, Carr, and Shaw	2008	RBV	Conceptual
59.60	298	Zellweger, Kellermanns, Chrisman, and Chua	2012	SEW	Empirical
58.40	584	Eddleston and Kellermanns	2007	Stewardship	Empirical
52.75	211	De Massis, Frattini, and Lichtenthaler	2013	Agency	Literature Review
46.91	516	Le Breton-Miller, I. and Miller, D.	2006	RBV	Conceptual
46.17	277	Miller, Le Breton-Miller, and Lester	2011	Institutional	Empirical
43.60	218	Gedajlovic, Carney, Chrisman, and Kellermanns	2012	Institutional	Literature Review
40.78	367	Eddleston, Kellermanns, and Sarathy	2008	RBV	Empirical
37.56	338	Zahra, Hayton, Neubaum, Dibrell, and Craig	2008	Stewardship	Empirical
33.88	271	Le Breton-Miller and Miller	2009	Agency/ Stewardship	Conceptual
34.64	381	Westhead and Howorth	2006	Stewardship	Empirical
32.75	131	Miller, Le Breton-Miller, and Lester	2013	Institutional	Empirical
19.86	139	Salvato, Chirico, and Sharma	2010	Institutional	Empirical

involved and uninvolved family members may all occur (Chrisman et al. 2004; Schulze et al. 2001; Villalonga et al. 2015). We highlight the most influential articles published between 2006 and 2013 that used agency theory as the main theoretical framework.

Chen et al. (2010) This empirical study argues that family firms tend to have agency conflicts between dominant and minority shareholders. Contrary to nonfamily firms, which opt for tax aggressiveness, family firms are less tax aggressive. The authors conducted their panel study with data collected from the *S&P 1500*. Their hypotheses were supported as family firms display less tax aggressiveness when compared to nonfamily firms.

Chen et al. (2010) argue that such results are surprising because prior studies show that private firms are more tax aggressive than publicly traded ones and family firms tend to behave like privately held firms due to the concentrated ownership of the dominant family. However, the authors did find that the presence of long-term institutional investors can make a family firm more tax aggressive. Lower tax aggressiveness occurs in family firms seeking external financing, perhaps to mitigate concerns for family entrenchment. Family owners are willing to forgo the benefits of tax aggressiveness in order to ensure that the reputation of the firm is not damaged by incurring potential penalties from the Internal Revenue Service (IRS).

Miller and Le Breton-Miller (2006) In exploring the different levels of performance in family businesses, this conceptual article explains how agency issues can lead to differences in resource allocations that impact family firm performance. The authors propose that governance choices can influence the agency costs of family firms. They discussed four aspects of governance: (a) level and mode of family ownership, (b) family leadership, (c) involvement of multiple family members, and (d) planned or actual participation of later generations.

Concentrated ownership can benefit family firms through better monitoring because family owners have more incentives, power, and information to control managers. However, agency problems arise when either the majority family owner has too much power and incentive to exploit minority shareholders or when ownership is overly dispersed in conjunction with a nonowner CEO. Increased dispersion enhances the dilution of power, in which the nonowner CEO is able to act in a self-interested manner without fear of repercussions. Having a family CEO in the firm can prove beneficial for family shareholders because of increased alignment between the goals of owners and managers and more effective monitoring capabilities. Alternatively, the power the family has with a family CEO can create agency costs for minority shareholders, which may also manifest in family firms owned by multiple generations since ownership will be more dispersed, and some family members may fall in the "minority shareholder" group.

Dyer (2006) This conceptual article uses agency theory to assess the "family effect" to clarify the contradictory research findings on family firm performance. Although the overlap in ownership and management in family firms can reduce monitoring costs, altruism and self-control inhibit the ability of family owners to monitor other family members in the firm (Schulze et al. 2001). Family firms are characterized as four types: (a) clan, (b) professional, (c) mom-and-pop, and (d) self-interested.

Each type possesses advantages and disadvantages for reducing agency costs. Clan and mom-and-pop family firms experience low agency costs due to common goals and values among the family and firm. Professional family firms tend to incur higher agency costs, which lead to formal monitoring processes to mitigate the effects of nepotism and opportunism. Self-interested family firms have the highest agency costs borne from the utilitarian and altruistic relationships that instill nepotism and the prioritization of the family interests over those of the firm.

De Massis et al. (2013) This literature review provides key insights into how agency concerns can influence family firms' investment in innovation. Family firms often experience intra-family conflicts that deter R&D investments, which lead to lower R&D intensity than found in nonfamily firms. One explanation is that family owners attempt to safeguard family wealth and preserve the unification of family ownership and management.

However, another view characterizes family firms as having lower agency costs resulting in better abilities to successfully introduce new products (Cassia et al. 2011). Family firms may have lower agency costs due to parsimonious governance structures that preserve family wealth by promoting the efficient allocation of resources (Carney 2005; Durand and Vargas 2003). The review highlights the importance of further research using agency theory to reconcile the contradictory views on family firms' investments in innovation.

Le Breton-Miller and Miller (2009) This conceptual article discusses why some family-controlled businesses display superior performance. To explain this phenomenon, the dual roles of the family owner-manager (Anderson and Reeb 2003) reduce agency costs, thereby increasing the amounts of resources being allocated for the long-term sustainability of the firm.

The authors based their arguments on the notion that family managers have more power, motivation, and knowledge to monitor the behaviors of other managers (Demsetz 1988; Miller and Le Breton-Miller 2006).

Agency Theory and Family Firm Heterogeneity These articles show how agency theory can aid in understanding family firm heterogeneity. Agency costs borne by family members will lead to differences in strategic behavior. Family firms that have a controlling owner as the manager can establish a self-serving strategy due to the unchecked power they possess. Then again, firms owned and managed by family members can use their power to monitor and control strategy in a way that reduces agency costs. The studies presented above suggest that the strategic behavior of family firms may differ depending on the types and levels of involvement of family members in the ownership and management of the firm, goals pursued, and basis of resources (De Massis et al. 2014).

Resource-Based View

The resource-based view (RBV) implies that firms with bundles of resources that are valuable, rare, inimitable, and non-substitutable will attain sustainable competitive advantages that will be translated into superior performance (Barney 1991). Family firms may develop unique competitive advantages due to distinct resources emerging from family involvement such as social capital, survivability capital, patient capital, and human capital (Habbershon and Williams 1999; Sirmon and Hitt 2003). We highlight the most influential articles published between 2006 and 2013 that used the RBV as the main theoretical framework.

Arregle et al. (2007) This conceptual article extends the RBV of the family firm to examine the development of a family firm's organizational social capital (Sirmon and Hitt 2003). Social capital is identified as a potential competitive advantage for family firms because the established social capital of the family becomes embedded in the firm's social capital. The influence of the family's social capital on the development of the family organization's social capital arises from the family having control of the firm, which results in the family shaping the firm's identity and managerial rationalities.

Stemming from the notion that organizational social capital is shaped by employment practices (Leana and Van Buren 1999), the authors suggest that family social capital influences the human resource practices of the firm.

Focus is also placed on the enhancement that interdependence among family members has on the social capital of the family and of the firm. The social capital of the family is thought to promote closure, which tends to lead to stronger relationships among individuals in the firm.

Dyer (2006) In addition to agency theory, this conceptual article also uses the RBV perspective to explain the conflicting performance findings in the family business literature. In particular, family firms may experience human capital benefits through the employment of family members due to family employees being better trained, motivated, and flexible than nonfamily employees. However, the human capital of family firms may suffer when nonfamily members are not present in key positions as they can potentially enhance the management skills of the firm. Although the stocks of social capital held by family owners and managers will be potentially greater than those available to owners or managers lacking family ties, such stocks come at the expense of greater insularity when interacting with nonfamily employees.

The financial capital of the family firm also benefits from family ties as family managers are more likely to inject personal resources into the firm. The clan and professional family firms are categorized as having high family-specific assets that aid in achieving superior performance, whereas mom-and-pop and self-interested firms experience higher family liabilities through poor leverage of their resources. In sum, Dyer (2006) argues that the ideal type of family firm is the clan because of higher levels of family-specific assets and lower agency costs.

Pearson et al. (2008) This conceptual article develops a model that uses the social capital of the family firm to explain the "black box" of familiness (Habbershon and Williams 1999). The authors apply the structural, cognitive, and relational dimensions of social capital (Nahapiet and Ghoshal 1998) to explain the potential emergence of family firm-specific resources. The structural dimension of social capital includes the network ties and the merging of family and organizational social capital. The cognitive dimension consists of shared vision and shared language that arises from a family's influence on the firm. The relational dimension consists of the trust, norms, obligations, and identification that are embedded in the internal social capital of family firms.

As a result, these social capital dimensions described family firm capabilities based on information access such as the exchange of information, efficient action, and associability. In turn, information access leads to the collective goals, actions, and emotional support among family firm members.

Le Breton-Miller and Miller (2006) In this article, the authors relied on the RBV to explore the antecedents of superior performance in family-controlled firms. Long-term orientation is considered one of the crucial factors that influences whether family-controlled firms are able to establish sustainable competitive advantages. In particular, family CEOs with longer tenures create an environment for leveraging resources by pursuing less risky endeavors, increased knowledge, and longer investment horizons. The benefits of long-term orientation are heightened when family firms have intentions to include subsequent generations in the firm, and the family retains decision-making control. However, resources utilized for long-term investments will diminish if the family focuses more on rent seeking or value expropriation.

The long-term orientation found in a family-controlled business can lead to strategies that will develop competencies through investments in R&D and long-term brand building. Also, lower agency costs associated with family control increases the availability of resources for long-term investments. Family-controlled firms are described as investing more in human resource practices to retain the embedded knowledge of their human capital. Relationships within family-controlled firms will also be nurtured over the long term in order to better leverage social capital and achieve long-term goals.

Eddleston et al. (2008) This empirical study proposed that reciprocal altruism (identified as a family-specific resource) and innovative capacity (identified as a firm-specific resource) can contribute to the superior performance in family firms. The authors define reciprocal altruism as the "unselfish concern and devotion to others without expected return…whose primary effect is a strong sense of identification and high value commitment towards the firm", (Corbetta and Salvato 2004: 358) to develop arguments about establishing organizational commitment and interdependence among family employees. They also argue that a firm's innovative capacity is an indicator of an ability to invest in renewal and growth through entrepreneurial activities (McGrath 2001).

The study was conducted with 126 privately held firms (74 family firms). The findings suggested that both reciprocal altruism and innovative capacity positively influence family firm performance. Furthermore, the authors found two moderating effects. First, strategic planning enhances the positive relationship between innovative capacity and family firm performance but does not influence the relationship between reciprocal altruism and family firm performance. Second, technology opportunities positively moderate the rela-

tionship between reciprocal altruism and family firm performance but does not significantly impact the relationship between innovative capacity and family firm performance.

Resource-Based View and Family Firm Heterogeneity The idiosyncratic assortment of resources found in family firms represents a key determinant of family firm heterogeneity (Chua et al. 2012). By reviewing these articles rooted in the RBV perspective, one can see how family firm heterogeneity is associated with varied resources. Not only do family firms possess different bundles of resources (Eddleston et al. 2008), they may differ in how resources are leveraged (Dyer 2006). This demonstrates that even when family firms possess similar resources, the management of these resources may lead to variations in how they are used and whether sustainable competitive advantages are obtained (Sirmon and Hitt 2003).

Stewardship Theory

Contrary to agency theory, stewardship theory argues that managers naturally align themselves with the principals' goals to provide superior management of the firm (Davis et al. 1997). Based on the emotional and biological bonds shared among family members in the business, research has posited that steward-like behaviors are more prevalent in family firms (Corbetta and Salvato 2004). Although stewardship may be reduced if nonfamily members in the family firm are treated differently (Verbeke and Kano 2012), performance may be increased if a steward-like environment can be instilled in the firm. We highlight the most influential articles published between 2006 and 2013 that used stewardship theory as the main theoretical framework.

Miller and Le Breton-Miller (2006) In addition to their agency theory contributions, the authors used the stewardship perspective to propose that concentrated ownership allows the firm to enact steward-like tendencies by enhancing emotional bonds among members of a firm. The inclusion of nonfamily members either as owners or on the board may increase the steward-like behavior by keeping the controlling family in check when making decisions that could be self-serving or risky to other investors. This inclusion results in informed stewards who will be aligned with accomplishing the goals of the family firm. Similarly, the benefits of stewardship emerge when other family members are part of the top management team. However, stewardship may be hindered if these family members make up the dominant coalition of owners.

On the one hand, stewardship tendencies will increase when the family firm allows the entry of the future generations to increase the longevity of the firm, and the focus is placed on training the incoming generation. On the other hand, family firms may experience diminishing stewardship when conflicts arise from the appointment of successors. Also, additional conflicts can emerge if family members from multiple generations start to deplete firm resources.

Eddleston and Kellermanns (2007) This empirical study assessed the effects of family relationships on the performance of 60 family firms in the Northeastern region of the US. This is one of the first studies to directly test the effects of altruism and relationships in family firms. Their main finding is that altruism has negative impacts on conflict but positively influences participative strategy processes. The use of participative strategy processes in the family firm will increase the proclivity of steward-like behaviors due to the family member's commitment to the goals of the firm (Kellermanns and Eddleston 2004).

As a result, participative strategy processes have a significant influence on family firm performance, whereas family conflict will have detrimental effects on performance. Hence, the study reinforces the notion that stewardship enhances family firm performance.

Zahra et al. (2008) This empirical study examined how a culture of commitment influences the strategic flexibility and competitive ability of family firms. Strategic flexibility is the firm's ability to pursue new opportunities in response to competitive forces in the market. Using a sample of 248 family firms in the food processing industry, they test if family commitment enhanced strategic flexibility. Moreover, they test the influence of stewardship behavior on the relationship between a culture of family commitment and strategic flexibility. Stewardship orientation is argued to enhance the achievement of long-term organizational goals that emerge from reciprocal altruism, prosocial behavior, and mutual interdependence (Eddleston et al. 2008).

The authors found that strategic flexibility is positively related to a strong culture of family commitment and is partially influenced by the firm's stewardship orientation. Stewardship orientation also had a positive moderating effect on the relationship between the culture of family commitment and strategic flexibility. Thus, commitment to the family and steward-like behavior are proposed to enhance competitiveness in family firms.

Westhead and Howorth (2006) This empirical study analyzed the effects of ownership and management structures on the performance and noneconomic objectives of 904 privately held UK family firms. The authors argued that the stewardship behavior of family firms will be limited because family owners and managers place greater importance on family goals than firm goals, and this lowers firm performance. However, having "outsiders" as board members or directors will curb the self-serving behaviors of the controlling family, which will enhance the goal alignment of all shareholders.

Their findings show that family ownership and management is not indicative of poorer performance in family firms, and that the inclusion of nonfamily executive directors in the board did not mitigate the importance of the controlling family's non-pecuniary objectives.

Le Breton-Miller and Miller (2009) As this article covers both the agency and stewardship perspectives, the notion of social embeddedness is used to explain competing views about family firm outcomes. The authors used four contexts of social embeddedness: structural, political, cognitive, and cultural-normative (Zukin and DiMaggio 1990). Structural embeddedness can lead to more stewardship behaviors to the extent that a family firm includes multiple family officers and managers in conjunction with nonfamily managers. Political embeddedness is argued to produce steward-like behaviors when family officers hold key managerial positions in the family firm.

Stewardship behaviors will dictate firm behavior when family rationales are embedded in the firm, and there is an alignment of the family firm's culture with the socially minded founders. Additionally, the top executives' stewardship will be influenced by how the executives are embedded in the firm; thus, more embeddedness will align the executives' goals with firm performance.

Stewardship Theory and Family Firm Heterogeneity As highlighted in the reviews discussed above, family firms are heterogeneous in the extent to which they exhibit behavior associated with stewardship. The strategic planning of family firms will be augmented depending on if the controlling family focuses on instilling an environment where stewardship can flourish. The family firm that displays steward-like behavior may hire more nonfamily managers to offset the potential self-serving behavior of other family members (Miller and Le Breton-Miller 2006). Also, family firms that are characterized as more innovative may invest more in new products or technologies owing to their stewardship orientation (Zahra et al. 2008).

Socioemotional Wealth

The application of the SEW concept in family firm research is based on the behavioral agency model (BAM) devised by Wiseman and Gomez-Mejia (1998), which is, in turn, a derivative of prospect theory (Kahneman and Tversky 1979). The fundamental ideas are that firms are loss averse, and that family firms behave differently from nonfamily firms because of the owning family's aversion to losing the SEW that accompanies control of the firm (Gomez-Mejia et al. 2011). Combined, BAM and SEW help explain the heterogeneous behaviors of family firms in managing the risks associated with various strategic behaviors (Gomez-Mejia et al. 2011) and their reluctance to professionalize (Vandekerkhof et al. 2015). Although noneconomic benefits may occur in all types of firms, applications of SEW to BAM indicate that family firms are more concerned with preserving these benefits. We highlight the most influential articles published between 2006 and 2013 that used SEW, usually in combination with BAM, as the main theoretical framework.

Gomez-Mejia et al. (2007) This empirical study is the highest cited article in our list and is often used as the main SEW reference since it was the first to develop and employ the concept. Gomez-Mejia et al. (2007) argue that family owners are loss averse with respect to SEW (the affective endowments associated with control of the firm) instead of financial wealth.

Using a sample of 1237 family-owned Spanish olive mills, they evaluate the willingness of family owners to join a cooperative to increase firm performance. They found that most family-owned olive mills accept higher risk of lower performance in order to maintain family control, which suggests that family owners place a higher premium on the noneconomic benefits of the firm (SEW) than its economic benefits. The analysis found that family firms are more willing to take on risk when it involves retaining family control of the business, especially in businesses where family involvement is greater. The differences in risk-taking behaviors suggested that family owners may be either risk averse or risk seeking, depending on how they perceive threats to SEW associated with strategic actions.

Berrone et al. (2012) This article reviews the main aspects of SEW and introduces the FIBER construct as one potential multidimensional measure of SEW. The authors identify five dimensions of SEW: (a) **F**amily control and involvement: the control that the family exerts in firm decision-making, (b)

Identification of family members with the firm, (c) **B**inding social ties: the social network ties the family possesses within and outside the family firm, (d) **E**motional attachment of family members to the family firm, and (e) **R**enewal of family bonds to the firm through dynastic succession.

This multidimensional approach can be used to assess the distinct behaviors of family firms and the potential reference points in the strategic decision-making process. The authors propose this SEW perspective for examining a family firm to be advantageous as it does not ignore the possibility of self-enhancing behaviors, while highlighting the emotional and collaborative behaviors found in family firms.

Berrone et al. (2010) This empirical study analyzed the environmentally conscious behavior of 194 publicly traded US firms (101 family firms). The sample came from manufacturing firms that are required to report their emissions to the Environmental Protection Agency through their Toxic Release Inventory program. Using both BAM and institutional theory, family firms are hypothesized to pollute less than their nonfamily competitors in order to preserve their SEW. In particular, family-owned manufacturers will be more sensitive to their reputation in the local community, in turn, making them more cognizant of their disposal of harmful waste.

The empirical results show that family-owned manufacturers tend to have better environmental performance than nonfamily firms. Also the environmental performance of family-owned manufacturers was influenced by geographic location. The geographic influence on environmental performance was explained by the owning family placing higher importance on preserving their reputation and social ties with the local community. The authors found that family CEOs did not influence environmental performance; however, having a CEO with stock ownership resulted in less concern for environmental demands in nonfamily manufacturers.

Chrisman and Patel (2012) This empirical study uses the BAM and the SEW perspective to study family firm's investments in R&D. They assess the contradictory views about family firm investment for the long term to explain family firm innovative behaviors. In particular, they analyze the R&D investment of 964 *S&P 1500* companies (473 family firms). BAM suggests that family firms are loss averse with respect to the family's SEW, which should result in lower investment in R&D. However, using the related theory of myopic loss aversion, they explain that some family firms will invest more in

long-term R&D in order to achieve the long-term goals of the family firm even though most family firms invest less. In line with BAM, family firms were found to generally invest less in R&D than nonfamily firms, but the variability of R&D investments among family firms was greater. An interesting finding of this study is that family firms invested more in R&D than nonfamily firms when performance fell below aspiration levels.

The change in investment behavior occurs due to the family firm shifting their view of R&D investment from a gain perspective that induces risk aversion (when performance is aligned with aspiration levels) to a loss perspective that induces risk seeking (when performance is below aspiration levels). Consistent with the theory of myopic loss aversion, the study found that when the goals of the family firm are long-term oriented, the R&D investments of the family firm are higher regardless of firm performance.

Zellweger et al. (2012) This empirical study sought to explain the different levels of importance that family firms place on SEW and determine if SEW has measurable financial value. The authors argued that SEW is tied to the family's control of the firm, and this can result in family owners setting a higher selling price for the firms to nonfamily buyers.[6] Their model implies that the owner's valuation of the firm is positively influenced by the level of current family ownership, duration of family ownership, and intentions for transgenerational control.

The authors used a sample of 230 family firms' CEOs (84—Swiss and 146—German). Their empirical results showed that the extent of family control does not influence the valuation of the family firm. However, the duration of control did influence the German CEO's valuation of the family firm. For both Swiss and German firms, the intention for transgenerational control had a positive influence on the perceived value of the firm. These findings are important because they establish that SEW indeed exists and influences the value placed on the firm by family owners (Gomez-Mejia et al. 2007).

Socioemotional Wealth and Family Firm Heterogeneity As it is evident through the contributions provided by these articles and as suggested by the BAM, the different reference points that emerge from aversion to loss of SEW is a source of the heterogeneity of family firms. Interestingly, in both the types and

[6] This premium disappears if the firm is sold to another family member. The authors explain that this is because when the firm is sold within the family, socioemotional wealth (SEW) is maintained.

amounts of SEW may result in different strategic decisions and behaviors among family firms. For example, a family firm focused on maintaining its reputation or social capital may tend to include more nonfamily employees, whereas a family firm that prioritizes transgenerational succession may display a long-term strategic orientation.

Institutional Theory

Institutional theory states that organizations will respond to mimetic, coercive, and normative pressures from the external environment in order to achieve or maintain legitimacy (DiMaggio and Powell 1983). Family firm researchers suggest that the idiosyncratic nature of family firms results in additional pressures and a different pattern of responses (Leaptrott 2005). Family involvement increases the firm's propensity to respond to stakeholder pressures that may influence the image and legitimacy of the family and the firm, yet decreases the firm's propensity to respond to pressures that may conflict with the goals of the family (Melin and Nordvquist 2007). Below, we highlight the most influential articles published between 2006 and 2013 that used institutional theory as the main theoretical framework.

Berrone et al. (2010) This empirical study uses institutional theory as well as SEW to investigate the propensity of a family firm to respond to environmental regulatory pressures in order to protect its reputation. In addition to the findings highlighted earlier, the study found that the institutional pressures are more intense for geographically concentrated family manufacturers. By incorporating the SEW lens into institutional theory, the study provided insights into why family firms exhibit heterogeneous behaviors instead of purely isomorphic responses to institutional pressures.

Miller et al. (2011) This empirical study covers the influence of ownership structure on the strategy and performance of firms. Rather than using agency theory, the authors argued that social context and institutional logics are associated with certain types of ownership (i.e., lone-founder vs. family owner) which influence the performance and strategic behavior of the firm. In order to compare lone-founder managers and family managers, the authors reviewed the strategic behavior and performance of 898 *Fortune 1000* companies (146—lone-founder firms, 263—family firms, 492—other firms).

Based on the analysis, top managers from lone-founder firms follow an entrepreneurial logic because of the institutional pressures from stakeholders of the firm and other entrepreneurs. Also, they strive to acquire legitimacy through growing the firm and increasing the firm's accumulated wealth and tend to self-identify more as entrepreneurs. On the other hand, managers from family firms possess familial logic and experience additional institutional pressures from other family members who reside inside and outside of the firm. These managers are more conservative and produce inferior shareholder returns. When comparing CEOs, those from lone-founder firms pursue a growth strategy and higher performance, which equate to superior returns for shareholders. In contrast, CEOs from family firms pursue legitimacy by fulfilling the needs of the family and are identified as family nurturers. Overall, family firms exhibit lower performance than lone-founder firms.

Gedajlovic et al. (2012) This literature review covers the notion that institutional conditions moderate performance differences between family firms. More specifically, they suggest that positive and negative effects arise from the institutional conditions that family firms experience when they are located in an emerging or a mature economy. In terms of family firms operating in emerging economies, the authors identified three literature streams to categorize the positive effect that institutional conditions have on family firm performance. The first stream consists of articles that detail the successful performance of family firms arising from their capability to fill institutional voids in the emerging economy. The second stream refers to family-based networks that aid in market development through small-scale businesses. The final stream examines the ability of powerful families to take advantage of corrupt government officials and weak legal safeguards to appropriate wealth for themselves and their firms.

Then, the authors addressed two factors that explain the positive performance of family firms operating in mature economies. The first is that family firms are able to flourish in advanced economies due to better regulations, transparent financial markets, and institutions that mitigate potential principal-principal problems. The second is the efficient specialization and the comparative advantages of family firms that arise from their ability to excel in specialized functions. The authors later explained that the negative influence on performance for family firms in advanced economies arises due to conservative behavior in both strategic investment and implementation, which might eventually lead to dissolution.

Miller et al. (2013) This study is a follow-up from the authors' 2011 article using 263 family firms from the *Fortune 1000*. Here, the strategic conformity of family-owned firms are explored as an alternative to the SEW perspective. They argued that the institutional perspective offers a better explanation of strategic conformity than SEW because of the conflicting arguments found in the SEW literature when describing the family firms' strategic planning (Gomez-Mejia et al. 2011). Strategic conformity is explored in family firms due to the fact that conformity is an antecedent to legitimacy (Deephouse 1996). The authors found that family firms will adhere more to industry norms than nonfamily firms. Particularly, family firms with a family CEO will display higher conformity, and these effects are greater for later generational family CEOs. The analysis also showed that even though family firms exhibit higher conformity, there were no financial benefits attached. Similar to Berrone et al.'s (2010) findings, strategic conformity increases the SEW of the family firm without any financial gains passed on to shareholders.

Salvato et al. (2010) This case study traces the Falck Group to examine the factors that influence exit and renewal strategies in family firms. The Falck Group is chosen because it is a multigenerational family firm established in the early 1900s. One of the key factors attributed to the decision for renewal is the legitimacy that results from maintaining the firm's identity. The institutional identity developed from the firm's history influences strategic choices and a hesitation to change in family firms, which results in family firms being more concerned with preserving their institutional integrity than their fit with the environment.

By studying the Falck Group's transition from a steel producer to the renewable energy business, the authors highlight the importance of maintaining the institutional identity of an enterprising family. Despite the notion that only family members can promote continuity and institutional integrity in strategic decisions, nonfamily members in the firm can also initiate business change. Thus, family and nonfamily members can efficiently lead to radical changes in family firms. The main insight from the study is the importance of continuity and institutional integrity in transitioning from unstable to stable businesses. This is a result of the institutional identity being more deeply ingrained through the family's values.

Institutional Theory and Family Firm Heterogeneity These articles highlight how institutional theory can explain family firm heterogeneity. A fundamental premise of institutional theory is that organizations create different structures

and strategies that are influenced by the interplay of both external and internal factors. Family firms that emphasize the institutional identity of the family will exhibit differing strategies than family firms that are more susceptible to pressures in the external environment. These responses to institutional pressures depend on the goals and governance of the family firm. Those that are more concerned with the continuity of the family firm through transgenerational succession will respond to institutional pressures different than family firms that place higher importance on appealing to nonfamily shareholders. The institutional identity that the family manager places as a reference point for legitimacy will also influence the strategic behavior the family firm exhibits.

Discussion

The purpose of this review was to assess the development of family business research between 2006 and 2013 by examining the 21 most influential articles that adopted the most commonly used theoretical lenses: Agency, RBV, Stewardship, SEW, and Institutional. This process generated several interesting observations.

First, the articles were published in ten different journals in the fields of family business, entrepreneurship, management, and finance. This signals a wide-ranging acceptance of family business research and bodes well for this field of study. Second, a preponderance of the work was empirical (57%), followed by conceptual articles (33%), and literature reviews (10%). While it is encouraging to note that the field has progressed to a stage where empirical studies are dominant, there seems to be a need to develop valid and reliable measures for primary research. For example, the recent work devoted to the generation of scales to measure SEW (Debicki et al. 2016; Hauck et al. 2016). Third, during the time frame used in our study, SEW has emerged as a major approach for studying the behaviors of family firms, accounting for three of the five most frequently cited articles. In contrast, institutional theory appears to be a major alternative to the SEW perspective as it provides opportunities to understand how family firms are influenced by their contexts and how they influence their contexts.

Fourth, all 21 articles are authored by researchers in North America or Europe, with all empirical samples from these regions as well. This reveals a pressing need to develop and test family business theory in other parts of the world. Particularly, it is expected that, by 2025, family firms from emerging economies will account for 37% of all companies with annual revenues of more than US$1 billion, up from 26% in 2010 (Economist 2014, p. 13).

Fifth, it is interesting to note that 45 researchers co-authored these 21 articles. While there was one single-authored article (Dyer 2006), teams of two (six articles), three (seven articles), and four (five articles) are most common. Two articles were authored by five-member teams. Among individual authors, Miller and Le Breton-Miller were co-authors of five articles each, Kellermanns had four articles, and Chrisman and Gomez-Mejia each contributed three. Also, Gomez-Mejia co-authored the two most cited articles. Together, these five researchers co-authored 13 of the 21 (62%) articles featured in our review.

Directions for Future Research Using Agency and/or Stewardship Theory

Even though a common focus in family business research is family firm heterogeneity, many studies follow a more homogenous approach by focusing on traditional family structures (Jaskiewicz and Dyer 2017). Future research can continue exploring the potential distinctions between stewardship behaviors and agency costs in family firms comprised of nontraditional family systems such as single parents, blended families, and families separated by divorce or distance.

First, future research is needed to investigate the conflicting governance strategies that affect performance under multiple ownership structures (family and nonfamily) arising from nontraditional family structures (e.g. Madison et al. 2016; Villalonga et al. 2015). Since it would be more desirable if family and nonfamily managers behaved as stewards rather than agents, future research is need to understand the mechanisms needed to encourage stewardship behaviors. Researchers need to abandon the implicit assumption of "spontaneous motivation" (cf. Drucker 1954, p. 278) and begin to investigate how managers might be motived to act like stewards.

Second, certain considerations deserve attention to explore deviations from the traditional family often assumed in family business research (Miller and Le Breton-Miller 2006). Taking nontraditional families into consideration can explain the differences in family firm behavior. For instance, the majority of family firm studies using an agency or stewardship perspective assume that the traditional family represents the dominant coalition (Jaskiewicz et al. 2017). However, researchers should also consider the extent to which opportunistic or steward-like behavior will emerge if other family relationships (e.g. divorced parents, in-laws, single parents, and blended families) are included. For example, what is the impact of divorce among members of the dominant coalition in terms of the potential for and severity of agency problems? Other situations may also generate the potential for agency conflicts or steward

behaviors in family firms. For example, the inclusion of step-children and step-siblings adds family members that have an interest in the firm who are not related by blood to all of the other family members, thereby increasing the possibility for conflicts and disagreements.

Furthermore, using an agency lens implies that the division of the family into opposing factions will influence the likelihood of self-interested behaviors and the race to the bottom (Zellweger and Kammerlander 2015). As a result of the potential increase in self-interested behaviors resulting from divorce or the involvement of multiple families, higher levels of monitoring or side payments may be necessary. These activities or actions can destroy trust and divert resources from more productive pursuits, which will negatively impact performance.

Alternatively, employing a stewardship perspective may be needed to explain different behaviors that emerge in the event of a divorce between members of the dominant coalition or the blending of two families. For instance, the dominant coalition may attempt to maintain the bond between family members in the firm, which will promote stewardship. This may result in increased altruistic behaviors that signal that the firm and the family are still important to the dominant coalition, even if the marriage did not work or the members are not from the nuclear family. The dominant coalition may also strive to preserve the family's goals that are in place to provide a rallying point for the family to counteract the impact of a divorce or a blended family.

Recent work suggests that asymmetric information may be a more serious and pervasive concern for family firms than opportunism as it appears to be a root cause of deviant behavior and an inhibitor of goal alignment even when the inclination of participants is to cooperate (Chrisman et al. 2014). Similarly, the potential for opportunism may be increased by adverse selection. Unfortunately, studies using agency theory have not fully considered the ramifications of either asymmetric information or adverse selection and neither are incorporated into the precepts of stewardship theory. Future studies should seek to address these limitations.

Directions for Future Research Using Resource-Based View, Socioemotional Wealth, and/or Institutional Theory

Since Berrone et al. (2012) proposed FIBER, there have been at least two different SEW measures developed (Debicki et al. 2016; Hauck et al. 2016). Future research can assess the combined and individual effects of a family firm's resources on the SEW and governance structure of the family firm

(Debicki et al. 2016). Particularly, the resources emanated from the interaction between the family and the business may allow family firms to develop competitive advantages that can be suitable for operating in particular situations to achieve a variety of goals using a variety of governance structures (Carney 2005).

Longitudinal studies built on the precepts of BAM may be beneficial in explaining how aversion to the loss of SEW may potentially shift depending on the family firm's size, age, and industry, as well as its resources and governance structure. For example, family firms may be more averse to a decline in the well-being of family members in early stages of development, whereas the reputation of the family firm may be a higher priority in later stages of development. Similarly, the SEW importance (SEWi) scale (Debicki, et al. 2016) may be used to further explore strategic conformity in family businesses. For instance, the difference in importance placed on certain dimensions of SEW may dictate how receptive the family firm is to conforming to external pressures, leading them to set different reference points for decision-making.

Researchers should further explore how family firms' approach to entrepreneurship (causal or effectual) influences responses to institutional pressures. It may be that family firms, which use a causal approach to innovation, will be likely to succumb to institutional pressures than family firms that use an effectual approach. Furthermore, whether the pressure for conformity to family history, industry norms, or the behaviors of other family firms hold the greatest sway may lead to differences in the levels and types of conformance, as well as differences in the ability of family firms to engage in behavior that diverges from the status quo.

Directions for Future Research Using Other Theories

Aside from the theories discussed above, scholars might wish to consider the use of other theories such as transaction cost theory and stakeholder theory in future family business research. For example, transaction cost theory is useful for assessing the idiosyncratic behaviors of family firms (Verbeke and Kano 2012) and prior research has found that family firms prefer to rely more on kinship ties than subcontracting outside of the family domain (Memili et al. 2011). Similarly, since family firms have been theorized to possess distinct stakeholder salience perspectives, stakeholder theory appears to hold promise for assessing the behaviors of family firms (Mitchell et al. 2011).

One area that both transaction cost and stakeholder theories could contribute is the role of in-laws, a topic that has been largely neglected in family

business research (for a notable exception see Santiago 2000). In many family businesses, the inclusion of in-laws is a natural evolution of the family business system. Alternatively, the exclusion of in-laws may also influence the system. However, whatever the practice on the business front, families must bring outsiders into the system in order to survive. For example, research is needed to determine the extent to which the firms run by the families of in-laws might be viewed as potential alliance partners and how the inclusion of in-laws increases or dilutes the human asset specificity and SEW of the firm. Similarly, the involvement of in-laws in a family business may affect stakeholder salience considerations by expanding the number of salient stakeholders and/or altering perceptions of the power, legitimacy, and urgency of existing stakeholders. Such a shift could impact the goals, governance, resources, and subsequent performance of a family firm and is therefore a relevant topic for future research.

In conclusion, we expect that researchers in the field can learn much from the articles and theoretical perspectives discussed in this chapter. Collectively, they illustrate that the field is well underway in its journey to develop more robust theoretical understandings of this distinctive form of organization. We hope this chapter will facilitate the continuation of the journey!

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4

Empirical Modeling in Testing for Family Firm Heterogeneity

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Introduction

Family business as a field of research has grown considerably over the last two decades (Gedajlovic et al. 2012). Recent developments in the literature recognize that family firms are heterogeneous in terms of behavior and performance (Chua et al. 2012). This heterogeneity has been investigated in regard to sources such as region (Chang et al. 2008; Memili et al. 2015), firm age (De Massis et al. 2014), firm size (Fang et al. 2016), family generation in control (Miller et al. 2007), family or nonfamily CEO (Lin and Hu 2007), intention for intra-family succession (Memili et al. forthcoming; Zellweger

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E. Memili, C. Dibrell (eds.), *The Palgrave Handbook of Heterogeneity among Family Firms*,
https://doi.org/10.1007/978-3-319-77676-7_4

et al. 2012), and family involvement as employees and managers (Stewart and Hitt 2012). Although scholars have used a variety of empirical methods and approaches to explore family business heterogeneity, there is no "codebook" that standardizes empirical models and helps researchers to select the best statistical tool for theory testing (Kumar and Phrommathed 2005). The absence of such standardization may lead to the misuse of empirical models, the separation of theory and analysis, and the generation of inconclusive or false insights (Scandura and Williams 2000).

The purpose of this chapter is to examine seven feasible empirical approaches that can be used to investigate family business heterogeneity, each with its own applicability, strengths, and weaknesses. Such an endeavor can make several contributions to the literature. These seven approaches have not been previously compared and contrasted and hence, we hope to provide a comprehensive guide that outlines feasible approaches to explore family business heterogeneity. In addition, we explicitly discuss the applicability, strengths, and weaknesses associated with each empirical approach. This chapter therefore offers a resource to researchers looking to identify the most appropriate model that best matches their research purpose and theory. Additionally, we also provide illustrative example(s) for each approach, in an aim to assist researchers understand how each of these models can be applied.

We begin by defining family business heterogeneity and discussing its implications for family business research. We then outline seven approaches that can be used to explore family business heterogeneity, discussing each in terms of applicability, strengths, and weaknesses. We conclude by suggesting research directions for future studies in this area.

Family Business Heterogeneity: Definition and Empirical Implications

The general idea of family business heterogeneity is long standing. Indeed, it is widely recognized that because various types of family businesses exist, they should not be viewed as a homogenous group. For example, while some family businesses have family members serving as managers, employees, and/or the CEO, other family businesses only have family involvement through ownership of the firm. In turn, the degree to which the family is involved in the day-to-day operations and the strategic direction of the firm are likely to serve as distinguishing features that influence family business behavior and goals. Accordingly, following Chua et al. (2012), we define family business

heterogeneity as the variation in family business behavior and performance stemming from idiosyncratic combinations of goals, resources, and governance structures caused by varying degrees of overlap between the family and business systems (Chrisman et al. 2013). In turn, this definition of family business heterogeneity has several theoretical and empirical implications.

The specific causes of family business heterogeneity are often associated with the *independent* and *interactive* effects of goal-, resource-, and governance-related constructs. Furthermore, goal development, resource management, and firm governance often involve *multiple mechanisms* by which the effects of the family's economic and noneconomic interests influence the family business's behavior and performance (Chrisman et al. 2016). Thus, empirical models tend to incorporate multiple *mediating constructs* that represent these various mechanisms.

In addition, the presence of variation suggests that we can directly measure the *deviation* of certain family business behaviors and performance from the norm (Miller et al. 2013). Note that the focus here is not on the increase or decrease of certain variables, but rather, it is related to divergence from the norm. Family business heterogeneity also suggests that various types of family businesses can be categorized by family-based and/or business-based characteristics and features (e.g., Stanley et al. 2017). This implies that we can use statistical tools to classify the whole family business population into *multiple groups* where inter-group variations are maximized and intragroup variations are minimized (Stanley et al. 2017). Given that variation is a statistical group-level concept, we are then able to use *multilevel* modeling (Hitt et al. 2007) to directly calculate a proxy that can measure variation within particular family business groups. In this regard, family firm heterogeneity is directly calculated at the group level rather than at the individual level. Although this approach has rarely been used, it has the potential to generate important insights in terms of the sources and consequences of family business heterogeneity.

Empirical Modeling and Family Business Heterogeneity

There are multiple ways to investigate the antecedents and consequences of family business heterogeneity. In this chapter, we have chosen seven approaches that have not been previously reviewed together. In addition to reviewing each of these approaches, we provide illustrative examples to demonstrate how each approach can be used in an empirical analysis (Table 4.1).

Table 4.1 Summary of seven empirical approaches

	Applicability	Highlighted issues
Direct effect	Direct effects of goals, resources, and governance structures that specifically stem from the intertwining of family and business systems	Variable selection Sample specification
Moderation	Contingent conditions that strengthen or weaken a causal relationship	Lack of variation Multicollinearity
Mediation	Multiple mechanisms through which the effects of family involvement in business are transmitted	Inconsistent mediation
Configuration	Typology or taxonomy of family businesses in which intragroup variation is minimized and inter-group variation is maximized	Variable selection Induction/ exploratory nature Combination with other approaches
Convergence/ divergence	Divergence from or convergence to the average or the norm	Theoretical justification
Conditional heteroscedasticity	Causes of variability that cannot be explained by the first-stage model	Theoretical explanation
Multilevel modeling	How higher level affects lower level or aggregate lower level into higher level	Cross-level analysis

Model 1: Direct Effect

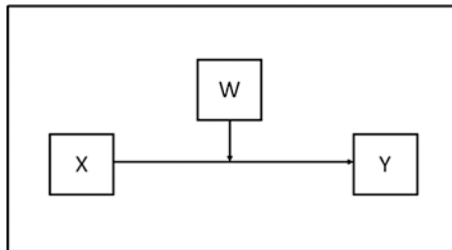
$$Firm\ Outcome = Constant + a1^{*}\ family - business - related\ construct \\ + ai^{*} controls + error$$

This model, which explores the direct effect of certain variables on family business outcomes, is widely used and remains the most direct way to identify the source of outcome variation. Because the variables in the model represent the combination of goals, resources, and governance structures that specifically stem from the intertwining of family and business systems, these variables are often unique to family firms (Chrisman et al. 2012) or relate to family-based characteristics of certain family members (Kellermanns et al. 2008; Kellermanns and Eddleston 2006). If family-business-specific variables are not utilized, scholars will likely fall into the trap of entangling family businesses with nonfamily businesses and struggle to provide theoretical justification for why the variables are specific to family businesses. For instance, a researcher exploring the effect of firm age on family business performance needs to: (1) theoretically explain why the age of a firm uniquely affects family businesses and (2) provide empirical evidence that the effect is specific to fam-

ily businesses and different from that found in nonfamily businesses (for a notable example, see De Massis et al. 2014).

Another potential issue is sample specification (Heckman 1979). Researchers may want to narrow their analyses to only family businesses, or at least include a robustness test that only includes family businesses. Indeed, the inclusion of nonfamily businesses in modeling may pose the issue of whether or not the direct effect found is specific to family firms. Furthermore, without proper sample specification, testing for direct effects may create problems with linearity. Here, linearity refers to the assumption that the effect of the focused variable remains unchanged (1) between family and nonfamily businesses and (2) among the family business population. One example is the effect of family ownership on firm performance. Including both family and nonfamily businesses in testing for a direct effect assumes that the effect of family ownership from zero to a minor threshold (the difference between family and nonfamily businesses) remains unchanged from a minor threshold to a high level of family ownership (within the family business population). An alternative approach is to run a two-step analysis in order to: (1) distinguish family businesses from nonfamily businesses and (2) explore heterogeneity among family businesses. Additionally, in considering linearity, the nonlinear and curvilinear effects of certain variables should be tested (Chrisman et al. 2015b; De Massis et al. 2014).

Model 2: Moderation



$$\begin{aligned}\textit{Firm Outcome} = {} & \textit{Constant} + a1^{*}\ \textit{family} - \textit{business} - \textit{related construct} \\ & + a2^{*}\textit{moderator} + a3^{*}\textit{amily} - \textit{business} - \textit{related} \\ & \textit{construct}^{*}\textit{moderator} + ai^{*}\textit{controls} + \textit{error}\end{aligned}$$

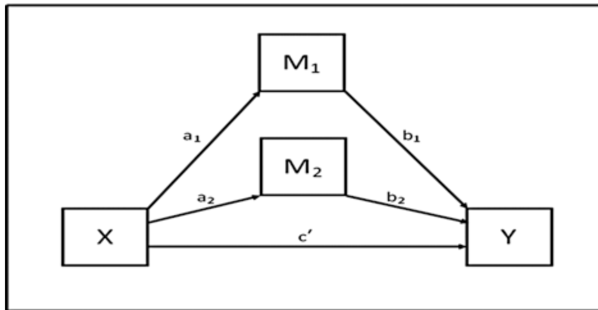
A “moderator is a qualitative or quantitative variable that affects the direction and/or strength of the relation between an independent or predictor variable and a dependent or criterion variable” (Baron and Kenny 1986; p. 1174).

Moderation can be useful in testing for heterogeneity when researchers seek to identify contingent conditions that either strengthen or weaken a causal relationship. According to Chua et al. (2012), "family business research has begun to introduce moderators… to better explain the heterogeneous relationship between family involvement and both behavior and performance" (p. 2).

There are two issues that may undermine the usefulness of moderation. First, the moderator may lack variation such that any empirical test involving the moderator is invalid. For instance, this can occur if a researcher uses succession intention as a determining condition in identifying family businesses (Chua et al. 1999) and then uses succession intention (binary variable in which 1 denotes the presence of succession intention and 0 otherwise) as the moderator. By nature, the moderator does not have any variation because all observations have 1 in the variable of succession intention. Another example would be exploring how a family CEO affects the relationship between family involvement and firm performance (assuming family CEO is coded as a binary variable whereby 1 denotes the presence of a family CEO and 0 otherwise). However, if the sample consists primarily of small-sized family businesses in which most managerial positions are held by family members, the variable of family CEO is likely to not have enough variation to generate conclusive findings. One possible solution here is to use a continuous variable rather than a binary variable. Regarding the example mentioned above, if 1 is able to measure the *strength* of succession intention as a continuous variable (e.g., Zellweger et al. 2012), then a moderating hypothesis would be testable.

Another underlying issue related to moderators is multicollinearity, a phenomenon in which two or more predictor variables are highly correlated, such that one can be linearly predicted from the other with a substantial degree of accuracy (Farrar and Glauber 1967). Multicollinearity can affect the precision of the estimation, thereby limiting the research conclusions that can be drawn (Cortina 1993). In the family business literature, unfortunately, a great number of family-centered or family-related variables are highly correlated. For instance, family ownership is often highly correlated with family management and succession intention because high ownership motivates the controlling family to assign family members to managerial positions, and it strengthens the family's willingness to pass the business down to future generations (Chrisman et al. 2012). As such, multicollinearity is likely to occur when the independent variable and the moderator are both related to the owning family's willingness and ability to affect firm decision-making (Chrisman et al. 2015a). Hence, researchers should pay particular attention to examining multicollinearity issues through the use of techniques such as the examination of the variance inflation factor (VIF) (Mansfield and Helms 1982).

Model 3: Mediation



A mediator "accounts for the relation between the predictor and the criterion" and "speaks to how or why such effects occur" (Baron and Kenny 1986; p. 1176). Regarding family business heterogeneity, mediation can be used to explore the *multiple mechanisms* through which the effects of family involvement in a business are transmitted. In the literature, one particular type of mediation—*inconsistent mediation*—refers to either multiple mediators that have direct and independent actions or a single mediator that has opposite effects on variables (MacKinnon et al. 2000, 2007). In the family business literature, recognizing inconsistent mediation is very important, as sometimes opposite effects stemming from family involvement can occur at the same time. For instance, although family governance can lead to lower agency costs deriving from the separation of ownership and management, it can simultaneously increase agency problems arising from parental altruism (Chrisman et al. 2004, 2007). Thus, researchers interested in measuring these two agency costs should be cognizant of inconsistent mediation models where two distinctive types of agency costs are used as mediators to directly model the various agency issues stemming from family involvement in the business and test their various effects on firm performance. Additionally, because destructive and productive family relationships have opposite effects on family business behavior and performance (Kellermanns and Eddleston 2004; Eddleston and Kellermanns 2007), inconsistent mediation could be used to model these effects.

Although inconsistent mediation within the family business context likely exists, given the prevalence of inconsistent findings in the literature, research has yet to utilize this specific type of mediation (for more detailed examples, see MacKinnon et al. 2000). As such, the use of inconsistent mediation offers much opportunity for family business researchers.

Model 4: Configurational Approaches

Since the family business population is heterogeneous, it might be useful to empirically develop a typology of family businesses. For example, configurational analyses (e.g., clustering, latent profile) attempt to capture patterns of variables so as to classify different groups (Ketchen and Shook 1996, Stanley et al. 2017). Compared to traditional regression-based approaches, configurational approaches take into account the interdependence and interactions between variables (Harrigan 1985) and do not rely upon the assumption that the focused sample is homogenous. Thus, this technique can be used to identify clusters or profiles (i.e., groups) of family businesses in which intragroup variation is minimized and inter-group variation is maximized (Stanley et al. 2017).

There are three underlying issues in configurational approaches. First, the quality of this approach depends upon the selection of key variables in classifying groups within the sample, that is, the variables used to generate configurations are important. If one is interested in classifying family businesses based upon characteristics stemming from the family system, then family-centered or family-related variables would be most appropriate. If the intent is to group family businesses based upon organizational features (size, industry, etc.), then business-related variables should be stressed.

It should also be noted that the configurational approach is exploratory in nature. Because its methodology is empirically driven, it is generally not appropriate for testing a hypothesis based on a causal relationship. As such, the selection of key variables must be "theoretically meaningful and established" (Stanley et al. 2017, p. 84). Configurational approaches can also be combined with other statistical methods such as regression-based analyses, which are important since simply exploring different types of family businesses may not generate or test novel theoretical insights. Thus, in conjunction with other methods, configurational approaches can be useful in exploring when, where, how, and to what extent types of family businesses behave and perform differently (Stanley et al. 2017).

Model 5: Convergence/Divergence

Given that family businesses are heterogeneous, and are likely to be more heterogeneous than nonfamily firms (Chrisman and Patel 2012), more divergent firm behavior and performance should be explored. We consider convergence/divergence as a direct measure of a firm's deviation in behavior from the

industrial mean or average (Suchman 1995) and as a rough measure of family business heterogeneity at the firm level. A higher level of divergence also means the group (i.e., family business) is more heterogeneous in a given aspect. In defining divergence/convergence, the traditional explanation (increase or decrease of a certain independent variable leads to the increase or decrease of a certain dependent variable) becomes inappropriate. Instead, it should be explained as divergence from or convergence to the average or the norm. For instance, if family businesses are positively associated with divergence in firm performance, then the explanation should not be that family businesses perform better or worse, but that they are more likely to be found in the tails of the distribution in terms of firm performance. That is, as a group, family businesses are more likely to be associated with extreme (more superior or more inferior) performance compared to nonfamily businesses.

An important issue to consider is theoretical justification. There are two competing yet complementary theories that can be used to explain the convergence/divergence of family business decision-making. According to the socio-emotional wealth perspective (e.g., Berrone et al. 2012; Gómez-Mejía et al. 2007), if the owning family has more socio-emotional and/or noneconomic goals compared to nonfamily owners and has the ability to stress these goals when making strategic decisions (Chrisman et al. 2015a), then we should observe more divergent behavior among family businesses. However, from an institutional theory view, due to external stakeholder pressure and the family's intention to gain legitimacy (DiMaggio and Powell 1983), family businesses, especially those publicly traded, may exhibit higher levels of convergence or conformity compared to nonfamily businesses. For example, analyzing Fortune 100 firms, Miller et al. (2013) found family governance to be associated with greater conformity in many aspects of strategic decision-making. Therefore, while the convergence/divergence approach offers additional insight into family business heterogeneity, authors must carefully consider theoretical explanations to explain such convergence or divergence.

Model 6: Conditional Heteroscedasticity Approach

Both Chrisman and Patel (2012) and Patel and Chrisman (2014) used the conditional heteroscedasticity approach to test for heterogeneity among family businesses. To the best of our knowledge, despite its great relevance to the concept of heterogeneity, this approach has only occasionally been utilized. According to Chrisman and Patel (2012), conditional heteroscedasticity uses "residual errors from baseline trends to measure variability" (p. 983) and

consists of two stages. First, researchers develop a "baseline" model to regress the dependent variable. For instance, Chrisman and Patel (2012) used the previous five-year periods of R&D investment (R&D $_{t-6}$ to R&D $_{t-1}$) to regress R&D investment in the current year (R&D $_{t}$). Second, the variance (or variability) of the residual from the first stage is used as the dependent variable to regress the variability upon selected control variables (Engle 1982).

It should be noted that with the conditional heteroscedasticity approach, variability refers to the variance of an error term that cannot be fully captured by the first-step model. Hence, the quality of the measurement of variability depends upon the model specification in the first stage. Accordingly, scholars need to carefully justify which variables are included in the first stage; the variability should represent the residual or error that cannot be explained by the first-stage model. Thus, variability here does not refer to the variance of the focused variable (e.g., R&D investment) but to the part of R&D investment that deviates from the normal trend. As such, scholars need to be cautious in explaining results obtained from the conditional heteroscedasticity approach.

Model 7: Multilevel Modeling

Multilevel modeling refers to any empirical approach that includes aggregating lower-level data into a higher-level construct (Hitt et al. 2007) or where higher-level influences affect lower-level outcomes (Raudenbush and Bryk 2002). In the family business literature, despite its relevance to many family and business phenomena, multilevel modeling has rarely been used. As an example of a hierarchical linear modeling approach, see the paper by Eddleston et al. (2008), which investigates higher-level variables (i.e. generational ownership) on individual level perceptions (i.e., different types of conflict). More commonly found, yet not standard, is the aggregation of individual-level data to higher-level data (most often team or firm level). Eddleston and Kellermanns (2007) used aggregation techniques to study how reciprocal altruism and relationship conflict among family employees affect family firm performance. The advantages of collecting data from multiple respondents and aggregating responses to higher levels to develop theoretical frameworks have recently been highlighted in the literature (see Holt et al. 2017).

As another example, to learn how the regional economy explains differences in family business performance among regions of the United States, a researcher could explore how macro-level forces within a state and region affect family firm performance via hierarchical linear modeling. For insights on aggregating data from lower to higher levels in family business research, please see the article by Holt et al. (2017).

The key to multilevel modeling is to either aggregate data from lower to a higher level (i.e., calculate variation at the lower level and use it as a variable at the higher level) or to capture higher-level influences at lower-level outcomes. The former reduces the level of analysis to one level, while the latter retains multiple levels in the analysis. As family business research often involves multiple levels (individual, family, firm, industry, region, etc.), explicitly recognizing multiple levels may help address important research questions and shed light on new research directions.

Discussion

In this book chapter, we examined seven feasible empirical approaches that can be used to investigate family business heterogeneity. By doing so, we offer multiple contributions to the family business literature. First, we provide a comprehensive summary of seven empirical approaches that hold much promise for research exploring family business heterogeneity. To the best of our knowledge, this is the first attempt to compile a list of methodologies that could be used to explore family business heterogeneity. Second, since we have emphasized the applicability of each approach, researchers can use this chapter to identify the best empirical model to test their theory. Third, we discuss the strengths and weaknesses for each approach so that researchers can hopefully avoid common empirical problems when studying family business heterogeneity. Finally, we hope that our efforts will inspire new and diverse empirical approaches beyond our review, thereby advancing the family business literature.

Theoretical Justification

The fundamental purpose of family business scholarship is to advance our theoretical understanding of family businesses as a unique organizational form (Gedajlovic et al. 2012; Sharma 2004); an empirical approach serves as a test to demonstrate the appropriateness of the hypothesized theory. Any empirical approach must be aligned with an appropriate theoretical foundation or the discrepancy between theory and methodology might become substantial.

These seven reviewed empirical approaches are often associated with different theoretical models. For instance, mediation explores multiple mechanisms through which family involvement affects firm behavior and performance,

while moderation explores contingent conditions that alter the nature or strength of a causal relationship (Baron and Kenny 1986). In addition, some theoretical frameworks may involve the combination of multiple models (e.g., Hernández-Perlines and Mancebo-Lozano 2016), which further increases the complexity of theoretical justification. Indeed, authors need to be particularly cautious in selecting the approach that best fits their theoretical framework.

Theoretical Advancement

The discussion above should help advance the theoretical development in the family business literature in three notable ways. First, certain approaches such as moderation and mediation can be used to integrate multiple theoretical roots to generate a more comprehensive framework. For instance, researchers might be interested in exploring how corporate governance (Agency Theory) might affect the family's utilization of family-centered resources in the business (Resource-Based View). Such a theoretical inquiry can be explored using the moderation approach mentioned above (Model 2). Additionally, some approaches such as multilevel modeling (Model 7) can be used to explore the connectivity among theories, especially those across levels of focus. As one example, researchers can use this approach to explore how the composition and structure of socio-emotional wealth (SEW) of *individual* family members (individual level) might affect the family's endowment of resources (RBV) in the business (family or business level). In the end, the configurational approach can be used to generate new theoretical insights in terms of the typology and taxonomy of family business (Stanley et al. 2017).

Future Research Directions

Although we attempted to give equal attention to all seven approaches, some approaches are more prevalent in the literature than others. For instance, to the best of our knowledge, published articles using inconsistent mediation are yet to be found in the family business literature. In addition, the configurational and multilevel approaches have only been used occasionally to date (for exceptions see Holt et al. 2017; Stanley et al. 2017; Eddleston and Kellermanns 2007; Eddleston et al. 2008). The conditional heteroscedasticity approach has only been used by Chrisman and Patel (2012) and Patel and Chrisman (2014), whereas the convergence/divergence approach has only been used by Miller et al. (2007). Hopefully, these studies serve to inspire additional research since

they highlight how sophisticated methodologies help to uncover sources and effects of family business heterogeneity.

Additionally, combining multiple methods would provide better validation of findings and offer multi-perspectives to enrich our understanding of family business dynamics. The combination of latent profile analysis and analysis of covariance (ANCOVA) (Stanley et al. 2017) might serve as an example. A multiple-method approach may be particularly important to family business studies, as family businesses often have many family and nonfamily decision-makers and decision-making processes at different levels. While we only reviewed quantitative approaches, we need to note that studies that include qualitative data in combination with one of the reviewed quantitative approaches would also yield valuable insights.

Finally, the literature largely focuses on explaining the causes behind family business heterogeneity, with scholars often emphasizing the *antecedents* that explain a variety of behavior and performance among family businesses. One missing lens is the potential consequences of family business heterogeneity on macro-level factors. If indeed family businesses are heterogeneous, and their characteristics and goals vary across the globe, does family business heterogeneity affect the development of the regional economy, culture, and institutions? How do family businesses, as a group, help to mold a country's formal and informal institutional environment? Many questions like these stem from the consequences of family business heterogeneity and have yet to be explored.

Limitations

There are a number of limitations that may help shed light on future studies. First, we did not conduct a thorough review of the literature in terms of empirical methodology, nor did we integrate our discussion with the various theoretical lenses in the family business literature. As previously mentioned, our empirically driven examination was designed to facilitate the selection and use of empirical approaches to explore family business heterogeneity. Yet, we hope that future research will utilize some of the suggestions in this chapter in an effort to enhance the methodological quality of their research.

Finally, our examples were primarily drawn from a strategy perspective, although the approaches discussed can be easily applied at the individual level or the meso-level. We hope that our discussion of seven different empirical models will shape future research on family business heterogeneity, thus becoming a catalyst for more innovative empirical approaches and assisting with the development of novel family business theory.

Conclusion

This chapter examines seven empirical approaches that can be used to investigate family business heterogeneity, each with its own applicability, strengths, and weaknesses. The theoretical implications, future research directions, and limitations are also discussed.

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Part II

Family Governance

5

Family Firm Identities and Firm Outcomes: A Corporate Governance Bundles Perspective

Yuliya Ponomareva, Mattias Nordqvist, and Timurs Umans

Introduction

Family firms are unique in the sense that they are characterized by interaction between two distinct logics—family and business (Sundaramurthy and Kreiner 2008; Ward 1987). Family logic emphasizes a noneconomic value created through satisfying the needs and ensuring the well-being of the family. The business logic emphasizes economic growth and business development. Because the two logics may not always coincide, the ability to manage the trade-offs between preserving the family value and generating economic value becomes paramount for the governance of family firms (Gomez-Mejia et al. 2007). In this chapter, by using the lens of identity theory, we try to answer

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E. Memili, C. Dibrell (eds.), *The Palgrave Handbook of Heterogeneity among Family Firms*,
https://doi.org/10.1007/978-3-319-77676-7_5

the question: why do some family firms emphasize family value creation, while others focus more on generating economic value?

Current knowledge about family firms is characterized by assumptions about their homogeneity. The majority of studies within this topic have focused on distinctions between family and nonfamily firms (Chua et al. 2012) in relation to ownership structure (van Essen et al. 2015), business goals (Gomez-Mejia et al. 2007), the nature of the agency relationship between owners and managers (Chrisman et al. 2004), and investment strategies and capital structures (Mishra and McConaughy 1999). Less attention has been paid to differences within the category. Yet nascent research has shown that family firms may differ in their degree of family involvement (Villalonga and Amit 2006), governance practices (Dekker et al. 2015; Nordqvist et al. 2014), founders' values (García-Álvarez and López-Sintas 2001), ownership structure (Miller and Le Breton-Miller 2006), access to resources (Verbeke and Kano 2012), and identity (Boers 2013; Boers and Nordqvist 2012). Considering this heterogeneity, a simple distinction between family and nonfamily firms may not be sufficient for explaining the influence of family involvement on firm outcomes. Examining the reasons that drive differences among family businesses is important for understanding and managing the dual nature of these firms (Stewart and Hitt 2012). In this chapter, we use the concept of firm identity to understand differences in governance choices and outcomes among family firms.

By defining a balance between family and business needs, family firms create a common framework for understanding their goals and objectives (Zellweger et al. 2010). This framework crystallizes into a concept of family firm identity, which refers to a set of rules and values that comprise a collective understanding of an organization (Albert and Whetten 1985). Building on the research on social identity theory (e.g. Tajfel et al. 1971; Turner et al. 1979), we distinguish between two ideotypical identities of family firms: clan and financial. We argue that each identity is associated with particular governance needs and objectives, resulting in distinct bundles of internal corporate governance mechanisms, which, in turn, shape firm outcomes. We propose that the dominance of the clan family firm identity is associated with the formation of a unified corporate governance bundle and will ultimately result in the maximization of non-financial outcomes. In contrast, a financial identity is likely to be associated with dispersed corporate governance bundle, providing an efficient means of maximizing economic outcomes.

Examining the links between family firm identity and the firm's governance system contributes to the current debate in family business literature about the causes and consequences of heterogeneity among family firms (e.g. Chrisman

et al. 2005; Frank et al. 2016; Nordqvist et al. 2014). By highlighting the multiple identities of family firms, we show that the traditional perspective, which emphasizes homogeneity within the category, is not adequate for explaining variation among family firms with different identities. More specifically, we explain the nature of governance arrangements and their effects on firm outcomes and outline the costs and benefits associated with each identity.

We also contribute to the corporate governance literature by explaining the variation in governance needs of family firms and providing a more fine-grained understanding of the antecedents and consequences of corporate governance bundles. Finally, we introduce the concept of corporate governance bundles to the family firm domain, a concept that has traditionally been applied in comparative corporate governance literature (e.g. Garcia-Castro et al. 2013).

The chapter is structured as follows. We first define the two distinct identities of family business. We then discuss the implications of these identities for the choice of corporate governance mechanisms. Lastly, we discuss the implications for the current debate on family firms' governance. The chapter resumes with discussions on directions for future research and a brief conclusion.

Divergent Identities of Family Firms

Identity serves as a link between a social structure and individual behavior. It allows individuals to define themselves and their relation to the social context (Ashforth and Mael 1989). According to social identity theory, identification with a group gives an individual a sense of belongingness, purpose, and legitimacy (ibid). The strength of one's identity has been shown to be related to the strength of one's individual ties with a group that shares that identity (Tajfel 1974). The individuals that share a group identity align their behaviors with the values and norms of the other group members (Ashforth et al. 2008; Haslam and Ellemers 2005).

The formation of family business identity is inherently dependent on the interplay between the family and the business logics, as the latter may not always correspond with the family's objectives (Ward 1987). Family firm identity applies beyond the perceptions of the business and the family, defining features of organization that make it distinctive. It refers to the essence of "who we are as a family business" (Reay 2009; Shepherd and Haynie 2009). This organizational identity provides a common system of values and beliefs aligning and coordinating the decision-making (Arrengle et al. 2007).

To define the balance between family and business logics in family firms, one needs to answer the question: is the business serving the family or is the

family serving the business? The answer to this question depends on the values shared by the family members and employees; those values ultimately form the identity of the family firm (Ward 1987). Boers and Nordqvist (2012) argue for the existence of hybrid identities of family firms, implying a coexistence of normative (family-centered) and utilitarian (business-centered) identities in a single organization, where each identity dominates in different situations. In this chapter, we build on the notion of multiple identities of family firms (Miller and Le Breton-Miller 2011; Ward 1987), first distinguishing between clan and financial family firm identities and then linking them to the corporate governance bundles.

Previous research has argued that individuals and groups define themselves based on attributes that are central to their collectivity (Tajfel and Turner 1986). However, the issue of how to define an organizational identity has been a subject of debate (Corley et al. 2006). We follow three criteria (central, distinctive and enduring) proposed by Albert and Whetten (1985) to define attributes of organizational identity. We illuminate heterogeneity in family business identities in respect to five elements that fulfill the three criteria: (a) core values, (b) goal orientation, (c) nature of contractual arrangements, (d) leadership, and (e) preference for control. Using these five attributes, we conceptualize clan and financial family business identities.

The two identities represent two ends of a continuum rather than two separate categories. Both identities combine business and family logics, with one dominating the other. Together, they form a firm meta-identity, a consistent identity that a firm creates and communicates to its stakeholders (Shepherd and Haynie 2009). When the family logic prevails over business logic, a family firm is more likely to adopt and communicate a clan identity. Alternatively, when the business logic prevails, this will foster the adoption of a financial family business identity. Thus, the elements of each ideotype coexist, creating hybrid organizational identities (Boers and Nordqvist 2012). For the sake of simplicity, we do not discuss the effects of the distinct combinations of identities but instead conceptualize them in two main categories. Our conceptual model is illustrated in Fig. 5.1. In the following sections, we present each of the identities of family businesses and explain how they shape the design of corporate governance bundles and ultimately influence firm outcomes.

Clan Family Firm Identity

In clan firms, the family is the carrier of identity and the central factor in the decision-making. The family members involved in the business strongly identify with the family domain and see the firm as a means to fulfill their role

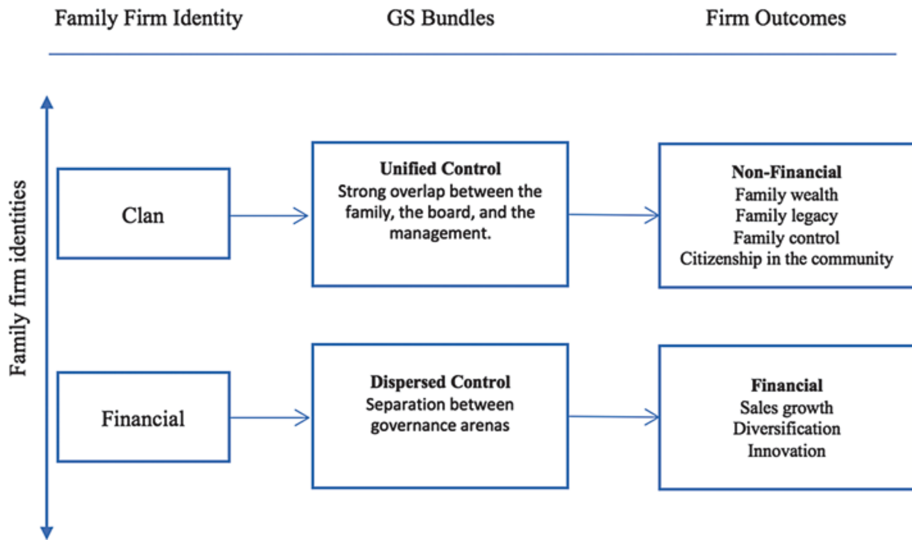

Fig. 5.1 The relationship between family firm identities, corporate governance bundles, and firm outcomes

obligations. The business is seen as an extension of the family and the boundaries between what constitutes family and what constitutes business are blurred. The firm serves as a means to provide employment for family members and, ultimately, the financial means to support the family. The legacy of the firm is created through assurance of the continuation of family control in the future (Micelotta and Raynard 2011).

Clan identity is shaped by strong family values. Socio-emotional wealth (SEW) is closely linked to clan identity because it provides the common values that help the family to define themselves and their relation to others and to the firm (Gomez-Mejia et al. 2007). SEW refers to the affective, nonfinancial value that a family is generating through its involvement in business (Wiseman and Gomez-Mejia 1998). This value can be reflected in multiple dimensions, including building the legacy of the firm to pass on to the future generations (Gomez-Mejia et al. 2007) and maintaining the social status and reputation of the family in the community (Berrone et al. 2010; Dyer and Whetten 2006; Zellweger et al. 2013). Family owners can also extract value through securing employment for family members (Gersick et al. 1997; Ward 1987) and exercising authority (Schulze et al. 2003). SEW also refers to the emotional value of belonging and intimacy among the family members (Gomez-Mejia et al. 2001). A loss of SEW means losing connection to status and support from the family. The substantial noneconomic benefits derived

from belonging to the family are central to the value system of family members, who, to maximize these benefits, may be willing to forgo economic returns (Bertrand and Schoar 2006). In line with this, Morck et al. (1998) find that heirs to wealthy family businesses are more likely to seek to preserve their wealth through political lobbying and to entrench their management and are less likely to invest in innovation.

Family firms, with their strong orientation toward family values and an overlap between ownership and control, rely on relational contracts (Mustakallio et al. 2002). Such contracts, which are embedded in social relationship, are built on shared values and mutual trust (Poppo and Zenger 2002). Clan identity legitimizes the behaviors that serve the family and reinforce loyalty toward the family members, thus serving as a mechanism of social control by reinforcing relational contracts.

Close social ties among family members create unity and evoke a family focus, which transfers to the business context (Miller et al. 2011). The business role is important as a support for the family needs and aspirations. A prevalence of family values provides more opportunities for family owners to participate in strategy creation and its implementation. By appointing family members to firm leadership, family owners can utilize this power to maximize their value of belonging to the family, through providing security and economic benefits that the family members otherwise may not have been able to obtain (Gersick et al. 1997; Ward 1987).

Firms characterized by the dominance of clan identity have a strong preference to maintain control over business, which may come at the expense of firm needs. To preserve family wealth, a firm may refrain from undertaking risky decisions that could jeopardize family income or control over business. The unified leadership of family members allows family firms to maintain control over decision-making. This control, however, comes at the expense of an inward-looking structure. Firms with a clan identity may seek to avoid stakeholders that threaten family control over business (Cannella et al. 2015).

In summary, family firms characterized by clan identity can be conceptualized through a set of distinctive characteristics. These include the presence of family values and a focus on family wealth maximization. Clan family firms rely strongly on relational contracts as opposed to formal ones. Pursuing the desire to remain in control of decision-making, clan family firms are more likely to have an inward-looking leadership structure with broad involvement of family members in the management. In the next section, we introduce the concept of financial identity of a family firm.

Financial Family Firm Identity

In financial family firms, the notion of the firm is at the core of family firm. The family role is important and yet is secondary, providing support to the business and facilitating its growth and development. These firms put their emphasis on business needs such as profit maximization and efficiency. The latter provides a common goal aligning interests between family and nonfamily members.

In recent decades, institutional infrastructure and the nature of business norms have changed dramatically (Melin and Nordqvist 2007). The rise of shareholder activism and financialization of the global economy have influenced the public and market to favor a shareholder-centered organization of business activity (Lazonick and O'Sullivan 2000). Family businesses, like other actors in the market, face a highly competitive, dynamic environment. Sometimes family firms are criticized for bearing an inefficient legacy system and for nepotism, a lack of business acumen, lack of transparency, and adherence to the old traditions (Bertrand and Schoar 2006; Ket de Vries 1993). These criticisms create a threat to clan family firm identity by limiting the access to capital markets (Croci et al. 2011). To survive in the changed environment and to achieve growth, family firms have been pressured to adapt to the dominating norms of management and governance, which are mainly designed for large, publicly listed corporations (Lane et al. 2006). One way for family firms to create legitimacy is to change their identity to have a greater business orientation, a shift which can align different stakeholders with a common perception of the family business and its objectives and goals. This change can be conceptualized in the creation of a new identity—financial family firms (Fang et al. 2012).

Another important driver of financial family firm identity is the change associated with the institution of family and family structure and values in society. Families have become more heterogeneous, while the family roles have become more egalitarian. This change has also influenced family identity. The family institution has become more inclusive, open, and tolerant toward outsiders. For example, an increasing number of families have abandoned the norm of wealth transition to the firstborn male (Nelton 1998), leading to a greater participation of women in family businesses as well as a redistribution of wealth. The successor generations have more choices in terms of their career and do not need to be involved in the business. The increasing diffusion of the family role in the society as well as the limitations associated with the succession process create a need for a structure that would work

beyond individual family members and be able to preserve and increase the wealth of the firm in the future. In order to increase the pool of talent within the firm and to assure the preservation of the firm, some family businesses have chosen to connect with a wider range of stakeholders. Thus, an initially closed structure gradually changes, shifting the relationship between family and business logics toward a dominance of the latter and facilitating the creation of financial family firm identity.

Financial family firm identity provides a way to manage the two conflicting logics and position the firm in a competitive environment and to accommodate to the changing values and objectives of the family. The firm orientation provides a common framework for the family and nonfamily members involved in the management and also opens the firm to external stakeholders. Through its orientation toward the firm, this identity is more inclusive of nonfamily stakeholders, providing a common value system and goals and aligning actions and expectations. Strong links to the external environment as well as alignment between the firm identity and external environment open access to valuable resources that can facilitate firm growth. By reinforcing its links with the external environment, the family can gain access to information, capital, and talent pools that can be successfully leveraged in the pursuit of expansion.

Financial family firm identity is closely linked with the notion of professionalization, which includes more formalized firm processes, including management and governance (Hofer and Charan 1984; Fang et al. 2012). This process assumes a change for both the family and the firm. The family members become more professional, in the sense of receiving formal training, as well as by formalizing contracts between family members. The business processes also become more formalized, opening the pool of managerial labor to nonfamily members as well as attracting external capital, both financial and non-financial.

Financial family firm identity has several synergies created through the alignment of interests among the stakeholders. Strong business orientation provides and communicates a common direction to a diverse group of stakeholders, while aligning decision-making and behaviors across the organization. It sends signals to family members, the nonfamily employees, and other stakeholders that indicate the intention to growth and prioritize the business. Opening the firm to the stakeholders allows the firm to limit the influence of family, while limiting its dependence on single individuals.

In summary, the distinctive characteristics that are central and enduring for family firms dominated by a financial identity include the presence of business values and an orientation toward profits and growth. These firms rely on formalized contractual arrangements and have more outward-looking leadership structure, while the family has a moderate need to remain in control.

Table 5.1 Family firms' identities and their key characteristics

	Clan identity	Financial identity
Core values	Family values	Business values
Goal orientation	SEW maximization	Profit and growth
Nature of contracts	Relational	Formalized
Leadership	Individual driven	Institutionalized
Control preference	High need for control	Moderate need for control

Table 5.1 provides a summary of characteristic that define each of the above described identities of family firms.

Family Firm Identities and Corporate Governance Bundles

We propose that the two types of family firm identities influence the form of corporate governance adopted by a family firm. We adopt a broad definition of corporate governance, defining it as structures and processes that outline direction, assure control, and enhance the development of a firm. More specifically, corporate governance is not only about the reduction of costs arising from contractual arrangements within a firm but also a way to develop and grow a company, thereby increasing shareholder wealth. Governance scholars have advocated the need for corporate governance mechanisms (Monks and Minow 1991) to protect and maximize shareholder wealth. The nature of corporate governance practices, in turn, depends on the characteristics of a firm and its environment.

Governance practices in family firms are characterized by a distinct alignment of three key dimensions: ownership, management, and family (Gersick et al. 1997). The interaction between these three elements as manifested through family firm identity determines the nature of contractual arrangements within the firm. This, in turn, forms a set of governance needs and ultimately reflects in the configuration of governance practices. This implies that firm identity influences the nature of corporate governance system.

The bundle perspective on corporate governance builds on the notion that corporate governance systems and practices are interdependent (Rediker and Seth 1995). Thus, instead of considering each mechanism of corporate governance in isolation, the bundle theory proposes that different configurations of corporate governance mechanisms and their interdependencies affect firm outcomes. Based on this view, depending on a single mechanism is regarded as insufficient, as its influence is determined by other mechanisms that comple-

ment and reinforce or substitute its influence (Aguilera et al. 2012). This implies that no one best design of governance system exists; rather, the effectiveness of corporate governance is determined by the alignment of the firm and its environment. Previous research on governance bundles has mainly focused on comparing corporate governance at a national level. However, recent studies have addressed firm-level determinants of governance bundles (Ward et al. 2009). Garcia-Castro et al. (2013) have shown that different bundles of corporate governance mechanisms have a positive relationship with firm performance, both within the same and across different systems of corporate governance. This indicates the potential for firm-level determinants of governance bundles.

Configuring governance mechanisms as a bundle serves two main purposes. Namely, it allows a firm to maximize desired value outcomes by aligning different mechanisms, to maximize synergies and eliminate redundancies. It also communicates to stakeholders that the firm is oriented toward maximizing shareholder value, thus further establishing the firm's legitimacy. The alignment between different mechanisms can be achieved through firm identity. Firm identity determines the performance goals for the company, be they economic or SEW, which define the governance needs of a firm. Thus, designing a system of governance mechanisms can be a manifestation of firm identity. Depending on the nature of the firm's goals and means for achieving these goals, firms will choose different configurations of governance practices.

Building on previous research in family business, we propose three arenas that shape the nature of governance bundles: the family (the ownership), the board, and the management (Gersick et al. 1997). Family influence can be viewed as a mechanism of governance but also as a resource for firm development. Family owners possess knowledge about the corporation and strong incentives to be involved in the governance of their firms. The board represents the interests of the shareholders (Jensen and Meckling 1976). The directors have two key roles. One is to monitor managerial decisions on behalf of the shareholders and the other is to bring resources to the firm, such as their social and human capital (Hillman and Dalziel 2003). The management or operational decision-makers are concerned with implementing the strategy chosen. Managerial responsibility is to drive the development of the firm on behalf of the shareholders (Fama and Jensen 1983). These three interrelated arenas form a bundle of corporate governance mechanisms. The nature of the interdependence is influenced by family firm identity. More specifically, family firm identity determines the relative costs and benefits each governance mechanism, which contributes to the creation of an optimal governance bun-

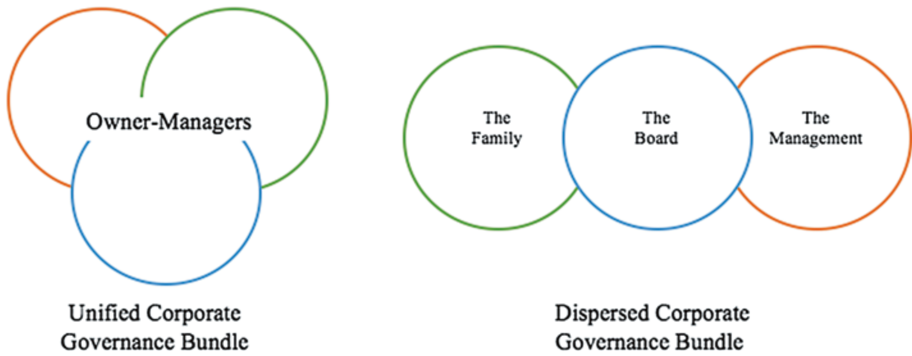

Fig. 5.2 Family firm identities and corporate governance bundles

dle. In Fig. 5.2, we present two common patterns of how family firms' identity can shape the nature of governance mechanisms within a firm: a unified bundle and a dispersed bundle of internal corporate governance.

Clan Identity and Unified Governance Bundle

A firm with a clan identity adopts a bundle of governance mechanisms characterized by a broad overlap between the three governance arenas (ownership, the board, and the management) through the domination of the family on the board and in management. This overlap is a reflection of distinct governance need: to preserve SEW in the form of maintaining family control (Miller and Le Breton-Miller 2014). The control over decision-making processes allows the family to maximize their interests, both economic and noneconomic. The highest priority is given to SEW endowment (Gomez-Mejia et al. 2007). To maintain SEW, the family stays involved not only in creation and implementation but also in control of firm strategy.

The owning family controls and manages the three dimensions of the family governance bundle. It is less likely to exchange the benefits of control for an inflow of external capital and to maintain its ownership of the firm (Gomez-Mejia et al. 2011). Thus, family firms with clan identity will be more likely to maximize family ownership within the firm. Members of controlling family will also dominate management. This provides security and economic benefits for the family, while assuring its control over firm's operations. The dominance of family members in both ownership and control will, in turn, be reflected in the insider-dominated board structure. In the absence of agency conflict between owners and managers, the directors' mandate will focus primarily on service provision, which involves the resolution of the conflicts

among the family members (Collin 2008). Thus, the board in clan family firms is more likely to be dominated by insiders and outside individuals who have close social ties with the owning family (Anderson and Reeb 2003) or those who have an experience in family firms (Cannella et al. 2015). As a result, outside directors will understand dynamics of the firm and consider SEW objectives in their provision of advice and counsel.

The unification of the governance mechanisms creates advantages for firms dominated by clan identity. The tight overlap between the three arenas of governance creates efficiencies stemming from reduced costs: the family absorbs governance costs while maximizing the SEW. Due to the lack of separation between ownership and control, agency conflict becomes less relevant, thereby reducing agency costs (Bellow 2003; Gibson et al. 2014). This, in turn, reduces the need to implement costly mechanisms of corporate control such as independent board members, compensation packages for managers, and financial reporting. Instead, orientation toward family can serve as an informal control mechanism for individual behavior (Mustakallio et al. 2002).

The family members' long period of common socialization creates strong ties among them, which helps them to develop a set of shared norms that structure individual behavior. Pro-family behaviors are rewarded and disloyalty is penalized. Clan family firms rely on mutual trust, family collegiality, and intra-family altruism to align behaviors of both family and nonfamily members (Corbetta and Salvato 2004). These shared norms create a common ground for aligning decisions and behavior, which also reduces the need to use governance mechanisms in the form of external monitoring and incentives (Chrisman et al. 2003, 2004).

Its involvement in all three areas of governance allows the family to achieve its key objective—to maintain control, both strategic and operational. The unity of command provides clear and unambiguous leadership, communicating a sense of stability, order, and authority within and outside the company (Hambrick and Finkelstein 1987). It also eliminates bureaucratic layers, enhancing the speed and efficiency of the decision-making process (Sundaramurthy and Kreiner 2008).

Based on the arguments above, we posit that a clan family identity influences the nature of governance bundles within a family firm because it provides a structure that allows the firm to meet its distinct governance needs. More specifically, the dominance of clan identity is associated with a close overlap among the three arenas of governance—the family, ownership (represented by the board), and management, in other words, with a unified corporate governance bundle.

Proposition 1: The dominance of clan identity in family firms is associated with a unified bundle of internal corporate governance mechanisms.

Financial Family Firm Identity and Dispersed Corporate Governance Bundles

Wealth distribution and value creation in financial family firms are determined mainly by business interests. To develop and grow, a family firm needs to adjust to its external environment and to attract valuable strategic resources. If the family's capacity to provide resources is limited, to facilitate growth, the firm needs to involve external stakeholders in its strategic decision-making. To attract external stakeholders (investors, professional managers, and independent board members), a family firm needs to communicate a strong business orientation, following the dominating logic of governance practices—the shareholders' perspective (Fiss and Zajac 2004). Financial firm identity sends a set of signals both within and outside the firm, indicating that its priority is to maximize profit for a larger group of stakeholders, thereby legitimizing its strategy and actions. This opens access for attracting capital and other valuable resources. Limiting the involvement of family members in implementing strategy and involving nonfamily members, along with other influential stakeholder, in strategy creation can enhance the diversity of perspective. These, in turn, can contribute to greater adaptability of the firm to the changes in its external environment.

The orientation toward involving a broad group of external stakeholders creates a set of values and norms that align the decisions within the firm, particularly in the choice of governance mechanisms. The latter incorporates the objectives of different stakeholders, creating a need to manage each arena of governance as an independent structure. This reduces the overlap between the family, the ownership, and the management. The separation of the three arenas creates three sets of competing goals—those of family, owners, and management—that need to be managed through a more elaborate and, consequently, more costly governance structure, than that needed by a firm with a clan identity.

Separating the three arenas of governance opens access to valuable resources, which, in turn, can enhance the decision-making process. In particular, by the involvement of nonfamily shareholders, independent directors, and nonfamily managers, the firm can gain access to financial, social, and human capital and increase the pool of candidates for managerial positions. At the same

time, the presence of diverse needs and objectives requires increasing the complexity of the corporate governance bundle.

To grow, firms characterized by financial family firm identity may turn to nonfamily professionals to run their business on their behalf. The financial family firm identity allows for formalization of organizational processes, creating structure that will function beyond individuals. To achieve that, the formalization of succession becomes paramount, so these firms need to create processes to assure recruitment of managerial talent. This implies both selection of family successors as well as the delegation of decision-making authority to nonfamily members (Bennedsen et al. 2007; Chittoor and Das 2007). The firms are able to select the best candidates, and family members have to compete with nonfamily members for managerial positions. The participation of the family in the management will depend on individual skills and abilities rather than being a direct consequence of kinship. This applies to both the management and the ownership. To be comparable to external candidates, family members may obtain professional business education and competencies (Fang et al. 2012).

In financial family firms, ownership is an important governance mechanism. Thus, while a family may minimize its participation in operational management, it may select family members to represent family interests on the board of directors. As clear and identifiable active owners (Boers and Nordqvist 2012; Collin et al. 2017), they can influence the firm's strategic decision, setting long-term goals and determining values of the business. Family members have been recognized as effective owners because of their knowledge of the business and its operations as well as the long-term horizon of their investment in the firm (Villalonga and Amit 2009). While the presence of professional managers comes at the cost of a potential misalignment of interests between the shareholders and managers, the capacity and willingness of family owners to exercise their control enables them to reduce the costs of agency conflict. Informed and motivated family owners can recognize opportunistic behaviors quickly and exercise their power to discipline nonfamily managers (Claessens et al. 2002).

To grow, firms need access to capital. Thus, family firms that prioritize growth will be more willing to exchange part of their control rights for external investment capital from nonfamily investors. Attracting new groups of shareholders can also increase firms' internal capital, as these shareholders bring diverse perspectives and experiences to strategic decision-making. A family firm may also seek to strategically attract investors with skills or assets it needs, such as institutional funds that would improve its credit rating and improve competitive position on the market. A family firm may also consider

making an initial public offering (IPO) (Leitterstorf and Rau 2014). The economic benefits of giving up the control in exchange for capital may outweigh the losses associated with any damage to SEW for these firms.

The presence of multiple groups of shareholders may lead to the coexistence of multiple interests (Collin et al. 2017). To manage potential conflicts of interest between family and nonfamily stakeholders and to mediate principal-principal conflict costs, separate governance structures need to be created to address family needs and goals. For example, family involvement and influence can be channeled through a family council or family assembly to ensure that family interests are integrated in the governance and yet do not hinder the growth potential of the firm. These structures help families to socialize the younger generations into the firm and also reinforce the family values, shared identity, trust, and pride (Amit and Villalonga 2013; Davis 2007). The separation of family council or family assembly from the other governance structures allows for distinguishing between the interests of the family and of the business.

Once the family interests have been identified and communicated, the board can balance the power of the family against that of the managers and nonfamily shareholders, mediating any conflict between family and nonfamily shareholders. The board, which consists of representatives from the three key governance arenas, then becomes an important mechanism to mediate the agency conflicts between (a) the family owners and nonfamily executives, (b) between family and nonfamily shareholders, as well as (c) between the active owners of the family and the rest of the family.

Despite the advantages associated with having a diversity of influential stakeholders within the family firm, the complex governance structure needed to manage this diversity implies greater coordination and governance costs. Because of the need to manage the competing interests of multiple stakeholders, the board will require a higher information-processing capacity, while the time required for decision-making and undertaking strategic actions may increase.

Attracting external investors may also increase the costs of coordination and the need to implement governance mechanisms. A decision to undertake an IPO may also mean an increase in the regulatory burden, greater scrutiny from external stakeholders, and, most importantly, the loss of control by the firm incumbents (Pagano et al. 1998), which ultimately reduces the SEW.

To summarize, as indicated in Fig. 5.3, financial family firm identity leads to the creation of an outsider-oriented governance bundle. This bundle is characterized by greater separation of the three arenas of governance—the family, the ownership, and the management. The separation helps the firm to

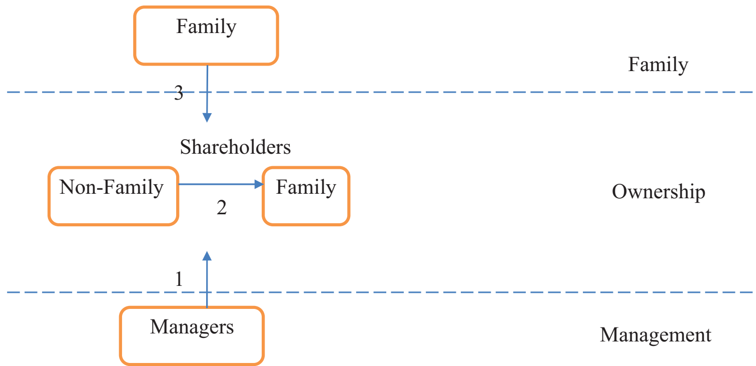

Fig. 5.3 Governance in firms characterized by financial family firm identity. (Adapted from Villalonga et al. 2015)

overcome barriers to growth by increasing the pool of talented managers, opening up access to valuable resources, and enhancing the decision-making quality. However, the separation of the three arenas may lead to three types of conflict of interest as illustrated in Fig. 5.2: (a) between the owners and the managers, (b) between family and nonfamily shareholders, and (c) between the active family owners and the rest of the family. Resolving such conflicts requires additional governance mechanisms, leading to a more and more dispersed governance structure. We thus formulate the following proposition:

Proposition 2: The dominance of financial identity in a family firm is associated with a dispersed bundle of internal corporate governance mechanisms.

Governance Bundles and Firm Outcomes

In line with the distinct goal orientations characterizing firms with a clan or financial family identities, we propose that the presence of unified corporate governance bundles lead to greater non-financial performance outcomes, while presence of a dispersed corporate governance bundle will be associated with greater financial performance.

Long-term survival is the ultimate goal for a firm. However, survival may mean different things for different types of principals. For family firms characterized by a clan identity, survival means the firm will be able to generate the economic benefits needed to maintain the status, reputation, legacy, and the well-being of family members. For family firms with a financial identity, the survival of the business will mean the success of the family management and

a legacy for the business as an independent structure. Once their basic financial needs have been achieved, the two types of family firms may differ in the ways they utilize residual gains. Those dominated by clan identity would be expected to emphasize the need to use the capital to maintain control of the family rather than to grow the business. Those dominated by a financial family firm identity would be expected to emphasize the need to use this capital for business growth and development.

Both bundles can lead to the establishment of the competitive advantage necessary for the survival of the firm in the long run. Aspects of SEW such as community, citizenship, and family values can create a set of idiosyncratic resources that enable the firm to sustain its performance in the future. However, due to the trade-offs associated with a unified bundle of corporate governance mechanisms, family firms with clan identities may not have the same level of financial outcomes as family firms dominated by financial identities. As shown, family firms face trade-offs between maximization of non-financial gains and the financial performance of a firm (Miller and Le Breton-Miller 2014). Based on this notion, we propose that a unified corporate governance bundle will lead to a preference for non-financial performance gains, while a dispersed corporate governance bundle will likely be associated with higher financial performance.

The SEW utility generated through a unified corporate governance bundle may come at the expense of substantive performance in family firms with clan identities. The lack of diversity of perspectives on decision-making in clan families limits their firms' access to external resources, including the market for managerial talent. They choose executives from a limited pool of family members. While family members usually have a deep knowledge about the firm and its operations due to early socialization in the family business (Anderson and Reeb 2003; Chrisman et al. 2005), belonging to the family does not guarantee their managerial and leadership skills. A strong orientation to family traditions and values may be reflected in a narrow portfolio of strategic actions and, thus, may result in inertia, which, in turn, facilitates resistance to strategic change (Bertrand and Schoar 2006; Carney 2005).

The inward-looking governance bundle also restricts the interaction between the firm and its external environment, making it more difficult for the firm to access valuable market information, networks, and financial capital. Furthermore, the choice to hold control within the family may come at the expense of economic efficiency. The priority given to the family's needs pushes aside business opportunities that threaten the control. This implies that the clan family firm will sacrifice profitable business opportunities to

hold control over the firm or to fulfill family needs and objectives (Miller and Le Breton-Miller 2014).

The efficiency gains realized in a unified corporate governance bundle are offset through the limited interaction with firm external environment, reduced adaptability, and unrealized strategic opportunities for the firm growth. The preferences for SEW outcomes are reflected in conservative business strategy, lack of entrepreneurial orientation, and resistance to change and adaptation (Naldi et al. 2007). Clan firms may choose a conservative business strategy—penetrating a niche market and staying there (Dyer 1988). German *mittelstands* (small- and medium-sized businesses) constitute one example of such a strategy. This strategy allows clan firms to specialize in their product offerings, while remaining protected from fierce competition on large mature markets.

Family firms dominated by financial identity will be more likely to capture profitable strategic opportunities. The dispersed corporate governance bundle would be assumed to align the interests of three key groups of actors (family, external shareholders, and management). This structure allows firms to facilitate economic growth and, thus, is more likely to lead to higher financial performance. Based on the arguments above, we have formulated the following propositions:

Proposition 3: A unified corporate governance bundle is positively associated with non-financial performance outcomes.

Proposition 4: A dispersed corporate governance bundle is positively associated with financial performance outcomes.

Discussion

The notion of the coexistence of family and business logics in the formation of identity of a family business has attracted attention from many scholars. Yet the issue of the heterogeneity of family firms has not been adequately addressed. To contribute to the emerging discussion on the differences in strategies and structures between family firms, we have theorized how distinct family firm identities shape governance choices and firm outcomes. We propose that a family firm dominated by a clan identity will be associated with a unified bundle of corporate governance mechanisms, characterized by a strong overlap between the three arenas of family firms' governance. These corporate governance structure mechanisms allow firms dominated by clan identity to preserve their SEW endowment by maintaining control over the firm. In contrast, a financial family firm identity is characterized by an orientation toward

business objectives such as profit maximization and business growth. These can be realized through a dispersed corporate governance bundle, implying greater separation between the three arenas. We then argue that dispersed governance bundles in a family firm will be associated with greater financial outcomes, realized because of the board's greater independence from both management and family shareholders, as well as from the family council.

Our theory has several theoretical and empirical implications. First, we contribute to research in family business by illuminating the link between family firm identities, governance choices, and firm outcomes. By looking at the nature of corporate governance systems, we further explain the antecedents and consequences of family firm heterogeneity in corporate governance choices (Nordqvist et al. 2014). Organizational identity is a useful concept for explaining the underlining logic of corporate governance choice made by firms. Instead of looking at mechanisms of corporate governance, we distinguish between two general categories of corporate governance bundles. The choices are aligned to firm identity, and the two bundles correspond to the governance needs prevailing in each of the identities. Once their basic economic needs have been fulfilled, the family firms might focus on pursuing financial or non-financial outcomes. This distinction is important in analyzing the influence of family on firm outcomes.

The introduction and positioning of the concept of corporate governance bundles within the family firm context is another contribution this chapter is making. Previously, the concept has been used in studies comparing governance systems across the countries (e.g. García-Castro et al. 2013). We apply the logic of bundles at the firm level, focusing on the internal corporate governance mechanisms. By doing so, we explore the logics that aligns various corporate governance mechanisms and their joint influence on firm outcomes.

We also contribute to the literature on corporate governance. In this stream of research, the assumption of homogeneity of owners prevails. We contest this view, by showing how the identity of owners influences the nature of corporate governance arrangements within a firm. We go even further by underlining the difference within the same category of owners, providing a more nuanced view on owner identity and its influence on the firms' governance needs that shapes the logic of corporate governance arrangements. By distinguishing between clan and financial identities of family firms, we draw attention to the importance of owners' identity for organizational outcomes. While previous research has conceptualized family involvement in the firm through its ownership stake, we argue that it is not merely involvement but the nature of the involvement that may matter. For example, two firms may have majority family ownership but two divergent identities. Thus, conceptu-

alizing family influence by looking at percentage of ownership may not be adequate to explain governance choices and firm outcomes stemming from these choices.

This chapter has practical implications for families who aim at assuring the survival and development of their business. In broad terms, organizational identity can be an important mechanism for resolving the tension between competing family and business logics. A salient identity provides the dominant logic for firm decision-making and for governance choices, in particular. The alignment between the nature of corporate governance arrangements and firm identity is likely to influence organizational outcomes. Thus, firm identity will reinforce and legitimize unified corporate governance bundles, leading to maximization of non-financial performance outcomes, while an emphasis on financial identity may reinforce dispersed corporate governance bundles, leading to greater financial performance. On the other hand, incongruence between the firm identity and nature of corporate governance arrangements may result in an inability to achieve desired performance outcomes.

Future Research Directions

Our theoretical model opens several directions for future research in family firm identity and its influence on the design of corporate governance mechanisms and firm outcomes. We encourage further investigation of the nature of the corporate governance bundles shaped by the two distinct identities of family firms. It could be interesting to investigate how family firm identity evolves and changes and what triggers a firm to adopt a new identity. Family firm identity is a dynamic concept that is shaped by firm-specific as well as environmental factors. These factors might therefore influence the relationship between corporate governance bundles and firm outcomes, making a certain identity more beneficial in some environments and less beneficial in others. For example, one can speculate that financial family firm identity might result in greater economic benefits in environments with higher growth opportunities and for firms in later stages of a family life cycle. On the other hand, clan identity could be most suitable for firms operating in environments with less competition and low growth opportunities, as well as those at the early stage of family firm life cycle.

Furthermore, in this chapter, we did not discuss the strength of the meta-identity of a family firm and its influence on the formation of corporate governance bundles. Subsequent research can explore this empirically, linking the meta-identity with the individual identities of family firm executives and

owners and its influence on the relationship between family firm identity and the design of corporate governance system. In particular, it would be interesting to examine the creation and transformation of meta-identity through the lens of individual identities of different groups of stakeholders including owners, family members, and management.

Conclusion

Understanding how family firms manage the coexistence of two distinct logics—family and business—is of both theoretical and practical importance for the field of management. The notion of using firm identity as a tool to reconcile this tension provides a unified understanding of organizational purpose and goals and the structuring of business processes to achieve them. By proposing the two dominant identities, we have developed a framework of how the notion of "who we are" as a business entity shapes outcomes in family firms. This contributes to the knowledge about antecedents and consequences of heterogeneity among family firms and points to promising avenues for future research.

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6

Corporate Governance in Family Businesses Across Generations: Exploring Intergenerational Issues

Alexandra Dawson and Maria José Parada

Introduction

As it has grown and developed over the years, family business research has increasingly focused on a variety of issues (Bird et al. 2002). However, succession has remained a dominant theme (Chrisman et al. 2005; Dawson 2014; Steier et al. 2015; Zahra and Sharma 2004). A key area of interest within succession studies is represented by intergenerational relationships, that is, working relationships between family business owner-managers and their successors. This is a crucial topic because intergenerational relationships are important for leadership continuity and long-term success of the family firm (Seymour 1993). Previous studies have focused on a number of issues such as leadership succession (e.g. Seymour 1993), commitment of next-generation family members (Dawson et al. 2015), emotional relationships, including emotional ownership, with the family business (Björnberg and Nicholson 2012), and conflict across generations (Davis and Harveston 1999). However, not much attention has been paid to intergenerational issues within governance structures, as studies of corporate governance in family firms have

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E. Memili, C. Dibrell (eds.), *The Palgrave Handbook of Heterogeneity among Family Firms*,
https://doi.org/10.1007/978-3-319-77676-7_6

tended to concentrate more on resources, processes, and structures, as is detailed in the next section of this chapter.

Our theoretical contribution is threefold. First, we enrich prior literature on corporate governance in family businesses by drawing on a novel theoretical approach from psychology studies, which combines the two domains of intertemporal and interpersonal dilemmas (Wade-Benzoni and Plunkett-Tost 2009). This allows us to build on previous family business literature, which focuses mostly on governance structures and processes, by considering the underlying psychological mechanisms and their outcomes. Second, we build on prior work bringing together intertemporal and interpersonal dilemmas (Wade-Benzoni and Plunkett-Tost 2009), by contextualizing the idiosyncratic outcomes of such combination of decisions within a family business. Third, we answer calls for more longitudinal studies of family businesses, which are key to improve understanding of the relationships among constructs and to allow family business scholars to move toward a deeper and more thorough understanding of family business phenomena (Evert et al. 2016; Zahra and Sharma 2004).

This qualitative study is based on an exploratory longitudinal case study of a 180-year-old, fifth-generation family business. In the remainder of this chapter, first, we present a theoretical overview, bringing together studies on corporate governance in family businesses and research on intergenerational relationships, and propose a theoretical framework. Next we illustrate our methodology and case study. Then we present and analyze our findings. This is followed by a discussion of our findings, suggesting limitations of the study, possible directions for future research, and practical implications. Finally, we offer concluding remarks.

Theoretical Overview and Framework

Corporate Governance in Family Business Studies

In general, corporate governance is defined as the "process and structure used to direct and manage the business affairs of the company" with the goal of "enhancing business prosperity and corporate accountability" (Keasey et al. 1997: 288). Although family business scholars have not agreed on a definition of this construct (Pieper 2003), governance in family businesses has to do with a set of structures and processes that allow for managing and controlling the business efficiently for the long run (Neubauer and Lank 1998). Steier et al. (2015) define it broadly as "mechanisms used to ensure that the actions

of organizational stakeholders are consistent with the goals of the dominant coalition" (p. 1266). Therefore, there is a need to design these mechanisms to "routinely help to understand the needs and concerns of different internal and external stakeholders (e.g., Gersick and Feliu 2014; Sharma and Nordqvist 2008)" (as cited in Nordqvist et al. 2014, p. 195). Thus, in family businesses, corporate governance is concerned not only with business ownership but also with capital in its various forms, including financial, human, intellectual, social, and organizational (Sharma 2008).

Governance structures in family businesses need to reflect the complexity that derives from the interaction of the business and family systems. Specifically, these governance structures need to respond to various needs (Corbetta and Salvato 2004; Mustakallio et al. 2002), including a need for formal control to ensure monitoring and minimize opportunism, and a need for social and relational controls in order to promote cohesion and a shared vision (Mustakallio et al. 2002). The monitoring aspect has its theoretical roots in agency theory and is addressed through hiring, evaluation, compensation, and disciplining policies, as well as governance structures such as the family council and board of directors (Corbetta and Salvato 2004; Gersick and Feliu 2014). The social/relational aspect of governance structures has its theoretical roots in stewardship theory, with its focus on serving and advising, allocating resources, and providing strategy, advice, reputation, and legitimacy. For example, family meetings promote social interaction and help foster bonding relationships, loyalty, and mechanisms to deal with conflict (Corbetta and Salvato 2004).

Many studies have focused on boards of directors and their relationship with firm performance (Corbetta and Salvato 2004) because the board of directors is considered one of the most important governance mechanisms in family firms (Carlock and Ward 2001; Gallo and Kenyon-Rouvinez 2005). Recent studies acknowledge the importance of boards of directors, as a way to align shareholders' and managers' interests (Voordeckers et al. 2007), even in small- and medium-sized companies with concentrated ownership (Van den Heuvel et al. 2006), especially when they include outside directors (Huse 2005; Neubauer and Lank 1998; Ward 1991). Board members provide diverse critical resources, including networks and contacts, which enable them to provide more nuanced advice (e.g. Arosa et al. 2010). Thus, board of directors' resources are useful as long as they match specific environmental needs (Jones et al. 2008), depending on the life cycle of the company (Zahra and Pearce 1989), and, in particular, in times of crisis, decline and bankruptcy (Arthaud-Day et al. 2006; Cameron et al. 1987; Daily 1995).

Previous studies have expanded greatly our knowledge about governance in family businesses, yet little focus has been given to the intergenerational dynamics that take place in these arenas and the specific decisions and outcomes emerging from such dynamics. Thus, this chapter aims to cover this gap in the literature by exploring intergenerational issues within governance mechanisms.

Intergenerational Relationships

Literature on intergenerational behavior focuses on the distinct interests of different generations and can be found mainly in two fields: philosophy, which addresses what the incumbent generation should do on behalf of future generations and is based on ethics, moral reasoning, and societal norms; and economics, which addresses the trade-offs between generations (Wade-Benzoni 2002). In general, potential for intergenerational conflict is linked to a variety of factors (Wade-Benzoni and Plunkett-Tost 2009). These include differences in preferences about resource allocation and power asymmetry between actors and generations. Conflict can also derive from the fact that later generations are often unable to reciprocate the behavior of previous generations. Moreover, there may be a decoupling of benefits due to time delay, meaning that if the incumbent generation enjoys benefits, then the later generation may have to suffer negative consequences or, inversely, the incumbent generation may decide to take on a burden so that the later generations can benefit. Finally, conflict can derive from role transition, when there is a lack of continuity due to frequent changes in business roles (Wade-Benzoni 2002; Wade-Benzoni and Plunkett-Tost 2009). These last three sources of conflict (lack of reciprocation, decoupling of benefits, and role transition) are less likely to manifest themselves in a family business context where incumbent and later generations continue to interact with each other on both family and business levels; the incumbent generation is likely to act in an altruistic way toward the later generation (Schulze et al. 2003); and family members, especially senior ones such as the CEO, tend to enjoy long tenures within the business (McConaughy 2000).

When there is conflict, this is likely to bring about intergenerational dilemmas because decision makers have to make decisions based on interests that are conflicting with the interests of other actors (Wade-Benzoni and Plunkett-Tost 2009). Such dilemmas are greater when the future generation has no or limited voice, which can often be the case in family businesses where the incumbent generation is reluctant to let next-generation family members par-

ticipate in business-related decision making (Kellermanns and Eddleston 2004; Lansberg 1988) and there is a lack of communication between incumbent and new generations (Ibrahim et al. 2001).

There are two main types of intergenerational dilemmas (Wade-Benzoni and Plunkett-Tost 2009), representing domains of psychological distance between a decision maker and the outcome of their decision. Such psychological distance is due to the fact that the outcome of a decision is distant from the decision maker's direct experience of reality (Liberman et al. 2007). There are intertemporal dilemmas, based on decisions that are made now and whose outcomes are in the future, and interpersonal dilemmas, based on decisions made by certain actors and that affect other actors (individuals or groups). While previous literature has tended to examine intertemporal and interpersonal dilemmas separately, Wade-Benzoni and Plunkett-Tost (2009) brought together the two domains in order to analyze their combined effects. We build on this work by examining the idiosyncratic outcomes of the combination of intertemporal and interpersonal dilemmas within a family business context. This allows us to create a theoretical framework that aids us in analyzing our case study and is illustrated in the next section.

Methodology

In order to explore intergenerational issues within governance structures, we rely on qualitative research because of its power to capture the specific complexity and dynamics that are unique to family businesses (Nordqvist et al. 2009), where different actors are present and act in multiple contexts (Dawson and Hjorth 2012). Qualitative research is particularly suited for understanding intergenerational issues because it allows us to shed light on the contradictions and dualities (Fletcher et al. 2016) that are embedded in the dynamics emerging when more than one generation interacts in formal and informal arenas. In order to analyze our data, we draw on an interpretive approach in which the researcher interprets the life experiences of the main actors from the story they tell us. We go back and forth from theory to empirical material (Alvesson and Skoldberg 2009).

Data

The case for this study stems from the Successful Transgenerational Entrepreneurship Practices (STEP) Project, a large research endeavor started in 2005, devoted to studying entrepreneurial behavior throughout family

business generations. One of the coauthors has followed this case for 10 years, allowing her to build a trusting relationship with the family, particularly with a key informant, who has always been willing to participate in further interviews. Data were collected though open-ended in-depth interviews from six family members, one independent board member, and one top executive of the company. Family members were from two different generations, the fourth and the fifth, most of them working in the company at the beginning, and only one family member not working in the business. Roles of interviewees varied from managers, to board members, and family council members. During the course of interviews, many changes happened in the company with regard to governance.

All interviews had a duration of between 1.5 and 2.0 hours. Data gathered were transcribed verbatim and then translated into a case study. The case was presented to the family and further discussed with the interviewees, allowing for interaction and enriching iterative conversations. Interviews were undertaken within a time frame of 10 years. A total of eight interviews were performed during 2006–2008, and additional interviews were performed with the key informant between 2010 and 2015. Both coauthors read the interview material individually and identified the intergenerational issues based on the framework adopted for this study. A high correspondence was found between the issues raised. Whenever new issues were raised, the authors discussed them to reach an agreement and added them when appropriate. Multiple sources were used to complement the data gathered via interviews (e.g. observations and secondary material, such as a book about the evolution of the company for their 150th anniversary, news, webpage, etc.) and to understand better some of the aspects studied (De Massis and Kotlar 2014).

Jones Co. Case Study

The Jones family business was founded in the 1830s. (Please note that all names have been changed to protect the anonymity of the family business and members.) With a history of more than 180 years, it has established itself as an important pharmaceutical group in Spain, as one of the oldest businesses in Europe and for its reputation as a profitable long-lasting privately owned family business. The firm, founded by Mr. Albert Jones, has faced many changes along the way in relation to its business model, governance structures, and other strategic decisions that have been particularly prevalent during generational transitions due to the increasing complexity of the family

and changes in the environment, at industry and society level, leading to an evermore complex business.

Five generations have been on board Jones Co., with the family always having a key role in management until very recently. In the last 30 years, the family business has made changes regarding involvement of family in management, evolving into a highly professionalized company, where solid governance structures, systems, and processes to support decision making have been developed. This has led to the family stepping down from the day-to-day operations of the business, and as of 2016, the business has been run by an external chief executive officer (CEO). Key management positions have evolved from being founder-centric, to having siblings in the top management team, then a single family CEO, and currently a CEO position held by an external manager.

The family has also developed governance structures, starting from an informal advisory board that later evolved into a formal board, both of which have been critical in the management of intergenerational issues that have taken place over the years, particularly in the fourth and fifth generations. This development has allowed the family to cope with the different issues they have had to deal with along the way. Currently, Jones Co. can be considered a large company in terms of employees, with a total of 700 people. The business has a turnover of 150 million Euro as of 2012, with 80% of revenues stemming from the local market and 20% from the international market, with a diversified portfolio and presence in more than 150 countries around the world.

Intergenerational Decisions

Jones & Co. shows a history of decisions relating to corporate governance, with long discussions held in both informal and formal arenas, ranging from the formative stages of the board of directors, when it was merely ceremonial, to when this body was formally created (Parada 2015). This decision making process has led to specific outcomes involving and affecting different generations. Some of the decisions have been made in agreement with the next or previous generations, some others have been made unilaterally, yet trade-offs have always been present.

Decisions in the First Generation

Albert Jones founded the family business in the 1830s at a very young age. This was the starting point for some of the key decisions taken at different points in time that led to the development of the new venture and shaped the

involvement of five generations. Albert devoted his efforts to building his company and make it grow via product differentiation and diversification into food and medicines. Albert's dream was to focus on pharmaceutical products, which required technical knowledge that he lacked, thus he decided to build a strategic alliance with a pharmacist to fill this gap. When the agreement ended, Albert continued on his own developing what is currently Jones Co.

> *If my great-grandfather had not built the strategic alliance, we would not be here today working in the pharmaceutical industry… or maybe we would be something else.* (John, 5th Gen.)

Decisions in the Second Generation

The second generation increased in family complexity. As per the local tradition of women being excluded from business, only the three boys joined the family business, all of them at a very young age. The eldest son, John, following the firstborn tradition, was raised to take over the company, starting at the bottom to get to know the business from inside out. The two younger brothers were sent to school to learn about business in order to support their eldest brother in the business areas, with Peter taking care of the lab and Walter of the commercial area. Decision making was in the hands of the first born, even though he shared his decisions with his siblings who always supported him. Respect and authority were important values that underlined their relationship. The company expanded more during this generation, with the creation of its first laboratory and the acquisition of larger premises to support expansion. John diversified the business and started distributing products internationally. The new focus of the business was reinforced by product distribution licenses brought to the company.

Decisions in the Third Generation

The third generation grew exponentially in terms of family complexity. There were nine cousins, four boys and five girls. The tradition of keeping women out of the business continued, dramatically reducing family complexity. The heir (John) had only one boy (Albert). Following the family tradition, Albert was sent to work outside the family business to start from the bottom, but he also undertook business studies. Albert faced the Spanish Civil War and the Second World War. The context shaped the way Albert ran the business, forcing him

to be discrete so as not to attract too much attention and maintain the business alive. Eventually this difficult context shaped his risk-averse character.

Two cousins, John and Steve, joined the company after finishing their studies in pharmacy and sales, respectively. John ran the laboratory while Steve took over the commercial area. Robert, another cousin, joined the company for a brief time until he died. Albert assumed leadership of the company and managed to survive these difficult times until the next generation came on board.

> *My grandfather's period was marked by the fear of war which led to a spirit of not wanting to stand out too much. My grandfather's role, rather, was to transition, to keep the business running, which was not easy at that time, until my father was brought in.* (John, 5th Gen.)

Decisions in the Fourth Generation

The fourth generation represented an inflection point for the growth of the company as well as for family involvement in the business. Albert (4th Gen.), the heir and only boy, became active in managing the company, with a clear vision of where he wanted to take the family business. Family complexity increased to 13 family members, five boys who joined the company and eight girls. Maintaining the two traditions about the firstborn and women's exclusion from business was instrumental in reducing family complexity in the business.

Albert (4th Gen.) studied pharmacy and graduated with honors from his PhD. He was the first pharmacist in the line of direct succession. His educational background defined the future development of the company. Albert (4th Gen.) joined the family business immediately after his studies and worked hand in hand with his father. He launched an R&D laboratory to perform in-house research, an idea not well taken by his father because his experience during war times had made him more cautious with regard to change, he did not see the benefits of this new venture, and was not familiar with this new business model. Despite his resistance and after long discussions, Albert (3rd Gen.) finally gave his son freedom to launch the new business unit.

> *It was very hard for me to convince my father about how important R&D was. My father did not believe in it. In my case it was different; I was very clear about it and dedicated a lot of effort to developing the R&D division. It was not until R&D showed positive results that he supported me.* (Albert, 4th Gen.)

Albert (4th Gen.) converted the family business into one of the pioneers in the Spanish pharmaceutical industry by doing in-house research. This decision changed the entire business model, transforming the business into a rec-

ognized international enterprise. Albert (4th Gen.) and Albert (3rd Gen.) worked well together because they clearly separated decision making of their respective areas, a rule present in every generation. Main strategic decisions, however, were solely made by the heir. This clear division of responsibilities between the two generations was possible due to their ingrained values about respect and hierarchy. Albert (4th Gen.) was in charge of his endeavor, the R&D lab, while his father ran the business.

> *In the lab, my father gave me plenty of room, but where he didn't is in the administrative area; he didn't let me into the commercial area on any other area… Little by little this situation changed.* (Albert, 4th Gen.)

The cousins joined the business as soon as they finished their studies, as tradition mandated. James, John, Jake, and Bern joined the company. Albert became major shareholder with 51% of the stock, following the first heir tradition. The business boomed with growth and high profitability, despite the country's economic crisis. The company expanded organically, building a production plant in Latin America. Bern (4th Gen.) took over the leadership of the international production plant and moved to Latin America.

Eight family members from two different generations were in several management positions. This caused overlapping of roles and the division of labor became blurred. Interests, profiles, skills, and expectations were also diverse.

> *I have had up to eight Jones family members working in the business with no defined functions. This situation sometimes generated confrontation between family members and confusion among lower level employees within the organization.* (Albert, 4th Gen.)

Albert (4th Gen.) complemented his pharmaceutical studies with business by pursuing a management course in a prestigious business school, giving him a complementary perspective. Albert wanted to expand further the R&D business, but the second cousins had a different vision and expectations for the future of the company, making it more difficult to align interests. At that time, the family met informally at family gatherings, yet they did not talk about business-related topics such as strategy of the business, division of labor, or mutual expectations. Albert realized that there were not many possible options for aligning interests with regard to the business orientation, thus he made the difficult decision but one that he considered the best solution for the family business, to buy out his second cousins' shares. Albert (3rd Gen.) was still in the business and supported his son in his decision. Thus, Albert (4th Gen.) pruned the family tree and became the sole owner of Jones Co.

> *My father, with initiative and determination, said 'we have to move this thing forward'. If he had not bought the shares, I don't know how long until my father would have been worn down by conflict… The dynamics of many cousins working together would have been too complex to manage…* (James, 5th Gen.)

After becoming a sole-owned company, Jones Co. expanded considerably thanks to the fruits obtained after many years of in-house R&D. Albert also expanded the business by diversifying into commercialization of licenses for the home country, and opening an over-the-counter (OTC) products division. His business background made him aware of the need to professionalize the company more, due to the changing conditions of the environment (opening of markets, deregulation of the sector, entering the European Union (EU)) and his experience of family involvement in the company without clear structures and role definitions. Albert also felt the need to have a space to discuss strategic and succession issues due to the entrance of the fifth generation.

> *My father felt he was all by himself leading the company, even though one of my brothers had already joined. It was his leadership position that required some help and support… He felt the need to create a structure that could help him in governing the company.* (James, 5th Gen.)

> *I remember, I started thinking about the situation I was facing with regard to the business and also to the family. New opportunities and new challenges were about to arrive with Spain joining the EU. The rules and regulations were about to change, and the market was opening. At the same time my children were starting their careers and my eldest son had been recently incorporated in the business. I was alone at the top, and I really thought… 'I think I need people that can help me with this new competitive environment and with the incorporation of my children'.* (Albert, 4th Gen.)

Albert created an advisory board that could support him on diverse topics. The advisory board was composed of close, trusted friends with business background and experience in the main areas affecting the business. The advisory board was fully operational for 10 years. The role played by the board was to offer advice on the future development of the company, as well as promoting professionalization, strategic changes, and development of the next generation with regard to incorporation, leadership, and pathways of new family members. Albert's four sons were invited to participate in the advisory board, yet they knew that the decision making power remained in the hands of their father.

They have been very active in pushing for systematization, rigor in decision making, and professionalization at various levels. My father came from an intuitive decision making mode. For instance [the advisors] said 'you need to create a clear and written salary policy, a plan with objectives.' (John, 5th Gen.)

Based on discussions in the advisory board, Albert created four distinct areas for his four children. The advisors also brought about the need for a succession process, critical to making a smooth transition.

The advisory board has been very important for the succession process. They insisted on telling my father not to have the four brothers doing a little bit of everything… They insisted on the need for a strategic plan. Our father has always been very generous and gave us concrete issues to deal with and let us get on with it, and we talked about everything among us. (John, 5th Gen.)

Decisions in the Fifth Generation

The fifth generation has experienced the majority of intergenerational issues. The tradition of keeping women outside the business was still in place. The four brothers joined the family business sequentially, invited by their father after each of them had gained work experience somewhere else. Also following the firstborn tradition, Albert (5th Gen.), inspired by his grandfather's wishes, studied pharmacy and earned his doctorate in the same field as his father. Albert joined the company after gaining experience internationally. As tradition mandated, Albert started in the company moving around the different areas to get to know the business well.

When I joined the family business I went through various areas. Logically I began in R&D… Then I supervised the production department. When the agreement was reached between my second cousins and my father, I took over the purchasing department… What I learned is that no matter your training, if there's a need in the family business then someone should fill the gap. I was there at that time. (Albert, 5th Gen.)

The second son, Bryan, studied business administration and followed a management program in a prestigious business school. After several years working for a law firm, he joined the family business.

My first choice was to be a veterinarian, but after a year I switched to business. After I finished my studies I went to work for a law firm. I was convinced my path was not at Jones Co… One day my father asked me 'would you like to work here?' and I said

'Of course I would.' I remember my father was all by himself at that time and though he had trustworthy employees they were not family members… So he [my father] offered me a job starting from the bottom as a controller in the chemical plant. (Bryan, 5th Gen.)

The third son, Brad, also studied business and undertook a management program at the same prestigious school as his father and brothers. After graduating, he joined a consulting firm, gaining external experience as his brothers, and later he was invited to join the family business.

I planned on developing my career in the consulting firm as far as possible. But three years after being there, a business situation developed [at the family business]… They gave me a managerial role as head of organization and systems and I was responsible for all the information systems and organization. Later on I started to assume responsibility for some administrative and financial matters as well. (Brad, 5th Gen.)

The youngest brother, John (5th Gen.) studied law and joined a law firm after finishing his studies. He decided to reorient his professional career and did an MBA in a prestigious business school. He gained experience outside the family business before joining it.

My father didn't make me join the family business, but he encouraged me to. He wanted to have all four of us here, with a sense of equality among us. (John, 5th Gen.)

From the strategic discussions within the advisory board, the first written strategic plan emerged. John (5th Gen.) was named to be in charge of the plan's coordination, supported by his brothers and the management team.

My brothers and I have been able to work together to change things in the company at many levels. We met regularly to discuss the issues we faced in our day to day activities, and we saw the need to change things… We were lucky because my father gave us freedom to do things, and he was knowledgeable. We were perhaps also clever enough to choose areas in which he was not interested. (John, 5th Gen.)

This strategic plan delineated the fifth generation's thinking and future projects, clearly defining roles based on skills and interests, and building general management positions.

So far we had strategic plans, but they were all informal and not written. They were all in my father's head. The advisory board has been quite instrumental in helping us to develop [the first written strategic plan]. (John, 5th Gen.)

The advisory board triggered the conversations for developing a family constitution. This led to discussions about the tradition of excluding women. Laura, the eldest sister, was not part of the family business at all. She studied interior design and offered her services to the family business as an external professional. Her brothers decided that the exclusion of women from the business was unfair. With their father's agreement, they decided to include Laura in the family business as a shareholder, with each brother ceding a proportional part of their shares to her.

> *My situation is pretty different from my brothers. I had always known that I would never belong to Jones Co. Once my four brothers were working for the firm, my father began to think about the next generation. I've never known whether it was my father or my brothers' doing, because my father always told me "it was your brothers' generosity", but at some given moment my father began to consider the possibility of me being a part of the family business as a shareholder* (Laura, 5th Gen.)

The advisory board discussions also triggered the creation of a board of directors, although this meant making the advisory board redundant.

> *They told us we needed a board of directors, something more structured, more professional, more formalized, more like a decision making body, and not simply an advisory one. They themselves saw the need for this change [of replacing an advisory board with a board of directors].* (John, 5th Gen.)

> *Everything we did was thoroughly discussed with [the advisory board].* (John 5th Gen.)

With regard to involvement in management positions, the four brothers reintroduced a clear division of labor. By focusing on a specific area of the business, they created four general management positions that would not interfere with their father's decision making area. Albert was in charge of sales and institutional relationships; Bryan joined the production plant, dealing with logistics, engineering, and environmental issues; Brad took over administration and the commercial areas; and John focused on corporate law and human resources. The children had the freedom to introduce changes based on trust and self-coordination. The siblings started working together as a team, supporting each other in the different changes they needed in their respective areas.

> *Albert was the first to identify the need for change, but my father did not pay much attention to what he was trying to do, so he needed someone else's support. When they*

> *hired me, he asked me to give him a hand and between the two of us we began to introduce changes in the chemical plant. This story was repeated with my other two brothers, Brad and John… Among the brothers, perhaps unconsciously, we were defining our strategy as brothers… You talked with one brother, then another, we would talk amongst ourselves.* (Bryan, 5th Gen.)

The board of directors was created as a result of strategic changes proposed by the brothers, and it was composed of Albert (4th Gen.), the four fifth-generation boys (Albert, Bryan, Brad, John), and three independent board members. The profile of the independent members was appropriate for achieving the high degree of decision making and strategic thinking the family was looking for. Discussions within the board triggered the next strategic plan in which subsequent decisions were made. At this point, the brothers decided to transition from four general managers to two co-CEOs. This brought in new roles. On the one hand, the father (Albert, 4th Gen.) moved up to the board of directors leaving management in the hands of the children. On the other hand, two of the brothers stepped down from management to get involved in the board of directors. Finally, the family opened the firm's equity to an outside investor and the new owner became a board member as well. None of these decisions were easy, first, because the first male born tradition was broken, introducing equality among brothers, then equality was broken moving from four to two general management positions, the patriarch stepping down from his function, and incorporating Laura as board member regardless of her gender and lack of business background.

> *The idea of incorporating my sister in the board of directors had to do with the fact that we did not have a family council. So we thought maybe it is good that she attend the board of directors meetings so she can become informed and get to know the company.* (John, 5th Gen.)

The last changes included moving toward a sole CEO, first a family member and finally a nonfamily member. The board of directors changed again as of 2013, with the incorporation of an external CEO. The role of the board of directors has changed from monitoring a family member to supervising a nonfamily member. The father has stepped down from the board of directors as well.

> *In theory monitoring a CEO, whether it is a family or a non-family member, is the same for the board of directors. The reality is that it is not the same for us family board members, nor for independent members, who have to monitor a family CEO, compared to a non-family CEO. It feels like a different role.* (John, 5th Gen.)

Analysis

Family businesses deal with intergenerational issues constantly, particularly because of the overlap of the family and business systems, with family and business goals needing to be reconciled. Family businesses need to make decisions sometimes based on conflicting interests from diverse actors (Wade-Benzoni and Plunkett-Tost 2009). Corporate governance structures are meant to contribute to business prosperity (Keasey et al. 1997), and this has been the case for the family business in our case study, which has put in place a set of structures and processes that allow the family to manage and control the business efficiently for the long run (Neubauer and Lank 1998). It is important for such mechanisms to reflect the complexity that derives from the interaction of the business and family systems, addressing both the need for increased formal control and the need to preserve and foster cohesion and a shared vision (Corbetta and Salvato 2004; Mustakallio et al. 2002). Through a gradual evolution, the Jones family has indeed been able to undergo a slow but steady introduction of corporate governance structures while maintaining a shared vision and avoiding explicit conflict among family members. In fact, the family business did not have any formal corporate governance structures or mechanisms until the fourth generation. Although family complexity started increasing, until then a lack of formal structures was compensated by norms and traditions, based, for example, on respect and authority by the family members toward the incumbent generation. Although there is evidence of power asymmetry between generations, these have been mitigated by the strong, prevalent informal norms and traditions, such as the father making the final strategic decisions, firstborn males becoming successors, and women being kept out of the business.

Traditions and values play a critical role in the development of family businesses (Parada and Viladas 2010). In Jones Co., we observe that over five generations, there has been a strong focus on the value of hard work and the value of education, and all family members have been encouraged to pursue a career that could contribute to the development of the business in a complementary way. This intertemporal dimension has conditioned the way the business has developed, as family involvement in business was taken for granted due to the early preparation of family members to join the company.

As family complexity increases, the diversity of individual goals becomes inherent in the family business (Kotlar and De Massis 2013), as observed in the fourth generation. Goal diversity leads to intergenerational issues that can

be dealt with best when there are good communication channels. As observed in the fourth generation, there was a lack of communication between incumbent and new generations (Ibrahim et al. 2001), although this was finally resolved with the agreement on the creation of an R&D lab and ultimately a change in business model, which led to the continued success of the family business. There was also potential conflict arising among the growing number of new-generation members, but this trade-off ultimately resulted in the decision to reduce family involvement in the family business and to prune the family tree.

Even with a growing number of family members, Jones Co. was able to maintain several societal and familial values ingrained in the family business. One value that had historically allowed reducing family complexity was excluding women from the business. While this has been a functional decision to protect the business from the growth of the family, the business has also suffered from the privation of talent and leadership that could have emerged from involving the large number of female family members. The value of the firstborn has also been useful to protect the business from goal divergence and therefore status quo or even destroying value from the family business. This has been a functional way of creating order and has been built around respect and trust, aligning collective interests in detriment of personal interests. We observe altruistic behavior from the family members who accepted their role in the family business and supported the heir. Both family traditions (exclusion of women and firstborn heir) were broken in the fifth generation, as they were no longer functional, given the external context and changing times (Parada et al. 2010). For the father, this decision represented a trade-off aimed at leaving space for his children. In other words, we observe an altruistic behavior toward the next generations (Schulze et al. 2003).

With the fifth generation, professionalization of the family business became a key decision as the business grew and a new generation came on board (Gimeno and Parada 2014). Jones Co. became more professionalized, thanks to the CEO's educational background and his awareness of the possible conflicts when there is no structure to support the increasing involvement of family members. While professionalization started in the fourth generation with the creation of an advisory board, it has been the fifth generation who has really changed the management and governance practices in the family businesses. These changes have led to a transformation in the roles of the siblings and also of the father.

Discussion

In Fig. 6.1, we illustrate how literature on intergenerational relationships can help us shed light on family business governance. The matrix shows, on one axis, intergenerational decisions faced by the Jones family throughout the generations, distinguished into ethical ("what should be done") and economic (trade-offs) decisions. On the other axis, we have included another dimension of intergenerational decisions, namely whether they refer to interpersonal or intertemporal factors.

In terms of intergenerational and intertemporal dilemmas, there has been a prevalence for the family to focus more on intertemporal dilemmas, based on decisions that are made now and whose outcomes are in the future (Wade-Benzoni and Plunkett-Tost 2009). However, in general, intertemporal decisions are driven by a temporal delay between decisions made in the present

Intergenerational decisions	What should be done	Trade-offs
Intertemporal	• Choice of next gen education (pharmacy vs. business) (1st-5th gen.) • Creation of R&D lab – led by next gen. (4th gen.) • Creation of Advisory Board (4th gen.) • Creation of Board of Directors (5th gen.) • Changes in management practices (4th-5th gen.)	• Change in business model / focus (4th-5th gen.) • Change in roles (5th gen.) • Introduction of private investor (5th gen.)
Interpersonal	• Exclusion of women (1st-4th gen.) • Hierarchy among brothers, first born rule (1st-4th gen.) • Family involved in management (1st-4th gen.) • Family not involved in management (5th gen.)	• Pruning the family tree (4th gen.) • Leaving space for others (4th gen.) • Sacrificing own interests (5th gen.)

Intergenerational decisions

Fig. 6.1 Theoretical framework

and their effect in the future, and, because individuals discount the value of future resources, they normally prefer immediate rather than future consumption (Wade-Benzoni and Plunkett-Tost 2009). Instead, what we witness in our case study is the prevalence of intertemporal decisions that are focused on the future consumption of resources by future generations, rather than on discounting the value of such resources, with the overarching objective of benefiting the family as a whole and in the long term. This indicates that the family has always had a strong focus on the long-term future and prosperity of the family business, throughout the generations and despite the increasing family, business, and environmental complexity. Such focus is likely due to the family's solid and resilient basis that is grounded in family traditions and values.

This is corroborated by the fact that most intergenerational decisions (made by actors in one generation and affecting others in another generation) have been characterized by a focus on "what should be done" rather than on trade-offs between generations. This has been driven by a strong sense of continuity across generations, reducing potential conflict because of limited perceived differences in how resources should be allocated. The incumbent generation has also felt a responsibility toward future generations, based on ethics, moral reasoning, and societal norms rather than economic considerations (Wade-Benzoni 2002). In other words, there is evidence of "intergenerational beneficence," with the incumbent generation willing to sacrifice their own self-interest for the benefits to be enjoyed by the next generation (Wade-Benzoni and Plunkett-Tost 2009). Although there is evidence of power asymmetry between generations, with the incumbent generation making decisions based on norms such as firstborn heir or exclusion of women, at the same time the affinity among family members has allowed them to feel empathetic toward each other and connected with future generations (Cialdini et al. 1997; Wade-Benzoni and Plunkett-Tost 2009). Thanks to such affinity, there has been a sense of closeness that has allowed individuals across generations to take on each other's perspective (Aron and Aron 1986), ultimately reducing potential for conflict.

Over time, we can observe a shift in focus from ethical ("what should be done") to economic (trade-off) type of interests (Wade-Benzoni and Plunkett-Tost 2009), especially in the fourth and fifth generations. This has been due to a shift in the main driving force, away from (family and societal) norms and traditions and more toward economic trade-offs. This is likely due, on the one hand, to the growth and increased complexity of the business, which have forced the family to focus less on family and more on business priorities, and, on the other, to the increased professionalization of the family business, which

has ultimately led to hiring the first nonfamily CEO. The creation of a board of directors with formal powers, of the first ever written strategic plan, and of a family constitution in the fifth generation all seem to confirm this hypothesis.

By bringing a novel theoretical framework focusing on intergenerational issues, this study contributes to the literature on corporate governance in family businesses, which has previously mostly focused on resources, processes, and structures. Through our analysis of the dynamics of intergenerational members within governance structures, we highlight intergenerational relationships, which are important for leadership continuity and long-term success of the family firm. First, our study contributes to the family business field by shedding light on the decisions and outcomes derived from family dynamics around governance structures, which need to reflect the complexity deriving from the interaction between business and family systems. The dynamics we observe in this case show how these governance structures respond to various needs (Corbetta and Salvato 2004; Mustakallio et al. 2002), that range from formal control, to ensure monitoring to more social and relational controls in order to promote cohesion and a shared vision (Mustakallio et al. 2002), as new generations come on board and their involvement in the businesses grows. Second, we contribute to the literature on intergenerational decisions and dilemmas by building on prior work that has combined intertemporal and interpersonal dilemmas (Wade-Benzoni and Plunkett-Tost 2009) and contextualizing the analysis of the idiosyncratic outcomes of such combination of decisions within a family business. Finally, our study contributes to the growing, yet still limited, trend in the family businesses field for more longitudinal studies, which are key to improve understanding of the relationships among constructs and to allow family business scholar to move toward a deeper and more thorough understanding of family business phenomena (Evert et al. 2016; Zahra and Sharma 2004).

This study does not come without limitations. First, the study relies on a single case, showing a reality that cannot be necessarily replicated nor can be generalized (Yin 2009). Thus, the interesting insights derived from the matrix about intertemporal decisions could be further explored by means of multiple case studies to allow for cross-case comparisons (Yin 2009) and more systematic analysis of the data (Eisenhardt 1989). Bringing new cases may also highlight the heterogeneity among family businesses showing that these dynamics may differ from family to family depending on contextual factors such as values, generation in charge, complexity, and even level of cohesion among generations. Second, we had more interviews with the key informant than with the other family members. The study could bring more and new emergent factors and thus could be further enhanced by interviewing again all family members in addition to the key informant. Finally, our study is limited

to a single country. Whereas this has been a common trend in family business governance research (e.g. Bettinelli 2011; Mustakallio et al. 2002; Van den Berghe and Carchon 2002), studying intergenerational issues in different cultures can bring new insights as to which aspects prevail and whether these aspects change depending on the culture and institutional context.

Our findings suggest further avenues for research. First, scholars may want to explore intergenerational issues not only in the board of directors but also in other governance bodies, such as the family council, or the executive committee, where family members are present and interact, making different decisions related to the family and to day-to-day operations, respectively. Thus, the type of decisions and the type of dynamics may vary accordingly. Second, our theoretical framework can be used to investigate intergenerational decisions in a more fine-grained way, by looking more specifically at factors such as the number of generations involved, roles of each generation, and age and gender of individuals in each generation. Specifically, studies could take on a multilevel approach by considering individuals, who are grouped into generations, who are in turn grouped into different areas of responsibility and roles (e.g. ownership or management) within the family business. Third, we open the door for more studies using this framework to understand intergenerational issues at different moments in time and specifically in times of (family and/or business) crisis, succession, growth, and so on. Finally, propositions can be developed from our conceptual model, which can then be empirically tested. As an exemplification, and not wanting to be exhaustive as it would be beyond the scope of our chapter, the following propositions could be derived:

Proposition 1. In family businesses, intertemporal decisions focus on the future (rather than present) consumption of resources by future generations, with the overarching objective of benefiting the family as a whole and with a long-term perspective.

Proposition 2. In family businesses, intergenerational decisions focus more on ethical than on economic outcomes, promoting a sense of continuity across generations and reducing conflict regarding resource allocation.

Proposition 3. Over time, as family businesses grow and professionalize, intergenerational decisions shift in focus from ethical to economic types of intergenerational interests and decisions.

In terms of practical implications, our study can be helpful for incumbent generations of family business owners and managers as it highlights trade-offs between different types of decisions as well as their consequences for future generations. Therefore, our insights can guide different generations involved in a family business as they navigate through the challenging succession process.

Concluding Remarks

In this chapter, we propose a theoretical model that brings together literature on family business governance with studies of intergenerational relationships, in order to contribute to our understanding of governance structures and relationships in family businesses. Through a qualitative approach based on an in-depth, longitudinal case study of a 180-year-old family business, which we followed for 10 years, we focus on two dimensions of intergenerational decisions: ethical versus economic, and interpersonal versus intertemporal. Our findings show, first, that the dilemmas faced by the family throughout the generations have increasingly focused away from ethical toward economic interests, as both family and business have grown in complexity and, second, there has been a prevalence of an intertemporal over an interpersonal dimension, specifically on decisions made in the present and whose outcomes are in the future, suggesting that the family has consistently had a strong focus on the long-term future and prosperity of the family business throughout the generations despite the increasing family, business, and environmental complexity, likely due to its solid and resilient grounding in family traditions and values.

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7

A Literature Review of Family Firm Boards: An Input-Mediator-Output-Input Perspective

Chelsea Sherlock and David Marshall

Introduction

This review examines how family involvement on boards of directors in family firms influences firm governance which in turn impacts firm performance. The focus of this review goes beyond the outcome of firm performance through inclusion of the internal governance processes which lead to firm performance in family firms. Adopting a family heterogeneity approach, the extant family business literature has identified a variety of factors (e.g., board structure, nonfamily members on boards, diversity, and board member selection) leading to firm performance but has yet to determine which of those factors (or combination of those factors) lead to the highest levels of firm performance outcomes. There are multiple factors which influence board of directors and top management teams in family firms, including the dynamics of the business family (e.g., trust) on the board. As such, we evaluate how those factors impact board decision making and subsequent firm performance. We propose a shift away from traditional input-output models of

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© The Author(s) 2019

E. Memili, C. Dibrell (eds.), *The Palgrave Handbook of Heterogeneity among Family Firms*,
https://doi.org/10.1007/978-3-319-77676-7_7

family firm board of director research in order to answer *why* some family firm board of directors are more effective than others rather than focusing on *what* predicts board effectiveness (Ilgen et al. 2005). Recent board of director reviews (e.g., Withers et al. 2012; Bammens et al. 2011) have identified that board of director research is often criticized for its overreliance on the input-output model, neglecting the processes that link various inputs to firm performance. Hence, we rely on the input-mediator-output-input (IMOI) framework proposed by Ilgen et al. (2005), which mirrors the call by Bammens et al. (2011) to clarify why particular behaviors might vary across different boards of family firms.

While traditional input-output approaches for examining family firm boards are a sufficient design for understanding some phenomena, this approach lacks a deeper understanding of the unique processes that lead to such outcomes due to an inability to adequately characterize top management teams (Moreland 1996). Ilgen et al. (2005) argue work groups are better understood by using an IMOI model to account for critical interactions, feedback, and mediational factors in family firm board processes. To this end, we apply a 3 × 3 matrix of team development, in order to better explain how a family firm context alters the board of director's forming, functioning, and finishing stages. Within each of these stages, application of a relevant theoretical perspective (e.g., agency theory, resource dependency, stewardship theory) enables us to see how family membership can change the processes through which board decisions are made. Further, as suggested by Ilgen et al. (2005), analyzing the extant literature within affective, behavioral, or cognitive categories (or a mixture of the three categories) is reflective of the dominating processes commonly found in the literature. This framework also allows us to seek answers to the question of *why* some boards of directors are more effective than others rather than *what* predicts board effectiveness (Ilgen et al. 2005). In addition, there is potential to explain a feedback loop throughout the process compared to treating board of directors as a single-cycle linear path.

Our review of the literature on family firm boards contributes to our understanding of governance in family firms by (1) integrating the Ilgen et al. (2005) IMOI framework with family firm governance issues, (2) moving beyond traditional family firm literature that has neglected to incorporate family dynamics as we adopt a team perspective and examine how these dynamics influence processes within the board, (3) shedding light on the nuances of family firm governance by summarizing the different internal processes of family firm boards, and (4) creating a conceptual model useful for future family firm board of directors research.

The chapter is organized in the following manner. We explain our method for classifying the different articles, followed by application of the IMOI framework on the three team stages of the board of directors. We close with discussion, propositions, limitations, and suggestions for future research.

Methods for Selection

In order to examine the literature on family firms and boards of directors, we decided to focus on peer-reviewed journals published in the management and finance disciplines. These categories of research were chosen so that the literature on boards, family firms, firm performance, and CEO duality could adequately be examined. The journal selection was based on the ISI-Web of Knowledge 2016 list of business collection journals. In total, 21 journals were selected:

> *Academy of Management Journal, Academy of Management Review, Administrative Science Quarterly, Corporate Governance, Entrepreneurial Theory and Practice, Family Business Review, Journal of Family Business Strategy, Human Resource Management, Journal of Applied Psychology, Journal of Banking and Finance, Journal of Business Ethics, Journal of Business Research, Journal of Business Venturing, Journal of Corporate Finance, Journal of Human Resources, Journal of Organizational Behavior, Journal of Small Business Management, Leadership Quarterly, Management Science, Small Business Economics,* and *Strategic Management Journal.*

Using the Business Source Premier, Ebsco-Host, and SCOPUS databases to search for all publications within the past 20 years (1997–2016) containing the terms "board" and "famil*" or "director" and "famil*" in the title, abstract, and/or keywords, a total of 1404 articles were yielded from the search criteria. This keyword search criteria followed the recommendations of Pugliese et al. (2009) literature review on board of directors.

We focused on the past 20 years using various studies highlighting the board of director's potential for contributing to the longevity and performance of the family firms (e.g., Bammens et al. 2011). As Gomez-Mejia et al. (2011) state, with rapid growth, the field of family firm literature has become too diverse with vague theory. An example of this diversity of thought within the field is evidenced by the large number of empirical studies focused on financial performance yet showing contradictory results.

After reviewing the articles further, 311 articles (22.15%) were identified as relevant pieces to include in the review, as seen in Table 7.1. Our low rate of

Table 7.1 Article breakdown by journal

Journal	Original total	Selected total
Academy of Management Journal	78	8
Academy of Management Review	14	0
Administrative Science Quarterly	12	1
Corporate Governance	101	21
Entrepreneurship: Theory and Practice	96	45
Family Business Review	148	61
Human Resource Management	21	0
Journal of Applied Psychology	10	0
Journal of Banking and Finance	76	12
Journal of Business Ethics	116	18
Journal of Business Research	88	19
Journal of Business Venturing	39	5
Journal of Corporate Finance	84	16
Journal of Family Business Strategy	103	64
Journal of Human Resources	233	0
Journal of Organizational Behavior	16	0
Journal of Small Business Management	53	32
Leadership Quarterly	20	0
Management Science	15	0
Small Business Economics	6	1
Strategic Management Journal	75	8
Total	1404	311

acceptance was based on excluding articles that did not have a primary emphasis on family firms (*n* = 188 removed) or focused on different levels of management (e.g., founders and top management) but specifically not firm governance or the firm's board of directors (*n* = 592 removed). There were also articles that discussed work-life-family balance and management roles; however, these articles were not centered on boards of directors, so they were excluded from the final selection (*n* = 254 removed). Another subset of articles focused on various family social ties/connections or family backgrounds leading to a position on a board or directors, but because these outcomes were not in a family firm setting, they were excluded (*n* = 59 removed).

Following the review of the selected 311 articles, each of the articles was coded in reference to the Ilgen et al. (2005) framework to represent if the article represented the forming stages (*n* = 323), functioning stages (*n* = 300), or finishing stages (*n* = 132). Within each stage, the articles were also coded on whether they focused on the affective, behavioral, or cognitive facets. This classification technique was not mutually exclusive, in that one article could have multiple classification areas (e.g., FoA, FuA, FiC). The results of this coding technique can be viewed in the references section, where each article in the review has been referenced and classified. A summary of the different

Table 7.2 Key for classification of family firm board articles (n = 311) (not mutually exclusive categories)

	Affective	Behavioral	Cognitive
Forming	(FoA) 142 articles	(FoB) 101 articles	(FoC) 80 articles
Functioning	(FuA) 80 articles	(FuB) 123 articles	(FuC) 97 articles
Finishing	(FiA) 34 articles	(FiB) 42 articles	(FiC) 56 articles

article classifications, as they relate to the categories of affective, behavioral, and cognitive and the board stages of forming, function, and finishing can be found in Table 7.2.

The Ilgen Framework IMOI Framework

The first stage of the framework is the forming (I-M) stage, which Ilgen et al. (2005) segment into three functional areas: trusting, planning, and structuring. Bonding, adapting, and learning constitute the second stage of functioning. The last stage is finishing which describes the feedback look to describe the iterative process.

The Forming Stage (I-M)

After reviewing a large majority of the research on board of directors in a family firm context, there are varying levels of family involvement and such levels can be conceptualized through an inverted U curve (e.g., Schulze et al. 2003a, b). This implies that there is a point at which more concentrated family control in the board of directors can hinder the success of the firm.

Trusting

The trusting phase is where the team must feel that (1) the team is competent enough to accomplish their task and (2) that the team will not harm the individual or his or her interest. Given their family bonds, ties, and close family relationships, family firms have an advantage through the creation of trusting interpersonal and inter-organizational relationships. However, due to the agency issues in family firms, there is potential for weakened trust among board members due to unique family dynamic issues (Eddleston et al. 2010). Verbeke and Kano (2010) highlight that not all family firms are created equal and some family firms may be more likely to leverage their trusting relation-

ships than others. Trust in family firm boards provides benefits similar to formalized governance mechanisms (Eddleston et al. 2010).

Understanding the general board structure in a family firm setting can be evaluated through an agency theory perspective, which explains the risk that organizational decision-makers will engage in opportunistic behaviors aimed at maximizing personal interests at the expense of neglecting agreed-upon firm objectives (Jensen and Meckling 1976). In a family firm context, there are four main areas of agency threats that can be identified: (1) the owning-family's pursuit of its own economic interests, (2) the owning-family's pursuit of its own non-economic interests, (3) the parental tendency to act upon altruistic motives, and (4) the different nuclear family units' pursuit of their own interests (Bammens et al. 2011).

The differences in levels of family control in a board setting are also susceptible to the influences of socioemotional wealth priorities (Le Breton-Miller and Miller 2013). According to Berrone et al. (2012), socioemotional wealth priorities include the desire for family control and influence, identification of family members with the firm, preserving binding social ties among family members, emotional attachment of family members, and dynastic succession. Le Breton-Miller and Miller (2013) argue that socioemotional wealth can also influence the board composition as well as the decision-making strategies made to enhance firm longevity. The socioemotional wealth perspective can also be used to argue that family management is positively related to profitability at later generational stages, when a decreased need for socioemotional wealth shifts the focus of family managers to a need for increasing financial wealth (Sciascia et al. 2014).

Planning

The second area of the forming stage in the Ilgen et al. (2005) framework is the planning phase which "explains success and viability is the degree to which the team arrives at an effective initial plan of behavioral action ... the team needs to gather information that is available to the group members and/or their constituencies. The group then must evaluate and use this information to arrive at a strategy for accomplishing its mission" (Ilgen et al. 2005: 523).

The presence of firm governance is associated with increased planning activities. However, the literature is unclear which comes first, the heightened level of planning which leads to the creations of a board of directors or instead a board of directors identifying the need for organizational planning. Either way, family firms engaging in formal organizational planning typically perform better than those who do not engage in planning (Blumentritt 2006).

The desire to have a strategic organizational plan may best be described under stewardship theory, which argues that individuals are not motivated by their personal goals but rather by the objectives of the organization, so that they are in essence, stewards of the firm (Davis et al. 1997; Neubaum et al. 2017). Through a stewardship lens, the board of director's primary goal is to provide service and to advise the firm. A result of a high degree of commitment to the firm's objectives is an increased level of planning to ensure there is a future for the organization. There are two types of planning at play in family firms: strategic planning and succession planning.

With either strategic or succession planning, the founding family members may recognize the need for external guidance and assistance in carrying out the planning activities (Blumentritt 2006). Often, the expert opinions on planning are external to the organization, and therefore, family members will seek to include these outsiders on the board of directors. As previously mentioned, the trust that is developed in the forming stages between family firm members and outsiders is crucial to the subsequent phases that the team moves through.

However, the two forms of planning, strategic and succession, are distinct. The tenure of the founding CEO has a significant influence on whether either planning activity is pursued. The longer the tenure of a CEO, the less likely the family firm will engage in strategic planning but the more likely they will carry out succession planning (Blumentritt 2006). The strategic planning can be viewed as long-term investments in the competencies and facilities required to maintain the core of the firm, as well as the people and relationships with outside constituents (Le Breton-Miller and Miller 2006).

In addition to the degree of family ownership, there is ample evidence (e.g., Sciascia et al. 2014; Arosa et al. 2010a, b; Maury 2006) which suggests the degree of family involvement in management has critical implications for firm performance. From an agency perspective, Fama and Jensen (1983) identified that an overall effective decision-making process highly depends on the influence of top members in the firm. In the extant family firm literature, researchers have found evidence of an inverted U-shaped curve relationship between the family involvement in top positions and the performance of the family firm; where the optimal levels of firm performance occur at moderate levels of family involvement (Anderson and Reeb 2004; De Massis et al. 2013). Therefore, in order to have robust decision-making processes, a balanced representation of family members and outside professionals on the board of directors should be operationalized in the planning phase of the team development (De Massis et al. 2015a, b).

Structuring

The final phase of the forming dimension includes the structuring of the team, which includes "the development and maintenance of norms, roles, and interaction patterns in the teams" (Ilgen et al. 2005: 525). Nordqvist et al. (2014) move beyond the recommendation of a "one-size-fits-all" family firm model by explaining that an ideal governance structure is one that follows a corresponding family ownership configuration. The performance advantages are gained where there is an appropriate governance structure which is adopted and matches the family involvement and management. The authors argue that the family structure within a family firm is subject to change over time, and thus the governance strategy should also shift over time.

Corbetta and Salvato (2004) echo the suggestion of one size does not fit all by explaining that attempts to increase board size, operating an active board, and the proportion of outside members will not necessarily lead to improved firm performance under all circumstances. There is a contingency situation where the heterogeneous family dynamics and involvement must be considered when developing the firm governance structure.

Under agency theory, the governance role of the board of directors is to ensure that the top management acts in the best interest of the owner (Hillman and Dalziel 2003). But agency theory also highlights the potential for conflicts of interests between the ownership and the organization. Under agency theory, the main role of the board of directors is to monitor and control. The board of directors must be structured in such a way that allows for monitoring (Corbetta and Salvato 2004). Therefore, the structure of the board of directors is contingent on which side of the agency–stewardship perspectives the family emphasizes, which we argue is influenced by the family's non-economic objectives for the firm.

The structure that a family firm employs for their board of directors is a unique resource that enables the firm to reduce their probability of failure (Withers et al. 2012). Family firms are able to develop stronger board of directors because they are strategically structured with members with greater human and social capital (Wilson et al. 2013). As previously discussed in the planning phases of team formation, the varying levels of family involvement lead to an inverted U curve distribution of firm performance with the family bringing different kinds of resources to bear on the firm's survival chances (Gentry et al. 2016; Wilson et al. 2013).

Functioning Stage (M-O)

Bonding

Zattoni et al. (2015) show that board internal processes and task performance both play a mediating role in the understanding of the relationship between family involvement and firm financial performance. These results suggest that internal board practices do matter for board effectiveness. The bonding and relationships established in the forming-trust stage can carry over to the functioning stage where the behaviors are enacted. Trusting relationships can promote and help the diffusion of intra- and intergenerational tacit knowledge within the family firm (Sirmon and Hitt 2003). Trust is idiosyncratic and not easily transferable (Eddleston et al. 2010). The very nature of family dynamics could provide some family firms with an advantage in creating and maintaining trusting relationships with individuals both within the firm and outside the firm (Eddleston et al. 2010).

Traditional resource-based view literature focuses on the dynamic capabilities of firms and how those firms are able to eventually outperform their competitors through the use of valuable resources and capabilities that are unique to the firm and are inimitable by competitors (Barney 1991). The family dynamics and familiness which are unique to each family firm serve as a valuable resource which is enacted through firm governance. Through the different mediating processes listed in the model, family firms are able to gain a competitive advantage through their unique knowledge capital (Winter 2003) and governance and leadership conditions (Barney and Hansen 1994).

When an individual's experience with the family firm is long term, their understanding and knowledge of the family firm is likely to be extensive (Le Breton-Miller and Miller 2006), helping to increase the board functionality. Pfeffer and Salancik (1978) suggest that a firm's board of directors serves as a provider of resources of the firm rather than as an evaluator of top management. However, just the presence of knowledge does not imply that board members will use their knowledge when acting in a board setting. In order for an individual's unique personal knowledge to permeate the boardroom, board members need to actively use and integrate their expertise and skills in order for the group to benefit (Zattoni et al. 2015).

Adapting

Within the functioning stage, there is also a need for adaptation of the board members who must find ways to potentially work with other members who are

not a part of the family. Blumentritt et al. (2007) argue the chances of improving the tenure and success of nonfamily board members increases when the board provides opportunities for members of the founding family to share their personal opinions, wants, and concerns in order to help communicate the family values they wish to see maintained. Successful nonfamily board members should also have the capability to identify and understand the unique family mechanisms which define the family firm (Blumentritt et al. 2007).

As Ilgen et al. (2005) point out; managing conflict among team members is also a critical task so that social conflict is minimized among family and nonfamily members. There is a risk of power abuse and extraction of private benefits at the expense of nonfamily members (Villalonga and Amit 2006). Board of directors should focus on reducing information asymmetries between the various family and monitoring managerial behavior to ensure that the best interests of the firm and the extended founding family are being met (Bammens and Voordeckers 2008; Bammens et al. 2010).

While there are mixed results on whether or not the presence of family outsiders on the board directly leads to increased firm performance (Bammens et al. 2010), there is evidence that nonfamily members contribute in supplementary monitoring and functioning roles. Independent, nonfamily board members also offer the potential to mitigate any opportunistic behavior of large shareholders (Anderson and Reeb 2004). Overall, the inclusion of outsiders on a family firm board of directors can increase the overall team effort and motivation to be an active governing board (Bettinelli 2011).

Learning

Learning within the functioning stage serves as a cognitive precursor to adaption. Learning focuses on changes in the group's knowledge base and sets the stage for expanding that base as members learn from one another (Ilgen et al. 2005). Bettinelli (2011) articulates the older the firm is then the more likely they are to depend on the knowledge and skills of outsiders. Accordingly, as the family firm matures, they tend to learn from outside experts' knowledge and skills. Under resource dependence theory, the resources of the board of directors are their unique human capital (e.g., experience, reputation, knowledge), as well as the board members' relational capital to network ties to other firms (Hillman and Dalziel 2003).

As previously mentioned, the presence of outside family members on the board of directors helps to serve as another layer of monitoring and oversight, as these nonfamily members come to the board with independent knowledge.

Board members with an outside frame of reference are more likely to question and challenge the owner-manager's decisions and limit their altruistic motives to safeguard the interest of the family as well as outside constituents (Bammens et al. 2010). Sitthipongpanich and Polsiri (2015) found that the value of a firm run by a family member CEO improves if the board of directors is diverse in age and has political ties outside of the organization. This highlights the importance of board roles in providing advice and access to external resources for family CEOs.

Ilgen et al. (2005) describe the learning phase as an opportunity for the team members to expand their base set of knowledge. There is also the chance to learn from different board members under different circumstances. As previously mentioned in the planning phase of team development, often the organizational strategic planning is completed through the help of outside board members. This is because the outside board members may have the expertise necessary to facilitate organizational planning, either through their knowledge and skills or through their personal connections in the industry (Blumentritt 2006).

Not only does each board member bring with them their unique tacit knowledge to apply to specific circumstances but also board members have the opportunity to learn from other board members. Board members with "independence of mind" should question and challenge the owner/manager's decisions and set limits on their altruistic tendencies to safeguard the interest not only of lenders and investors but also of the owning-family itself (Bammens et al. 2010). This transfer of knowledge and mutual learning can benefit the team after mutual trust and respect are established in the team-forming stage. Due to this mutual trust and admiration, board insiders or family members are encouraged to use the knowledge and skills of outside board members (Westphal 1999). Founding families, which are more involved, lead to a positive impact on the affect norms of the use of knowledge and skills (Zattoni et al. 2015).

Finishing (O-I)

The final phase in the team context is the finishing stage, described as an ending that may be planned, as in situations dealing with task force teams, or the disbandment may be unplanned due to interpersonal tensions, task failure. When applied to a family board of director's context, we argue that the team does not entirely disassemble but rather the departure or addition of new board members serves as a transition phase to a new start. The majority of the

extant literature identifies succession as a key finishing process that then leads to a new IMOI loop.

There are a variety of contextual and contingency factors that can influence succession (Pfeffer and Salancik 1978). As outlined by Michel and Kammerlander (2015), the succession path generally begins with a trigger event. This event could be the aging of a current CEO, decreased business scale, loss of key customers or suppliers, or a change in firm performance that pushes a current CEO out of the company. Intra-family succession is a unique characteristic to family firms but is not the same for every family firm (De Massis et al. 2008). The focus on succession is justified here because as the CEO role changes hands, the dynamics within the board are also altered triggering new forming and functioning activities which need to take place in order to develop a fluid team. Each succession within the board adds or subtracts considerable business experience to the family and the company, further altering the nature of the processes taking place within the team (Astrachan et al. 2002).

De Massis et al. (2008) suggest that there are process factors that could limit the ability of intra-family succession to take place. The training that the successor receives, both inside and outside of the firm, is vital to their appointment (Morris et al. 1997). Also, the selection criteria used for selection process needs to be both rational and objective (Levinson 1971). Without formal selection criteria, other family members and nonfamily members may perceive the process as unfair and therefore limit the cohesion of the team. However, while intra-family succession is very common within family firms, it is not the only option that top management teams can exercise to realign the board of directors. Extant literature suggests when a family firm's CEO is near retirement what follows is a change of the board of directors' structure. When there is a generational change in top management control, a family firm is more likely to add additional outside directors (Voordeckers et al. 2007). This shift toward appointing outsiders instead of family members can be attributed to the research which suggests that as older generations of family ownership come through the firm, these generations are less focused on the non-economic family objectives; therefore, they are more likely to employ outsiders within the governance structure (Voordeckers et al. 2007).

Regardless of whether a family firm engages in intra-family succession or external succession, the finishing stage serves as a feedback loop to the beginning of the input model, where teams will restart the forming and functioning processes that lead to the development of a unique team or board of director's structure.

Discussion

While research has identified that the success of the family firm mainly depends on the family and the corresponding governance structures and processes (Olson et al. 2003), family firm studies have moved away from identifying the underlying processes that occur in the boardroom. Since 2003, a preponderance of the family firm governance literature has focused on other topics such as succession (e.g., Van Den Heuvel et al. 2006; De Massis et al. 2008; Barnett et al. 2012), strategic decision making (Corbetta and Montemerlo 1999; Steier et al. 2004; Basco and Perez Rodriguez 2011), and firm performance (Braun and Sharma 2007; Wilson et al. 2013; Priem and Alfano 2016). Therefore, we answer calls originating from a variety of family business scholars (e.g., Bammens et al. 2011; Chrisman et al. 2010; Olson et al. 2003) by identifying the processes that affect the traditional input-output model of family firm governance.

In our review of the literature on family firm boards, we drew on the Ilgen et al. (2005) IMOI framework to highlight the underlying processes of family firm boards and firm performance linkages. We classified studies into the stages of forming, functioning, and finishing and pointed out vital factors at work in each stage. Our review of the literature into the IMOI framework provides the following contributions and areas for future research illustrated in Fig. 7.1.

First, a prevalence of the current governance models in the family firm literature tends to assume a single structure and has not provided an understanding for how sources of family heterogeneity affect the governance organization (Steier et al. 2015). As demonstrated in the previous sections, a large part associated with family business heterogeneity within the board structures can be identified through the board processes. "Board configurations in family firms should explicitly take into consideration relevant contin-

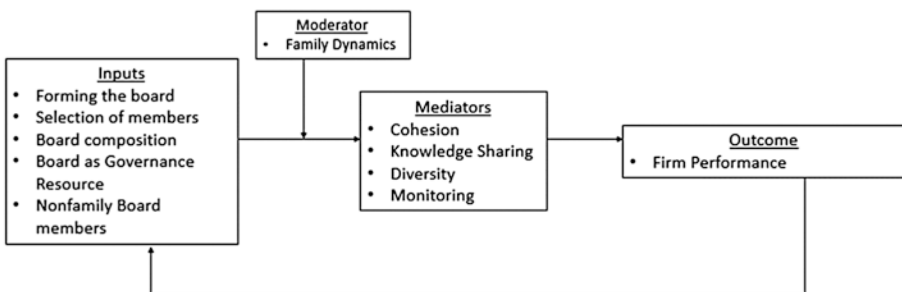

Fig. 7.1 Demonstration of the "I-M-O-I" model within a family firm board context

gencies derived from family involvement" (Corbetta and Salvato 2004: 131). By identifying the different phases (e.g., bonding, learning, trusting) within each stage, we are able to gain more insight into exactly how the family dynamics can be exemplified in the board structure. Through the different mediating/moderating relationships listed in our model, family firms can gain a competitive advantage through their unique knowledge capital (Winter 2003) and governance and leadership conditions (Barney and Hansen 1994). For future research, we provide two initial exemplar propositions:

Proposition 1: Family firm boards follow an iterative path of forming, functioning, and finishing which leads to firm performance.

Proposition 2: Family dynamics moderate the link between family firm board forming and functioning.

Second, the framework suggests the existence of an important feedback loop from "output" back to "input" in the finishing phase. In this case, the differential outcomes of firm performance may alter board forming in a myriad of ways, such as through succession, dismissal/resignation, as illustrated in our concluding proposition:

Proposition 3: Firm performance affects succession planning in the forming stage as performance variations influence CEO dismissal/resignation, founders' desires to pass successful businesses to next generations, and needed changes to strategic planning.

Our analysis of the search results demonstrates that the finishing stage (output–input) is one area that is currently under-researched. However, by identifying how certain characteristics of the family, the business, and managers might lead to variations in succession decisions would be helpful to understand the different succession patterns that emerge from family firms. We also suggest that future family firm researchers empirically test the existence of the proposed relationships in finishing stage and especially the feedback loop through longitudinal research designs.

This chapter also has practical implications for family firms aimed at increasing the understanding of how founder and family involvement in a family firm can both help and hinder firm performance. "The separation or unification of the chair and CEO position does not impact firm performance. Instead, the relationship between duality and firm performance is moderated by the family's holdings in the firm…. family ownership influences shareholder returns in nondual firms but does not in dual firms" (Braun and Sharma 2007; 122). The

literature has shown that there are varying degrees to which family influence has been tied to success (e.g., Gentry et al. 2016). The practical implications for founders looking to appoint a new successor should also be considered, as well as whether the business family should look from within the family or to an outsider as the next CEO. By understanding the relationship between board of directors and firm performance, family firm top management teams would be better able to increase the sustainability and longevity of their firms.

While we have argued that family firm board of directors should be evaluated on their internal processes from a team perspective, using the Ilgen et al. (2005) framework as a backdrop for this integration, the 3 × 3 matrix is by no means an exhaustive list of the different forming, functioning, and finishing processes through which a team moves. Therefore, future research might identify other useful frameworks for examining the underlying board processes at work in family firms. Further, the goal of this review was not to reiterate the findings of family firm board of directors over the past 20 years but rather an attempt at providing more information on the nuances within the board room by examining the influence that the nuclear family has on the processes. Likewise, Fig. 7.1 was developed to inspire scholars to engage in theoretical and empirical work to better identify and understand which family characteristics impact a firm's decisions, and with such work, there could be more refinement of each board's internal processes, especially given the heterogeneous nature of family firms.

In conclusion, our hope is that our review of the literature on family firm boards and integration into a theoretically derived team-based framework will be useful for researchers of family business in better understanding the factors leading to board formation, the mechanisms underlying boards and firm performance, the dynamic nature of performance leading to changes in board formation, and initiation of board forming, functioning, and finishing stages.

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[1] Each article, which is a part of the literature review, has been classified based on the different codes found in Table 7.2. Each category is not discrete and could have multiple classification areas (e.g., FoA, FuA, FiC).

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8

Boards of Advisors in Family Small- and Medium-Sized Enterprises

Judith Van Helvert-Beugels, Anita Van Gils, and Jolien Huybrechts

Introduction

The importance of family small and medium-sized enterprises' (SMEs) governance mechanisms has been extensively described in the academic literature, as these formal arrangements improve the interaction between the ownership, family, and business systems (Nordqvist et al. 2014; Suess 2014) and stimulate value creation (Calabrò and Mussolino 2013; Huybrechts et al. 2016). The board of directors[1] is a vital component within the governance system of the business. Its main role is to control as well as to provide service (Van den

[1] In this chapter, a board of directors refers to a supervisory board within a two-tier governance structure.

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E. Memili, C. Dibrell (eds.), *The Palgrave Handbook of Heterogeneity among Family Firms*,
https://doi.org/10.1007/978-3-319-77676-7_8

Heuvel et al. 2006). Nevertheless, in many countries the instalment of a board of directors is only legally mandated for firms meeting explicit characteristics in size or turnover (Blumentritt 2006; De Jong et al. 2005). Specifically for smaller firms in which ownership is often concentrated, the added value of the control role, aimed at minimalizing the agency costs of structuring, monitoring, and bonding a set of contracts between agents with conflicting interest (Fama and Jensen 1983) is often questioned by the firm's owner (Van den Heuvel et al. 2006). Moreover, families in business highly value the preservation of family control and independence (Berrone et al. 2012), limiting the motivation to install a board of directors.

The board of advisors, an alternative and voluntary governance mechanism, has received only scarce attention in the management literature. Advisory boards are typically composed of externals who, as a group, meet with the family (owners) on a regular basis, and whose role is solely to advise. Because of the informal and non-binding advice status, it is a "safe" way to involve outsiders in the business. Also, the advisory board can easily be dissolved if it is not working as expected (Lambrecht and Lievens 2008). These boards may be preferred to a formal board of directors because of the reluctance of families to provide outsiders with decision-making power and to limit liability issues (Jonovic 1989). Advisory boards are an accessible instrument for owner-managers of family firms who need a sounding board to critically evaluate proposals and plans. The advisors on the board also provide additional resources such as their expertise, skills, and network, but the family owners remain in charge of the strategic decision-making process (Lambrecht and Lievens 2008).

In 2012, about 4% of all Dutch firms had a board of advisors installed, while 15% of the medium-sized family businesses without an advisory board expected to have one in three years' time (Berent-Braun et al. 2013). For a sample of US-based family firms, Ward and Handy already concluded in 1988 that 5% of these firms gained outside perspectives through the use of an advisory board. In Canada, 6% of all SMEs have access to an advisory board, and more importantly, these firms realize superior growth and better financial results (Business Development Bank of Canada 2014). Research also illustrates that family firms with an advisory board are much more likely to engage in formal strategy processes, in identifying successors and in internationalization than firms that do not have a board of advisors (Blumentritt 2006; Horan 2003; Mitter et al. 2014). Similar effects were not found for a formal board of directors. Therefore, these researchers attribute the findings to the explicit service or advise role of the advisory board. Whereas research illustrates the added value of this governance mechanism and labels it as an untapped resource for businesses (Business Development Bank of Canada 2014), the factors that motivate firms to install a board of advisors remain largely unex-

plored. Building on resource-dependency arguments, and using a database of Dutch family SMEs, this chapter explores the determinants of boards of advisors using a rare event analysis method.

Our findings illustrate that, even in 2015, a minority (4.5%) of Dutch family SMEs have installed an advisory board. As the number of family SMEs working with a board of advisors is rather low, and the decision to start working with it is apparently not self-evident, we focus in this study on three particular determinants: the existence of a board of directors, the environment in which the family SME needs to survive and the family generation leading the firm. Contrary to our expectation, boards of advisors seem to supplement instead of replace boards of directors in these types of firms. Moreover, family SMEs operating in highly dynamic technological environment more often use this type of governance mechanism. No statistical differences could be found related to the family generation in charge of the business.

The contributions of this study are threefold. First, our findings suggest that a board of advisors, as a governance mechanism, is complementary to a board of directors. Nevertheless, the limited number of family firms working with a board of advisors shows that involving outsiders in decision-making is not a natural given. Second, this study shows that a challenging and dynamic environment is an important reason for family SMEs to work with a board of advisors. Not knowing how to deal with this uncertainty might create an urgency for family SMEs to open up to outsiders. Third, this chapter suggests that the decision to work with a board of advisors is one possible tactic to be used by family SMEs to deal with their dependence on critical and restricted resources.

The remainder of this chapter is structured as follows: in the theoretical overview part, we will discuss potential determinants of advisory boards. To develop hypotheses, we build on the literature discussing the service role in the corporate governance domain and the advice role as illustrated in the advising literature. Next, we discuss the methodology of this study, elaborate on the findings, and conclude the chapter.

Theoretical Overview and Hypotheses

A Resource-Dependency Perspective on Boards of Advisors

Because of the board of advisors' focus on providing input to the family SMEs, we position this topic in the resource-dependence theory (Pfeffer and Salancik 1978). This theory proposes that firm survival is dependent on the organization's ability to restructure the dependence on critical and needed resources

from the external environment (Casciaro and Piskorski 2005). Resource-dependence theory focuses on the tactics used by organizations to reduce the uncertainty regarding the access to resources. By building long-term relationships with outsiders in the board of advisors and by getting access to valuable information and networks, the dependent family SME can directly solve potential resource constraints (Casciaro and Piskorski 2005).

Starting from this theoretical perspective, we have selected three potential determinants of boards of advisors: the existence of a board of directors, the type of environment in which the family SME operates and the family generation leading the firm. These determinants either represent a combination of resources already present in the family SME or a situation in which resources are needed by the family firm. Whereas boards of directors are said to reduce resource dependency (Knockaert and Ucbasaran 2013), firms that operate in a high-tech sector face greater time pressures (Storey and Tether 1998) and resistance from stakeholders to accept their new products and services, making them more dependent on resources from the outside (Knockaert and Ucbasaran 2013). As the complexity of decision-making will likely increase in later-generation family firms, dependence on outside resources (like advise) will also increase (Van den Heuvel et al. 2006). In the following sections, we will further elaborate on these arguments by building on the governance and advising literature.

The "Service Role" of Boards in the Governance Literature

The corporate governance literature has extensively discussed board roles, defined as the aggregated tasks boards fulfil. However, researchers have predominantly focused on the roles of the board of directors, instead of on those of the board of advisors. Much ambiguity also remains regarding how to label board roles, although most authors agree that next to an agency-based control role, boards of directors engage in a service-related role (Machold and Farquhar 2013; Van den Heuvel et al. 2006). The service role encompasses tasks such as providing advice and counsel to the management team, networking, and representing the firm in the external environment, resource provision and strategic support, and bridging the business and family systems (Corbetta and Tomaselli 1996; Machold and Farquhar 2013; Mustakallio et al. 2002). These board tasks are derived from a combination of theories, such as resource based, resource dependence, stewardship, and stakeholder theory (Van den Heuvel et al. 2006; Bammens et al. 2011). High levels of board role performance, in combination with specific configurations of board composition, have a positive impact on the competitive

position and financial performance of family firms (Arosa et al. 2010; Johannisson and Huse 2000; Zattoni et al. 2015).

Although family firm CEO's value the service role of the board of directors (Van den Heuvel et al. 2006; Ward and Handy 1988), research also illustrates that boards are not uniform in the time they devote to different tasks (Machold and Farquhar 2013). For the 70 US-based outside boards in their sample, amongst which eight were advisory boards, Ward and Handy (1988) concluded that boards spent 49% of their time on listening to reports, 18% to approving decisions, and that only 33% of the time was reserved for discussing critical issues. A similar conclusion resulted from the study of Corbetta and Tomaselli (1996), as the 57 Italian boards of directors studied spent most of their time on ratifying decisions taken by managers and owners. Moreover, the authors conclude that very little time (12%) was devoted to family-related issues. In their case-study research of six UK boards in the service sector, Machold and Farquhar (2013) also only found one board that spent most of its time on the service-related strategy task, while three of them were mainly focused on monitoring and control.

Notwithstanding the limited time that boards of directors spend on counselling, advising, or working on family-related tasks, we argue that family firms having a board of directors will not make the additional investments to install a board of advisors. First, a board of directors already provides resources to the family SME and its decision-makers, and it is questionable whether family SMEs are in need of the additional resources provided by a board of advisors. Moreover, service-related priorities can be communicated to the board of directors in case the family needs additional support. Second, boards of directors might have replaced the initially installed boards of advisors within these family firms. This can be the case when the family firm grows and meets the legal threshold to install a board of directors or when the firm becomes more complex because of multiple generations getting involved in ownership or management. Third, directors and advisors in boards both need remunerations to maximize value creation (Yermack 2004), while in most family SMEs, financial resources are scarce. Therefore, we posit:

Hypothesis 1: In family SMEs, the presence of a board of directors decreases the likelihood of having a board of advisors installed.

The "Advising Role" of Boards in the Advising Literature

The psychology literature has dedicated much effort to understand the social context of the process of taking advice (e.g., Bonaccio and Dalal 2006; Sniezek and Buckley 1995). This literature stream is built on the insight that individuals

have a limited capacity to process information, resulting in poor performance when having to cope with complex decisions (Brehmer and Hagafors 1986). Many studies have therefore focused on the relationship between the client and the consultant, as it is considered to be an important element affecting the chances of success of the intervention (Mohe and Seidl 2011). Motives to seek advice include the general willingness to accept help when it is offered as it might not be offered again (Sniezek and Buckley 1995), the inclination to share accountability for a decision, and optimizing the likelihood of making the right decision by thinking of the problem in new ways or getting access to new information (Harvey and Fischer 1997). Research has also shown that advice seeking or not is partly a potential cost benefit analysis (Bonaccio and Dalal 2006).

Also family firm scholars have increasingly addressed the topic of advising (e.g., Astrachan and McMillan 2006; Strike 2012, 2013; Reay et al. 2013). Research has primarily focused on the role of the family firm advisors and the process of advising. As the literature often refers to explicit intervention phases and specific advising models, recommendations are mostly prescriptive (Strike and Rerup 2016; Strike 2012, 2013; Davis et al. 2013). Questions regarding who the advisers are, what kind of advices are given, and the extent to which the advice is valuable to the firm and the family remain largely unanswered. For example, Strike's (2012) review emphasizes that the literature is fragmented and that most studies are not grounded in academically rigorous methods but rather based on descriptions and personal experiences of advisors.

One of the specific fragments of advising that needs future attention of family firm researchers' concerns advisors working in a team (Strike 2012; Reay et al. 2013; Su and Dou 2013). This is an important research area, as seeking advice from a team of advisors on individual performance (by the owner manager) or on specific issues relevant to the firm and the family can lead to better informed strategic decisions and improved outcomes (Strike et al. 2018). Team advising provides certain benefits, including combined energies and synergistic thinking of the group, impartiality, greater emotional distance, and an understanding of both firm and family issues (Horan 2003; Su and Dou 2013; Swartz 1989). When the board of advisors is viewed as a resource which is assigned the task to combine and optimize the capabilities that a family business is able to develop, it can support organizational performance (Gedajlovic et al. 2012). This type of support will be especially relevant when family SMEs are operating in dynamic technological environments, as knowledge and capabilities become rapidly obsolete and fast learning is critical (Christensen et al. 1998). Specifically for closely held SMEs, Brunninge et al. (2007) illustrate that using outside advisors within the firm's governance mechanisms can stimulate strategic change. Hence, when operating in highly

dynamic environments, firms are more likely to seek help from outside advisors to improve fast decision-making capabilities. Therefore, we posit:

Hypothesis 2: Family SMEs operating in highly dynamic technological environments will more often install a board of advisors.

Family Influence

Family SMEs are not a homogeneous group of businesses as a variety of family-related characteristics can influence the firm's decision-making process (Chua et al. 2012). For instance, generational changes in family attributes affect the need for outsiders on a board of directors, as well as the need for advice (Bammens et al. 2008; Voordeckers et al. 2007). Building on these arguments, we hypothesize that first-generation family SMEs will less often install a board of advisors. Although the advices formulated by the outsiders in a board of advisors are not binding, owners might perceive this step as part of a more general professionalization process of the firm (Matser et al. 2013). Installing boards of advisors might also not fit the pre-succession's stage focus on family rationale, emphasizing kinship inclusiveness, consensus, equality, and concern for family legacy, preservation of family ownership, management, and control as primary priorities (Steier and Miller 2010). Moreover, Johannisson and Huse (2000) show that a board of directors enforces managerialism, challenging the thus far dominating ideologies, entrepreneurialism, and paternalism. The same might apply to a board of advisors if outsiders lack an entrepreneurial orientation or lack the experience on how to balance family and business goals. In second- and later-generation family SMEs, the level of interpersonal trust declines, resulting in these firms being open to outsiders, having transparent policies and systems and clear communication channels (Sundaramurthy 2008). These later-generation firms will also be more dependent on outside help and resources as it is likely that the complexity of their decision-making increases with the greater variety of opinions of different family members (Van den Heuvel et al. 2006). Moreover, in these firms the professionalization logic might be more dominant (Steier and Miller 2010). As a result, we posit the following:

Hypothesis 3: First-generation family SMEs are less likely to have a board of advisors installed compared to later-generation family SMEs.

After having presented our hypotheses for this study, the next section of the chapter will continue with presenting the methodology and data.

Methodology

Data

The data used for this study originates from a survey that was sent out in 2015. In total, 6546 CEOs of small- and medium-sized firms were contacted by post. These 6546 firms are the entire population of Dutch firms located in the province of Limburg that employ between 5 and 250 people, excluding firms that are part of a branch as these firms might be less able to make independent strategic choices. To select these firms, information from the Orbis database by Bureau van Dijk was used. The questionnaire that was sent to the CEOs was accompanied by a letter explaining the goal and the importance of the research. A link to an online version of the survey and a unique password for each CEO was also included in the letter to make sure that only the intended respondents could fill in the online questionnaire. The contacted CEOs were assured that the collected data would be processed anonymously and that none of our reported findings would be traceable to an individual firm. After sending a reminder, 1080 surveys were returned, resulting in a response rate of 17%. Because late respondents are more similar to non-respondents (Armstrong and Overton 1977), non-response bias was tested by comparing key characteristics of early and late respondents (respectively first and fourth quartile of responses based on the date received). Independent *t*-tests revealed no significant differences between the two groups based on firm size, firm age, and satisfaction with their performance, indicating no signs of non-response bias.

We identified a firm as being a family firm when one family owned at least 50% of shares and the CEO identified the firm as being a family firm (e.g., Huybrechts et al. 2013; Westhead and Howorth 2006). Based on this classification, about 65% of our sample qualified as a family firm, which is comparable to estimates found in other West-European countries (Ifera 2003). After excluding missing values our final sample includes 550 family SMEs.

Measures

Dependent Variable Our dependent variable is a dummy variable *board of advisors* which takes the value of one when a board of advisors is installed in the firm.

Independent Variables Our independent variables include firm and family characteristics. The presence of a board of directors and R&D intensity relate

to firm characteristics. The dummy variable *board of directors* assumes the value one when a supervisory board of directors is present in the firm. As a proxy for the technological environment, we add the R&D intensity of the firm. *Low R&D intensity* is a dummy variable taking value one when 5% or less of the yearly revenue is spent on R&D expenses. To account for family characteristics, we use a dummy variable *first generation* which takes the value of one when the first generation still holds the majority of shares in the firm.

Control Variables We included several firm and CEO characteristics as control variables. *Firm size* measures the number of people employed in the firm. *Firm age* indicates the number of years since company inception. *Firm performance* is measured on a five-point Likert scale, indicating how well the company is performing compared to other firms in the industry. CEO characteristics include membership of the owning family and level of education. When the CEO is not a member of the owning family, the dummy variable *nonfamily CEO* assumes the value of one. The CEO's level of education is measured by a dummy variable *CEO education* taking the value of one when the CEO has a university or university college degree.

Results

Table 8.1 shows descriptive statistics and correlations.

As can be seen in Table 8.1, our dependent variable *advisory board* is significantly positively correlated with *firm size* ($p < 0.05$) and *board of directors* ($p < 0.01$). Therefore, larger firms and firms with a board of directors are more likely to have an advisory board installed. *Low R&D intensity* is significantly negatively correlated with *advisory board*, indicating that firms that highly invest in R&D are more likely to have an advisory board installed. Table 8.2 shows the results of our penalized maximum likelihood logistic regression. No VIF value exceeded 1.27, suggesting that multicollinearity did not pose a problem in our analyses.

As only 25 firms in our sample reported to work with an advisory board, we regarded the situation of having an advisory board as a rare event. To perform a logics regression for rare events, we applied the Firth method, a penalized likelihood approach that reduces small-sample bias in maximum likelihood estimation (Firth 1993). The Firth approach also regularizes the data, thereby circumventing the separation problem (Zorn 2005). Hence, the Firth regression always leads to finite parameter estimates which is not the case when using regressions based on the standard maximum likelihood

Table 8.1 Descriptive statistics and correlations

Variable	Mean	S.D.	1.	2.	3.	4.	5.	6.	7.	8.
1. Board of advisors	0.05	0.21								
2. Firm size	24.17	35.16	0.09*							
3. Firm age	42.00	31.38	0.07†	0.21**						
4. Firm performance	3.35	0.80	−0.06	0.14**	0.02					
5. Board of directors	0.08	0.27	0.16**	0.35**	0.11**	−0.04				
6. Low R&D intensity	0.83	0.38	−0.09*	−0.07†	0.13**	−0.08†	−0.02			
7. CEO education	0.50	0.50	0.05	0.20**	−0.02	0.07†	0.10*	−0.06		
8. Nonfamily CEO	0.06	0.23	−0.02	0.25**	0.05	0.02	0.17**	0.03	0.18**	
9. First generation	0.48	0.50	0.02	−0.15**	−0.42**	−0.08†	−0.07	−0.09*	0.01	−0.11

$N = 550$, † $p < 0.10$, * $p < 0.05$, ** $p < 0.01$

estimation. However, as a robustness test, we also performed a conventional logistic regression which resulted in similar results.

As can be seen in Table 8.2, the Wald chi-squared indicates significance of the model. Looking at the control variables, Table 8.2 shows that firm age has a significantly positive effect on the likelihood of having an advisory board installed ($p < 0.05$). Older firms are thus more likely to install an advisory board. Firm performance has a negative influence on the likelihood of having an advisory board ($p < 0.10$), indicating that firms who are performing well are less likely to install an advisory board. Analysing the predictor variables, we have to reject hypothesis 1. Having a board of directors has a significantly positive effect on the likelihood of having an advisory board. Looking at the odds ratio, it can be seen that when a firm has a board of directors, it is almost four times as likely to have an advisory board as well compared to firms that do not have a board of directors. Hypothesis 2 is confirmed as having a low R&D intensity has also a significantly negative effect on the probably to install an advisory board ($p < 0.05$). Firms in highly dynamic technological

Table 8.2 Penalized maximum likelihood logistic regression

Dependent variable	Independent variable: board of advisors	
	Beta coefficients	Odds ratios
Constant	−1.87†	0.15†
	(1.01)	(0.15)
Firm characteristics		
Firm size	0.00	1.00
	(0.00)	(0.00)
Firm age	0.01*	1.01*
	(0.01)	(0.01)
Firm performance	−0.45†	0.64†
	(0.26)	(0.17)
Low R&D intensity	−1.03*	0.36*
	(0.47)	(0.17)
Board of directors	1.38*	3.97*
	(0.54)	(2.15)
CEO characteristics		
CEO education	0.23	1.26
	(0.44)	(0.55)
Nonfamily CEO	−0.56	0.58
	(0.92)	(0.73)
Family characteristics		
First generation	0.46	1.58
	(0.46)	(0.73)
Wald chi^2	24.15**	
McFadden R^2	0.135	

$N = 550$, $^{\dagger}p < 0.10$, $^{*}p < 0.05$, $^{**}p < 0.01$

environments are thus more likely to install an advisory board. No statistical significant results were found for hypothesis 3, claiming heterogeneity in the presence of boards of advisors based on generational differences.

Discussion

This study has focused on the antecedents of boards of advisors in small- and medium-sized firms in the Netherlands. Our research project is a first exploratory step in developing our understanding of this governance mechanism. Although only used by a limited number of firms, advisory boards have the potential to support in a firm's development, professionalization, and growth (Blumentritt 2006; Mitter et al. 2014; Strike 2012). Also considering the literature on board roles, it is interesting to note that the CEOs of small- and medium-sized family firms greatly value the service role, including a range of activities such as building organizational reputation, networking, advising, formulating strategy, and access to resources (Van den Heuvel et al. 2006).

Starting from a resource-dependence perspective, and building on the governance and advising literature, we hypothesized that boards of advisors are installed in family SMEs that have no board of directors, that boards of advisors will be more frequently used by family SMEs that operate in highly dynamic technological environments and that first-generation family SMEs will less often install a board of advisors than later-generation family firms. The finding that our first hypothesis needed to be rejected came as a surprise. Boards of advisors seem to supplement instead of to replace boards of directors in these types of firms. As family SMEs are hesitant to install a board of advisors because of the investments needed in terms of time and money (Berent-Braun et al. 2013), it is interesting to notice that some family SMEs are apparently willing to invest in both types of boards. Common sense would indicate that such investments are only made when the output of the boards is more valuable than the input. A potential explanation might be that family SMEs follow a growth path in terms of governance, similar to the life-cycle phases of the firm suggested by Greiner (1972). When launching the firm, the entrepreneurs work with trusted advisors who support them, often being the accountant (e.g., Strike 2013; Barbera and Hasso 2013). In a second stage, when the firm grows, a board of advisors is installed which eventually might be transformed into a board of directors when the liabilities become too big to be dealt with by the advisory board. Along this growth path, the board of

advisors is not necessarily dissolved, as the relationships that have developed with the advisors over time are too strong and important to be broken. As a result of this governance growth path, it could be the case that boards of advisors are used as a complement to boards of directors when they create value to the family and/or ownership domain, while the board of directors is focused on the business domain. This would fit with earlier findings (Corbetta and Tomaselli 1996) that boards of directors in family firms spend very little time on advising and family-related issues.

Regarding the second hypothesis, the data shows that in line with our expectations, family SMEs operating in highly dynamic technological environment use this type of informal governance mechanism more often. When the context of the firm becomes too complex to be fully understood by the directors, a board of advisors can provide great value in evaluating the opportunities and challenges.

We have not found evidence for our third hypothesis, which suggested that first-generation family SMEs will less often install a board of advisors than later-generation family firms. First-generation family firms might, for example, value a board of advisors as a sparring partner in strategic decision-making or when preparing for the next generation to take over. However, the lack of a significant result might also be due to the most important limitation of our study, namely the limited number of firms with advisory boards in our sample.

Contributions

This study contributes to the governance research field by focusing on boards of advisors, a governance mechanism that has received little attention in the literature so far. Simultaneously, research increasingly recognizes that the role of advisors in decision-making processes cannot be disregarded as individuals often rely on both internal and external sources of advice of others (e.g., Yaniv & Milyavsky, 2007; Reay et al. 2013; Salvato & Corbetta, 2013; Strike 2012, 2013). By studying the determinants of boards of advisors in Dutch family SMEs, this chapter also contributes to a better understanding of why and under which circumstances family SMEs decide to work with a board of advisors. Secondly, the chapter adds to the family firm literature by identifying why family SMEs might want to open up to outsiders and whether this decision is dependent on certain family firm characteristics. The chapter shows that the decision to work with a board of directors is one possible tactic to be used by family SMEs to deal with their dependence on critical resources from the environment.

Limitations and Recommendations for Further Research

As our knowledge regarding advisory boards is still very limited, we firstly recommend further research on the service role of both boards of advisors in the context of privately held firms. McNulty et al. (2013) have argued that the governance research field is in need of theoretical and empirical development through direct engagement with the actors and settings involved in governance phenomena. Therefore, they recommend the use qualitative research methods. Most of the contemporary knowledge on the service role of boards still originates from a limited set of empirical contexts, largely ignoring the accuracy and contextual nature of governance issues (Pugliese et al. 2009) and having little relevance to the situation of privately held firms. This is confirmed by the findings of Forbes and Milliken (1999) who identified that firm size is an antecedent for the perceived importance of the advice task.

Second, this study has focused on three specific determinants that explain the presence of a board of advisors in the family SME context. These determinants were selected from a resource-dependence perspective. However, more determinants could be thought of, including specific family firm situations that create an urgency to get access to the advices of independent outsiders. Examples of such situations involve succession planning, family firm professionalization, or the transition to working with an external CEO.

Third, after having identified why family SMEs work with a board of advisors, it is also important to build our understanding of how they function and operate in different contexts. Using an in-depth approach, preferably following the developments in the boards of advisors over time, future research could provide insight into why family SMEs would want to work with a board of advisors in the first place. Besides, using such an approach would facilitate building an understanding of how boards of advisors create value and to what extent they actually succeed in this. An in-depth longitudinal approach could also provide insight into the content discussed, the advising practices and the dynamics between the individuals involved. By studying boards of advisors, future research can extend our understanding of the advising and service role in general and provide suggestions of alternative theoretical frameworks to be used since stewardship theory, the RBV and stakeholder theory can only partly explain how the advising role is performed and which activities constitute the advisory role on the micro-level.

Implications for Practice

Providing more insight in the phenomenon of boards of advisors is worthwhile to practitioners, as boards of advisors might be a helpful governance tool for family SMEs that grow and professionalize over time (Carlock and Ward 2010). During this development process, boards of advisors can provide the resources needed to make the transition to the next phase of the firm's life cycle. The board of advisors can be used as a tactic for family SMEs to reduce uncertainty. Through the board of advisors, new relationships and networks with individuals outside the firm are built, and the family SME and its decision-makers get access to new information and competences that are needed to develop and grow the firm. This study has shown that this tactic is especially helpful in highly dynamic and technological environments.

Conclusion

With this study, we have provided insight in the phenomenon of the board of advisors by focusing on the determinants of the presence of a board of advisors in family SMEs. By using resource-dependence theory, we hypothesized which resources are needed by a family SME that might be offered by a board of advisors and the circumstances under which these resource needs might increase. The results of this study have shown that having a board of advisors might be especially worthwhile in highly dynamic and technological environments. In such situations, board of advisors can be extra helpful in providing support to get a full understanding of the situation at hand and in analysing alternatives to address specific issues.

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9

Women on Boards in Family Firms: What We Know and What We Need to Know

Cristina Bettinelli, Barbara Del Bosco, and Chiara Giachino

Introduction

Equality and diversity in organizations have become fundamental elements of corporate governance, growth, and sustainability. The rising importance of corporate governance and government regulations, coupled with the influence of the media and stakeholders, puts more pressure on business organizations to promote more diverse boards (Allemand et al. 2014). Several governments have taken action to achieve this diversity. For example, in 2006, Norway imposed gender quotas on listed companies, requiring them to have 40% women on the board of directors (BOD) by 2008 (Brandth and Bjørkhaug 2015); in 2011, the Italian Parliament approved a law known as *Legge Golfo-Mosca*, for reserved quotas for women (so-called "pink quotas") to sit on BOD of companies listed on the stock exchange; in 2012, the European Commission agreed to improve the gender balance of non-executive directors in listed

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© The Author(s) 2019
E. Memili, C. Dibrell (eds.), *The Palgrave Handbook of Heterogeneity among Family Firms*,
https://doi.org/10.1007/978-3-319-77676-7_9

companies by January 2020 (Szydło 2015) and the European Parliament in 2014 set out that within a year, one-fifth of the members of the BOD should be women, rising to one-third in subsequent years.

A large body of literature has examined the role and impact of women on boards of directors, but there are few studies on this issue in family businesses (Campopiano et al. 2017). We believe that this is an important topic to explore, and this chapter aims to contribute to the debate by providing some interesting insights on how the typical traits of family firms' boards interact with the diversity effects linked to the presence of women. Specifically, the chapter provides a summary of work on the themes of gender diversity in general and board functioning in family businesses. The analysis of this literature, together with a review of the contributions on women on family firm boards, is the starting point for identifying possible research areas not yet addressed by scholars, and therefore defining the research agenda on the subject. In the next section, we review studies on the role of women on boards and examine whether these differ when the unit of analysis is family or non-family firms.

The Role of Women on Boards

Generally speaking, the main benefit of BOD gender diversity is that the board is likely to consider an expanded range of perspectives, drawing on the knowledge and experience of female directors. This has a strong influence in increasing counselling engagement, improving strategy formulation, and reducing uncertainty about strategic decisions (Finkelstein et al. 2009). Gender diversity on boards may also reinforce some governance practices, for example, by reducing the association between excess CEO compensation and firm performance (Bugeja et al. 2016). Having quotas of women on boards may also, however, negatively affect both the performance and the value of the firm (Post and Byron 2015; Roberson et al. 2017), forcing the replacement of qualified directors with less experienced ones to meet the diversity quota (Breuer 2016). This demonstrates the complexity of the matter.

The Effects of Board Gender Diversity on Performance

Given the increasing number of female managers and board directors (Gregory-Smith et al. 2014), a better understanding of the effect of their presence in these positions is very important. Recently, Roberson et al. (2017) investigated this subject in considerable depth and suggested that gender,

measured as both presence and relative percentage of women on boards, was positively related to firm performance (e.g., Estapé-Dubreuil and Torreguitart-Mirada 2015; Martín-Ugedo and Minguez-Vera 2014; Sabatier 2015). Several researchers support this view (e.g., Lucas-Pérez et al. 2015; Reguera-Alvarado et al. 2017), although others have provided evidence of possible non-linear (Vintilă et al. 2015) or non-direct effects (Isidro and Sobral 2015), and some reported poorer performance as a result (e.g., Chapple and Humphrey 2014; Ferreira 2015). A possible explanation for these inconclusive results is that contingent effects may be essential in understanding the effects of gender diversity in boards and firm performance (Post and Byron 2015).

Gender diversity also exerts effects on elements other than financial performance. For example, it has an influence on mitigating fraud and emphasizing corporate social responsibility (CSR) (Galbreath 2016; Shaukat et al. 2016). A typical firm loses about 5% of its annual revenue to fraud (Cumming et al. 2015): a study suggested that diversity mitigated security fraud, with the optimal percentage of women on boards being 50% (Cumming et al. 2015). Several researchers have also found that the presence of female managers and directors on the board is positively related to charitable and CSR activities (i.e., philanthropy) (e.g., Adams et al. 2017; Harjoto et al. 2015; Larrieta-Rubín de Celis et al. 2015).

The Effects on Processes

A very interesting study by Post and Byron (2015) found that female board representation was positively related to boards' two primary responsibilities, monitoring and strategy: female directors have more human capital which is essential to increase the positive influence of women on board processes and performance (Palvia et al. 2015; Sun et al. 2015). In the same vein, a study by Vintilă et al. (2015) showed that women managers also have a more varied and cooperative mindset, incorporating a wider range of perspectives (because of their experience and knowledge) and leading to more balanced decisions. Boards with higher gender diversity may be more likely to consider decisions more carefully, and discuss and integrate information supplied (Torchia et al. 2015). Studies have also argued that women on boards are more likely to value interdependence, benevolence, and tolerance (Adams and Funk 2012), which may enhance the collaboration between board members. Women managers can also help to improve the company's ability to generate profits from its assets and investments (Miller and Del Carmen Triana 2009), and support a wider and deeper understanding of the market and stakeholders (e.g., Carter et al. 2003).

The values and experiences of female directors are therefore likely to be of particular importance in influencing the board's monitoring activities (Perrault 2015; Upadhyay 2014). Women tend to apply more rigorous ethical standards (Pan and Sparks 2012) and are more prone than men to consider questionable business practices as immoral (Franke et al. 1997). They tend to embrace their monitoring responsibilities more strongly than male managers (Zhu et al. 2010). Some surveys suggest that women tend to be more rigid (Chapple et al. 2012), and this helps the board to fulfil its mandatory role of supervision, to avoid legal, ethical, and reputational risks of not doing so.

Why Women Face Barriers

Studies have shown that women have to overcome barriers to their involvement on the board, mainly because of gender inequality, which still exists in many countries, and anachronistic perceptions of their advisory and leadership abilities (Carrasco et al. 2015).

Gabaldon et al. (2016) analysed the process from the perspective of supply and demand (as a labour market). From the supply side, they grouped the barriers in gender differences into values and attitudes, gender role expectations, and work–family conflict. Gender differences in values and attitudes may result in motivational differences between men and women. When trying to reach top positions in organizations (Anca and Gabaldon 2014), women have been reported as being less keen to achieve and less power-oriented (Schuh et al. 2014), and also more conservative in decision-making processes (Baixauli-Soler et al. 2015). Women may therefore not attempt to reach senior management positions (Eddleston et al. 2006) because doing so would conflict with their self-image (Powell and Butterfield 2013). Stereotypes like this have been found to affect women's performance and to reduce their motivation to succeed, generating vulnerability, and anxiety in female leaders (Walker and Aritz 2015). The conflict between work and family is the most commonly identified barrier preventing women from reaching leadership positions (Seierstad and Kirton 2015). However, this opinion is not unanimous: interestingly in some cases, women did not experience work–family conflict but instead their family orientation had a positive effect on their career (Klettner et al. 2016).

From the demand side, gender discrimination can be defined as a prejudice or bias based on gender. Many companies judge their employees based on group characteristics rather than personal ones (Choudhury 2014) and underestimate women's skills (Wyss 2015). When the number of particular types of

people in a working group is low, those people may also be treated as "tokens" (Kishore 2016; Terjesen and Sealy 2016) or symbols representative of their social group rather than individuals (tokenism). In addition, women's relative lack of board experience is often seen as the main obstacle facing them, but they tend to offset their lack of board experience with higher education such as MBA degrees and international experience (Singh et al. 2008).

Connections and networks also matter to a board, because they form a resource (Azmat and Rentschler 2017; Zhu et al. 2014). Women's relative lack of access to networks has been identified as an important barrier (McGuire 2002). These perceptions also serve as barriers to women, linking the role of board members with committee assignments and gender (Tinsley et al. 2016).

Family Business Boards: What Are the Peculiarities of Boards in Family Firms?

In this section, we focus on the specific context of family firm boards and first, offer an overview of their characteristics and second, explain the current state of affairs on gender diversity on family firm boards. Our aim is to offer an overview of the effects of various forms of family involvement on the composition and behaviours of the BOD. We firstly set out the specificities of the role of the board in family businesses. Secondly, we focus on board composition. This section allows us to shed light on the peculiarities of boards in family businesses and the major empirical findings on these aspects.

Family Business Boards' Activities and Composition

There seems to be consensus in the corporate governance literature on the major activities[1] performed by BOD in both family and non-family firms: exercising control and providing advice[2] (Bammens et al. 2011; Siebels and zu Knyphausen-Aufseß 2012).

The exercise of *control* derives theoretically from the agency perspective, which states that BOD's function is to exert fiduciary oversight and monitoring activities. The aim of this control function is to avoid opportunistic

[1] In this chapter, the terms board processes, activities, roles, tasks, functions, and behaviours will be considered interchangeable.

[2] These two macro-themes at least conceptually overlap with the responsibilities of the board identified by Post and Byron (2015) and discussed in section "The Role of Women on Boards": monitoring and strategy involvement.

behaviours by so-called "agents" (Jensen and Meckling 1976). As Bammens et al. (2011) and Bettinelli (2011) noted in the context of family firms, the overlap between ownership and control creates different agency problems: moral hazard behaviours link to the owning family's pursuit of its own economic and non-economic interests; the parental tendency to act altruistically; and the tendency of different family members or groups to pursue their own interests (for a complete explanation, see: Bammens et al. 2011). Those problems have led many authors to stress the importance of hiring external and independent directors who could control the situation, and reduce family decision-makers' discretion (Anderson and Reeb 2004; Gabrielsson and Huse 2005; Schulze et al. 2001).

The activity related to *offering advice* can be analysed using at least two major perspectives: stewardship theory (Davis et al. 1997) and the resource-based view (RBV) (Barney 1991). Applied to family firms, stewardship theory sheds light on the potential of board advisory activities designed to nurture stewardship at all levels (Corbetta and Salvato 2004). These stewardship behaviours are important, especially for family firms known for building their competitive advantages on their family nature and stewardship behaviours (e.g., Carrigan and Buckley 2008). The RBV helps to explain the board's role in offering knowledge and expertise complementing that of internal managers. More specifically, applied to family firms, this perspective stresses the value of boards as arenas where family members can share and integrate their knowledge with the expertise and objective views of external directors (Corbetta and Salvato 2004). A further and less well-explored application is the use of stakeholder theory (Freeman and Reed 1983) to explain how family business boards can contribute to the management of conflicts in one of their most relevant stakeholders: the owning family.

With regard to board composition, most of the literature, including on family firms, has focused on the effects of board composition on firm success and performance, obtaining mixed results (e.g., Bettinelli 2011). This is because empirical research tends to look for cause–effect relationships but overlooks the important processes that link board composition to performance (Forbes and Milliken 1999; Zattoni et al. 2015).

One of the most studied themes of board composition in family firms refers to the effects of independent board members, external to the family and firm. These are considered by scholars to be extremely valuable in both control and advice roles (Ward 1988). On the control task, they help mitigate agency costs, and also improve the provision of expert advice, bringing in outside knowledge and new perspectives (e.g., Schwartz and Barnes 1991),

and helping to mediate family conflicts (Van den Heuvel et al. 2006). The next section explores some representative empirical studies on boards' activities and composition in family firms.

Some Insights into the Empirical Evidence on Board Activities in Family Firms

An interesting investigation of board roles in 286 small–medium Flemish family firms showed that the CEOs of these firms perceived the service role of the board as most important (Van den Heuvel et al. 2006). Zattoni et al. (2015) analysed data from 421 Norwegian small- and medium-sized enterprises and found that family involvement in the business was positively related to some processes (i.e., effort norms and use of knowledge and skills) but negatively related to others (i.e., cognitive conflicts). Some scholars have studied both board composition and roles. For example, Bettinelli (2011) found that boards with outside directors were perceived as more committed to effective process management (i.e., higher effort norms) and more cohesive. Boards of older companies with outside directors were also perceived as more capable of using knowledge and skills.

Focusing on the genetic relationships among the members of 68 family firms, Collin and Ahlberg (2012) carried out an exploratory study to indicate that genetic kinship is related to the activities/processes of the board. For example, they found a negative correlation between the share of board members' kin relationships (e.g., half-siblings or grandparent–grandchild) and the control role of the board. They also found a negative relationship between the share of board members' weaker relationships (e.g., cousins, great-grandchildren–great-grandparents) and the advice role of the board.

Vandebeek et al. (2016) studied 106 Belgian private family firms and measured board fault lines, considering three attributes simultaneously (family membership, type of directorship, and gender). They found a negative relationship between fault lines and performance of both board control and service roles. They also found that in boards using formal evaluations, the negative effect of fault lines on control role performance was reversed.

Some Insights into the Empirical Evidence on Board Composition in Family Firms

Over the past few decades, many studies have examined board composition effects identifying some potential contingent variables but have not always

generated consistent results. Recently, Poutziouris et al. (2015) analysed 141 companies listed on the London Stock Exchange (LSE) from 1998 to 2008, and found that the presence of a family CEO, family representation on the board, and/or a CEO-Chairman dual role sustained higher long-term performance.

Arosa et al. (2010) used data from non-listed family firms in Spain, and indicated that the presence of affiliated directors[3] is positively related to firm performance, but the presence of independent directors[4] has a positive effect on performance only when the firm is run by the first generation. According to work by Arosa et al. (2010), when the firm is run by second or subsequent generations, the presence of independent directors has no effect on performance. Finally, García-Ramos and García-Olalla (2011) found that in family firms led by descendants (not the founder), board size was positively related to firm performance, but the presence of independent directors had a negative effect on performance. Another interesting finding is that CEO duality had a positive effect on performance when the firm was led by descendants, but no effects were detected between CEO duality and performance in founder-led family firms (García-Ramos and García-Olalla 2011).

Another relevant topic when studying board composition is board interlocks. Cannella et al. (2015) used a sample of US firms publicly traded in the period 1991–2006, and found that family firms were more likely to interlock[5] with other family firms, select outside directors with more experience in family firms, and retain directors on their boards for longer. They also found that directors with experience in family firms deterred institutional investors (Cannella et al. 2015). Board interlocks are typically used by family firms to foster the creation of a network and to build community-level social capital (Lester and Cannella 2006).

Women on Family Firm Boards

This section focuses on studies on the role of women on BOD in family firms. Contributions on this specific issue are quite limited and, in several cases, the study is more generally focused on gender diversity in boards but also covers family businesses. This review aims to analyse the different studies published

[3] i.e., directors with potential or existing business relationships with the firm but who are not full-time employees.

[4] i.e., directors whose only business relationship with the firm is their directorship.

[5] Board interlocks occur when two firms share one or more directors (Lester and Cannella 2006).

in academic journals that provide some evidence on the presence of women on family firm boards. The articles identified examine two main issues:

- the determinants of the presence of women on boards and the role of family ownership and family ties as drivers of the appointment of female directors; and
- the impact of the presence of female directors on strategies and practices and, as a consequence, on the performance of the family firm.

We therefore summarize the contributions on women on family firm boards looking at these two issues in turn.

Family Ownership and Family Ties as Drivers of Female Directors' Appointment

Given the attention devoted to board gender diversity and the potential benefits associated with the presence of women on boards, several studies have tried to understand the factors determining the appointment of female directors. One of the variables identified by various authors as a potential driver of the presence of women on boards is family ownership. Family firms are usually expected to have more women on their boards, because they frequently recruit directors from within the owning family. Family affiliation may therefore favour a woman's appointment.

Studies aiming to understand the role played by family ownership and family affiliation have been conducted in both more developed countries, such as Australia (Sheridan and Milgate 2005), Switzerland (Ruigrok et al. 2007), France (Nekhili and Gatfaoui 2013; Singh et al. 2015), Italy (Bianco et al. 2015; Songini and Gnan 2009), Spain (Martín-Ugedo and Minguez-Vera 2014; Mínguez-Vera and Martin 2011), UK and USA (Saeed et al. 2017), and in developing and emerging economies, such as Indonesia (Darmadi 2013), Malaysia (Abdullah 2014), and BRIC (Brazil, Russia, India, China) countries (Kurup et al. 2011; Malik and Bajaj 2015; Saeed et al. 2016, 2017).

Several of these studies compared board gender diversity in family and non-family businesses, or included family ownership as an independent variable in models explaining the presence or the weight of women on boards. Other studies focused on directors and investigated the relevance of family ties in the appointment of board members. In some cases, these ties were explicitly defined as being a member of the founding family (Ruigrok et al.

2007) but others defined family affiliation with the company more generally (Sheridan and Milgate 2005).

The vast majority of studies found that board gender diversity was positively associated with family ownership. More precisely, this positive association has been observed in more developed countries. Family businesses appear to be characterized by a higher presence of female directors in Italy (Bianco et al. 2015; Songini and Gnan 2009), Spain (Martín-Ugedo and Minguez-Vera 2014; Mínguez-Vera and Martin 2011), France (Nekhili and Gatfaoui 2013), UK and USA (Saeed et al. 2017). In Switzerland, Ruigrok et al. (2007) found that female directors were more likely to be affiliated to the founder's family than male directors. In Australia, a study explored the perceptions of female and male directors of listed companies about factors crucial in accessing board positions and highlighted several similarities between the two groups. There was, however, an important difference between men and women: only female directors identified family affiliation as one of the reasons for their nomination to the board (Sheridan and Milgate 2005).

In the majority of cases, studies have examined listed companies, with a few analysing SMEs. Mínguez-Vera and Martin (2011) and Martín-Ugedo and Minguez-Vera (2014) studied board gender diversity in Spanish SMEs and Songini and Gnan (2009) in Italian SMEs. They found that in both countries, there were more women on boards in family businesses than in other firms. In more developed countries, family firms therefore appear to be more open to the appointment of women as board members.

Research on developing and emerging countries, however, has provided mixed results. A study on firms listed on the Indonesian Stock Exchange found that family firms tended to have a higher proportion of women on their boards than non-family firms (Darmadi 2013). Similarly, a study of firms listed on the Malaysian Stock Exchange found that, in the sample companies, gender diversity was positively associated with the presence of directors from the family of the controlling shareholder (Abdullah 2014). However, in a comparative study by Saeed et al. (2016), family ownership was significantly and positively associated with board gender diversity in China and India but not in Brazil and Russia. In a different study focused on China and India, Saeed et al. (2017) found a negative impact of family ownership on the proportion of women directors, although this negative relationship was weakened in internationalized family-owned firms. These results suggest that the institutional context has an influence on the role of women in family firms. In different countries, institutional rules, pressures, and values may affect both the functioning of family firms and their boards, and societal expectations of gender roles in the family and therefore in family firms. Contrasting results about the same

countries suggest that further research is needed to better understand these contexts and the heterogeneity that characterizes family businesses. The difference highlighted between family-owned firms with a different degree of internationalization, for example, seems to suggest that contact with foreign markets might provide an incentive to improve board gender diversity because this contact exposes the firm to additional pressures (Saeed et al. 2017).

Another possible institutional pressure comes from the presence of pink quotas. This kind of regulation is a challenge for family firms, since it might compel them to increase the number of women to a level greater than the number of female family members suitable to be directors. Norway is a pioneer of pink quotas, and in 2003 its Parliament passed a regulation stipulating that firms must have at least 40% of their directors of each gender. Non-compliant firms had to be liquidated. Bøhren and Staubo (2014) studied the response of Norwegian firms to this regulation and found that half of their sample companies preferred to exit to an organizational form not exposed to the law, instead of complying with it through board restructuring. Family firms turned out to exit less often than other firms, suggesting that they perceived themselves as less threatened by this law than non-family firms. It may also be the case that they have better access to a network of potential female directors, among the owning family. Given the recent introduction of quotas in other countries, it would be interesting to see future studies investigating the response to this kind of regulation among family and non-family firms elsewhere.

A study on Indian family-owned companies, for example, highlighted compliance with the requirement to appoint at least one woman to the board largely by recruiting non-family members (Malik and Bajaj 2015). Further research is needed to study other contexts, and to identify the drivers of choices adopted by family firms, which may decide to appoint non-family or family female directors for reasons related to firm and family exigencies, as well as to the roles attributed to female family members.

The characteristics of women appointed as directors of family firms are interesting, and this issue has been investigated by several studies. Two studies highlighted the tendency of French listed companies to appoint women with a relatively low level of education. Nekhili and Gatfaoui (2013) found that family businesses tended to select female directors with higher education degrees much less frequently than non-family firms. Singh et al. (2015) showed that female directors with family ties to the company founder, owners or CEO tended not to be characterized by academic excellence or executive experience, although these traits could be identified in several non-family-affiliated female directors of French listed companies. Similarly, Bianco et al. (2015), studying firms listed on the Italian stock exchange, found that the

proportion of university graduates among family-affiliated female directors was significantly lower than among other women directors. This suggests that family firms tend to recruit women directors primarily because of their relationship with the owning family, and not their competencies. Career experience and educational level may be more relevant for appointments in non-family firms.

Nekhili and Gatfaoui (2013) also found that French family firms were more likely to have women directors who were board members in other firms. Likewise, in Italy, family-affiliated female directors held a larger number of directorships than non-family-affiliated ones (Bianco et al. 2015). This may be interpreted as an effect of the presence of networks of family firms, which share one or more directors to strengthen linkages between firms, and the involvement of women directors in this attempt to create social capital (Lester and Cannella 2006).

Another way to deepen the analysis of the presence of women on boards of family firms is to examine their role on the board. In France, Nekhili and Gatfaoui (2013) tested the impact of family ownership, not only on the number of women directors but also on the number of female non-executive directors and the number of female members of relevant subcommittees. They found that in all three cases, family ownership had a positive impact, and interpreted these findings as consistent with the argument that women can play a significant role in mitigating agency conflicts. It is, however, also possible that women are given non-executive roles as a consequence of a choice to limit their roles, excluding them from executive positions. A study on Italian family SMEs by Songini and Gnan (2009) provided a more in-depth analysis of this issue by comparing the presence of women in different governance (board member, chairman, CEO, or sole CEO) and managerial roles (managing director, business unit director, and functional director) in family and non-family firms. The findings suggested the presence of a glass ceiling even in family SMEs. The percentage of women in a governance role was significantly higher in family businesses only among board members, testifying the difficulties for women in obtaining leading positions even in family-owned small–medium-sized firms.

The Impact of the Presence of Women on Family Firm Boards

Another stream of research on women on boards deals with the effects of their involvement on the functioning of the board and the firm. A limited number of studies have examined the impact of the presence of women on boards on

the management and performance of family firms, or investigated whether there are differences in the impact of board diversity in family and non-family firms. Some of these studies directly investigated the impact on firm performance. Martín-Ugedo and Minguez-Vera (2014) found that the presence of women on the boards of family firms had no statistically significant impact on return on assets (ROA). However, they found a positive significant impact in firms owned by corporations, suggesting that the different mode of selecting female directors in family and non-family firms influences their ability to play a role in improving firm performance. Amore et al. (2014), studying a sample of family firms, found that female directors had a positive effect on ROA only in firms led by female CEOs. In other cases, they had no significant impact on firm profitability. The presence of other women on the board therefore appears to improve female CEOs' performance, by creating a more favourable and collaborative context for female leaders.

The impact on firm performance was measured indirectly in a study on Malaysian firms. This found that the market's short-term reaction to the appointment of a female director was positive, but that this was negatively affected by family connections to other board members (Ku Ismail and Abdul Manaf 2016). Even the market therefore appears to recognize a lower potential value in the appointment of women related to the owing family. This substantial absence of relevant effects of board diversity in family firms may be because of the lower competencies that are usually required of family-affiliated directors, and because the degree of diversity associated with their appointment is lower than if a non-family woman had been recruited.

The impact on performance is also a consequence of the impact of women directors on board functioning and, consequently, on firm practices and strategies. Some scholars have therefore focused on these potential effects of gender diversity. There have been few studies on the effects of female board members on board processes and performance. However, those few have identified potential criticalities associated with the presence of women on family firm boards. Vandebeek et al. (2016) pointed out that the presence of family-affiliated female directors may drive group fault lines, that is, "hypothetical dividing lines that may split a group into subgroups based on one or more attributes" (Lau and Murnighan 1998, p. 328). This may be detrimental to the board's cooperation and efficacy. The presence of fault lines based on three attributes—family membership, type of directorship, and gender—negatively affects board performance in both control and service roles. The introduction of formal board evaluation provides a solution to this problem only for the control role. Bianco et al. (2015) found that the presence of women directors had a negative impact on the number of board meetings, mainly driven by family-affiliated women. The authors

interpreted this result and the lower attendance at meetings by female members than males as a negative consequence of the appointment of family-affiliated woman with low levels of education and experience, and relatively limited involvement in business activities.

Women directors may also have an influence on choices of firm strategies and practices. Songini and Gnan (2009) provided evidence of a positive relationship between the presence of women in governance and managerial roles and the level of professionalization of family SMEs in terms of their use of incentives and reporting systems. They also showed that this relationship was not seen in other SMEs. Their study did not allow them to distinguish between the impact of women on boards and in managerial roles, but it shows an interesting difference between family and non-family firms, highlighting how the need to legitimize themselves may lead women in family firms to introduce tools aimed at monitoring and evaluating results.

Another area in which the presence of women is expected to have a positive impact is CSR. However, studies on the role of female directors in promoting CSR practices in family businesses found no significant impact or negative effects. A study on the 2000 largest listed firms in the world (across Canada, Denmark, Finland, France, Germany, Italy, the Netherlands, Spain, Sweden, UK, and USA) found that, in general, a higher percentage of female directors led to a higher CSR commitment but that family ownership negatively moderated this relationship. In family businesses, female board members did not substantially affect CSR policies, which depended mainly on family orientation on social issues (Rodríguez-Ariza et al. 2017). Studies from emerging countries have also shown that women directors in family firms had no influence on the improvement of CSR initiatives (in a study on Malaysia by Sundarasen et al. 2016), or even a negative impact on CSR disclosures (higher than those observed in a more general sample of Bangladeshi listed companies, in a study by Muttakin et al. 2015). Similar results have been obtained analysing the impact of female representation on boards and audit committees on a specific unethical practice: earnings management (Abdullah and Ismail 2016). Findings showed the absence of a significant relationship between gender diversity in these governance bodies and earnings management in both family and non-family businesses (Abdullah and Ismail 2016).

Several factors may help to explain the non-significant or negative impact of women directors on CSR policies in family businesses. First, it is possible that, being appointed on the basis of family ties, they have limited competences and business skills. This would reduce their perception of the importance of CSR issues and their knowledge of possible CSR policies (Muttakin et al. 2015). In family businesses, the role played by women may also be

influenced by their role in the family, determining a sort of invisibility and meaning that female family-affiliated directors have less capacity to influence the firm's decisions than their male counterparts. They may also operate as family delegates and be particularly sensitive to the exigencies of the family. In family firms, therefore, those female characteristics that were expected to increase CSR orientation might also result in a focus on preserving family interests and aligning with the policies defined by other family members (Rodríguez-Ariza et al. 2017).

Overall, the overview of contributions on women on boards highlights the existence of relevant differences between family and non-family firms, in terms of not only the presence of women directors but also their impact on firm strategies and practices, and the performance of the board and the firm. Previous research on the impact of board gender diversity in family firms suggested that the presence of women is not necessarily beneficial for board functioning or firm performance. In family businesses, in fact, studies showed potential negative implications of the presence of female directors, which suggest that both the selection of directors and the modes of their involvement in board functioning should be analysed carefully by firms and studied in more detail by researchers.

Discussion

This chapter has aimed to offer an overview of the existing knowledge on women on boards in family firms. To do so, as a first step (section "The Role of Women on Boards"), we have reflected on the role of women on boards in general and on their added value. We have considered, theoretically and empirically, some of the major points made in the literature on the effects of the presence of women on boards of directors, focusing on firm performance and improvements to board processes. We have also considered the literature on some of the most important barriers that women face when approaching positions in the upper echelons of firms. This has allowed us to reflect on the complex dynamics that lie beyond gender diversity in boards of directors in general, and to shed light on the major trends in the current debate. In a second step of our review (section "Family Business Boards: What Are the Peculiarities of Boards in Family Firms?"), we considered the context of family firms' boards. We have shed light on their major peculiarities and reflected on some of the main elements that make the boards of family firms unique and different from those in non-family firms, in terms of both activities performed and board composition. The findings summarized in sections "The Role of Women on

Boards" and "Family Business Boards: What Are the Peculiarities of Boards in Family Firms?" confirm that there is no general rule about the most successful board characteristics and that boards of directors in family firms can be understood if and only if we are able to take into consideration both how they are composed (i.e., board demography) and how they function (i.e., board processes) and considering the idiosyncrasies that are typical of family firms (e.g., non-economic goals, and presence of the family). These two first steps were essential for setting the stage and facilitating a critical analysis of the core of our review: women on family business boards. In the third step (section "Women on Family Firm Boards"), we reviewed the (relatively recent) literature specifically related to women on family business boards, organizing it into two major themes: family ownership and family ties as drivers of female directors' appointment; and the impact of the presence of women on family firm boards. We drew a number of conclusions. First, it emerged that family-owned firms are usually expected to have more women on their boards, because they frequently recruit directors from within the owning family. Our analysis suggests that this trend is more evident in developed countries, with results being mixed in developing and emerging countries. This stresses the importance of the institutional context (e.g., culture, and society structure) and its influence on the role of women in family firms. Second, our literature review also revealed that family firms, in general, seemed to perceive themselves as less threatened by pink quotas laws than non-family firms (e.g., Bøhren and Staubo 2014). Third, our review suggests that family firms tend to recruit women directors primarily because of their relationship with the owning family, and less because of their career experience and educational level (which seems to be more relevant for appointments in non-family firms). Our review also revealed that women may be more likely to hold positions on family business boards than non-family ones, but they (still) found it difficult to obtain leading and executive positions. In most cases, they are hired to fill non-executive positions. Finally, the presence of family-affiliated female directors may drive group fault lines that, in the end, may negatively affect board effectiveness. We also commented on preliminary findings that indicate that women on family business boards exert specific influences on some strategic decisions (e.g., CSR, monitoring), and these findings deserve further investigation.

We believe that this review offers at least two contributions. First, we have offered an overview of some of the most relevant topics on gender diversity in boards and have also represented the key differentiating element of family business boards. This may be useful for scholars new to the topic, to help them understand the current state of debate and foster the production of new research ideas. Second, we have critically analysed the specific literature on

gender diversity on family business boards. This not only offers an overview that critically shows the state of the art but also allowed us to organize a research agenda around three types of key issues: the specificities of family business boards, the contextual elements, and the research approach issues. This research agenda could be useful for the development of new research that builds on what we know and produces new insights on this topic.

Research Agenda

The previous sections help us understand future research directions and provide a better understanding of this emerging topic. We now develop a research agenda by considering three major aspects: the specificities of family firms, the chosen research approach, and contextual variables.

Issues Related to the Specificities of Family Firms' Boards

There is agreement that family firms' boards are, for many reasons, different from non-family business boards. The empirical literature on board composition in family firms stresses that boards of family firms are different from those of non-family firms (e.g., family firms tend to retain their directors longer and are more likely to interlock with other family firms). This opens the door to interesting and new research questions designed to investigate how these specificities apply to gender diversity. For example, given that family firms boards are different from non-family firms boards, what type of added value could women directors bring to family firms boards? Answering this question could help us move on from the existing research that tends to consider family involvement as a mere contextual element, or even, in some cases, a control variable.

Overall, the literature seems to suggest that legislation setting out obligatory levels of female representation on boards can have both positive and negative effects on firm performance (Post and Byron 2015; Roberson et al. 2017). One possible explanation is that firms obliged to show board gender diversity may replace qualified directors with less experienced ones (Breuer 2016). This risk can also occur in family businesses and suggests that further investigation on the *selection process of women directors* may be helpful. This might consider, for example, how they are selected, which networks do family firms consult when recruiting new female directors, which parameters do they use to select women directors (in addition to their gender), and how women

directors are assessed. Considering these issues may shed light on how pink quotas could benefit family firms.

Our literature review shows that family firms tend to select women directors based on their relationship with the owning family. Competencies, career experience, and educational levels seem to be more relevant for appointments in non-family firms. If this is true, it would be interesting to explore the consequences of these selection criteria. For example, does it increase or decrease board cohesion? What are the effects on board effectiveness? Finally, while the effect of gender diversity on CSR seems to be generally positive, it has no impact, or a negative impact, on family business boards. This counterintuitive finding deserves further attention.

Issues Related to Research Approach

One of the major conclusions of this review was that boards of directors in family firms have various functions, which can be explained using multiple theoretical perspectives (e.g., while the control role is rooted in the agency theory, the advisory role is rooted in RBV and stewardship theory). To obtain a fuller picture, taking into account all the possible tasks performed by family business boards, future researchers focusing on gender diversity in family business boards should use a multi-theory framework.

Another related insight from our literature review is that a number of contingent variables may contribute to the debate and show why and how gender diversity on boards can be both good and bad. These include individual members' characteristics (e.g., human capital), and quality of board interactions and processes (e.g., extent of monitoring and strategy involvement). Other relevant contingencies useful in exploring board effectiveness include leadership features (e.g., being founder-led rather than led by descendants), kinship ties on the board, or board interlocks. A deeper investigation of these contingencies, and simultaneously controlling for them, could shed additional light on the drivers and outcomes of gender diversity on family business boards.

Finally, there is no definite consensus on the relationship between diversity and firm performance either in general or in the family business literature. Future research should dig deeper into this, considering that gender diversity on boards can have both negative and positive effects depending on the type of outcomes observed. It would be interesting to investigate whether the effects of board gender diversity are homogeneous for outcomes related to

financial measures (e.g., economic margins, or profits), the value of the firm (e.g., stock value), or non-financial measures (e.g., brand value, market positioning, firm position relative to that of competitors, firm capabilities). Further research testing the potential different effects of gender diversity could be very useful for both firms and policy-makers.

Issues Related to Contextual Elements

It was evident from our analysis of the literature that contextual variables (such as the extent of shareholder protection, gender parity, and family-focused culture in the country) can affect understanding of women on boards of family firms.

In more developed countries, family firms appear to be more open to the appointment of women as board members. Research on developing and emerging countries provides mixed results. Future research should dig deeper into this aspect by investigating how the institutional context influences the presence of women on the boards of family firms. For example, a recent meta-analysis of 140 studies on gender diversity (with no distinction between family and non-family firms) made clear that stronger shareholder protection and higher gender parity fostered the positive effects of board gender diversity on firm performance (Post and Byron 2015). It would be interesting to investigate whether these two contextual aspects play a role in explaining gender diversity on family business boards, and the related consequences on firm performance.

The literature shows that family firms react differently and more positively than non-family firms to pink quotas (Bøhren and Staubo 2014). Future research could explore whether this reaction is similar in all institutional contexts. It would also be important to understand the effects of regulatory interventions to foster board gender diversity in family firms. Examples of possible research questions are listed in Table 9.1.

To sum up, we believe that family business research could significantly benefit from the development of gender diversity as a theme. In particular, the inclusion of gender diversity in analyses of board composition, functioning, and outcomes could foster a better understanding of the corporate governance dynamics in family firms. The research agenda outlined here (Table 9.1) should, we hope, contribute to this move.

Table 9.1 Possible research questions on women on boards of family firms

Specificities of family firms' boards	How do family business boards' unique attributes affect the relationship between board gender diversity and firm outcomes? How do family business boards' unique attributes shape the behaviour of women directors on the board and of the board in general? What type of added value could women directors bring to family firms boards' processes and activities? What processes are used to select women directors? Which parameters are used (in addition to gender)? Which networks do family firms consult when recruiting new female directors? How are women directors assessed?
Issues related to research approach	What complementary theories can better explain the role of women on family business boards? How could we integrate them with more classical ones (e.g., agency theory, RBV, stakeholder theory) to provide a more complete view? What research methods would better allow us to consider the various contingencies that explain the reasons for possible negative and positive effects of gender diversity on boards? What are the effects of gender diversity on family business boards (e.g., effectiveness, cohesion, harmony) and on family firms' performance measures that go beyond financial aspects (e.g., brand value, market positioning, etc.)?
Issues related to contextual elements	What is the role of context in explaining gender diversity of BOD? How do different institutional contexts facilitate or hinder women's ability to contribute to family business boards? How do values, culture, and beliefs about women affect their appointment/nominations, value and behaviour in family business BOD? How do values, culture, and beliefs about familial norms affect the way business families organize their BOD and involve women? Are pink quotas always (in all contexts) a good tool to facilitate gender diversity and consequent board effectiveness? Do pink quotas increase or decrease the risk of family agency costs (e.g., interfamily conflicts or opportunistic behaviours of the owning family)? Do pink quotas increase or decrease the ability of the board to offer advice, external knowledge, and objective insights?

Implications for Practice

The findings of this review also have some practical implications. They suggest that the presence of women is not always beneficial for board functioning and firm performance. They also allow us to identify some factors that appear to affect the impact of female directors, and which family firms should take into account when defining their board composition.

First, the presence of female directors appears to be beneficial in family firms led by a woman (Amore et al. 2014). This suggests the importance of reaching a critical mass of women on the board (Konrad et al. 2008), as this may contribute to creating a favourable context and so facilitate collaboration. In this perspective, the introduction of pink quotas may be positive, since it is expected to lead to a rapid increase of the number of women appointed as directors.

On the other hand, the presence of women on boards may contribute to create fault lines that negatively influence board functioning and performance. In family firms in particular, it is possible to observe fault lines based on multiple attributes (gender, family affiliation, and type of directorship), and which may be detrimental to board efficacy (Vandebeek et al. 2016). The practical implication of this finding is the need to avoid an increase in the number of female directors obtained only by appointing family-affiliated women. Moreover, introducing both family-affiliated and non-family female directors allows family firms to reach a higher level of diversity, and benefit from a more heterogeneous set of competencies, experiences, and perspectives.

Third, various studies suggested that female family-affiliated directors are frequently characterized by a relatively low level of competences, experience, and education. This may negatively influence the effect of the introduction of women to the BOD. It is therefore important to select women appointed as directors based on their competences, for both external and family-affiliated directors, and to plan suitable training and experience paths for female family members involved on the board.

Conclusion

The general aim in this chapter has been to foster debate and provide new insights into the role of women on BOD, with a particular focus on family business boards. We have tried to achieve this goal in different ways. First, we reviewed the key themes on board gender diversity in general. Second, we examined the peculiarities of family business boards. Third, we considered the literature on gender diversity in family business boards, to establish the current state of knowledge on the topic. Finally, we have set out opportunities for further research in this area. Gender diversity in family firms is increasingly attracting the attention of scholars across several fields. In the future, we hope to see many new papers that further develop this research stream.

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10

New Directions for Brothers and Sisters in Successor Teams in Family Firms

John James Cater III and Marilyn Young

Introduction

The topic of women in successor teams in family firms is under-researched. Women have been described as behind the scenes or invisible (Dumas 1989, 1990, 1992), in supporting roles (Gillis-Donovan and Moynihan-Brandt 1990; Rowe and Hong 2000) or secondary roles (Frishkoff and Brown 1993; Danes and Olson 2003), or family roles (Sharma 2004; Jimenez 2009). However, they have not been portrayed in primary roles as family firm leaders very often in the literature. In this study, we focus on the treatment of women in successor teams in family firms comparing their experiences to their own male counterparts, that is, brother-sister sibling teams.

Of course, successor teams may consist of all men, all women, or a mixture of men and women. In regard to the succession process, the family firms containing only male successors or female successors are straightforward in the selection of successors by gender. However, the cases with a mixture of men and women successors may provide more fruitful insights concerning fairness or discrimination against women. Additionally, we narrowed our focus to brothers and sisters in successor teams rather than male and female cousins in an attempt to find the most direct situation for comparison or most level playing field for successors in family firms. Because cousins are more distant rela-

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© The Author(s) 2019
E. Memili, C. Dibrell (eds.), *The Palgrave Handbook of Heterogeneity among Family Firms*,
https://doi.org/10.1007/978-3-319-77676-7_10

tives than siblings, extraneous factors, such as geographic separation, divergent interests, and diverse beliefs of family members may complicate the predecessors' choice of successor team members and their roles.

Although there is still a long way to go to achieve parity with men, the roles women play in family firms are changing at a rapid pace as they enter top management circles in increasing numbers. About 60 percent of family businesses have a woman in top management team positions and, looking to the future, 31.3 percent expect the next successor to be female (Statistic Brain 2016). Today, women comprise 24 percent of family business CEOs or presidents (Mass Mutual American Family Business Survey 2007; Statistic Brain 2016), an amazing 22 percent increase since 1994 when only 2 percent of family businesses reported having a woman CEO (Matthew Greenwald and Associates 1994; Overbeke et al. 2013). Additional studies have reported that women managed approximately 5 percent of family firms in 1997 (Arthur Anderson/MassMutual American Family Business Survey 1997) and owned less than 5 percent of all US businesses in 1972 (Nelton 1998).

Interestingly, the statistics reported in family firms are far better for women than in publicly held corporations. According to the 2016 *Fortune* 500 list, only 21 companies, a tiny 4.2 percent, had women CEOs or presidents (Zarya 2016). In comparison, the percentage of women CEOs in the Fortune 1000 list increased to only 7 percent (Mosbergen 2017). According to another recent study (EY & Kennesaw State 2014), three possible reasons why family firms have been more inclusive of women than their corporate counterparts are: (1) family firm leaders engage in long term thinking in which longevity is more important than gender, (2) family firm leaders want women serving as role models for advancement in the company, and (3) there is a lack of pressure from public shareholders to be conventional (Moran 2015).

These reports suggest that women have made great progress in family firms over the past few decades, but there still is a long way to go for them to reach parity with men as exemplified by the reported 24 percent of CEOs rather than 50 percent. In this study, we explore issues concerning the legitimacy of male and female roles in succession and family firms. Are family firm leaders fair to their sons and daughters in the formation and implementation of sibling successor teams or does gender bias affect such teams? Our research is guided by two questions: (1) we follow a question raised by Jimenez (2009): "When a team of siblings is formed to share leadership and ownership, do brothers and sisters really share the leadership, or do the brothers take the most visible roles, and the sisters the most invisible?" (2) Our second research question is: What are the most important success factors for brothers and sisters in sibling successor teams in family firms?

We studied twelve multigenerational family firms with at least one brother and one sister involved in a sibling successor team, using a case study approach with detailed retrospective interviews of firm leaders. The transcribed interviews were analyzed through an iterative grounded theory approach, leading to a model of sibling successor team formation and implementation and six propositions. Although our study was not longitudinal in nature, an important contribution of the study is a conceptualization of the progress and challenges of women as successors in family firms and a reevaluation of the roles that women play in sibling successor teams. Therefore, this study should greatly aid researchers and practitioners in their understanding of women family firm leaders.

Literature Review

In the next section of the chapter, we highlight current theory in two key areas of family business research: (1) the roles of women in family firms and gender bias and (2) successor teams and conflict in family business in order to provide a conceptual grounding for this study.

The Roles of Women in Family Firms and Gender Bias

Women differ from men, in that they have a long history of accepting lesser roles in the family firm, such as supporting roles to men in the family firm (Gillis-Donovan and Moynihan-Brandt 1990; Rowe and Hong 2000) or secondary roles in the company (Frishkoff and Brown 1993; Danes and Olson 2003) or roles in which they invest their efforts in the family side but not the business side of the family firm (Sharma 2004; Jimenez 2009). In addition, researchers suggest that gender bias favoring males has perpetuated this situation (Ahrens et al. 2015).

The Roles of Women in Family Firms For many years in the United States and around the world, women have been subjugated in family firms. Researchers have characterized this system of lesser roles for women in family firms with the concept of the invisible woman (Dumas 1989, 1990, 1992). Women in family firms stayed in the background behind men, who managed the companies and garnered attention for the company's success while women had little decision-making power and became invisible (Cesaroni and Sentuti 2014). Invisibility has two major causes: one is external to women in family firms and

the other is internal to women (Gillis-Donovan and Moynihan-Brandt 1990; Salganicoff 1990). First, social forces encouraged stereotypical thinking regarding the roles of women and discrimination against women in society, and this was reflected into the family business. Family culture parroted these negative social forces and limited the role of women in family firms by creating rules to guide behavior among family members (Hollander and Bukoowitz 1990). Second, women may place limitations on themselves in their roles in the family firm, believing that they are not meant to be leaders (Salganicoff 1990). These limitations have led to observations that women were invisible in family firms, and that women have been marginalized without decision-making power (Cesaroni and Sentuti 2014).

In further support of the concept of self-imposed limitations by women successors, Overbeke et al. (2013) found that daughters may not consider themselves to be successors, often because of internalized gender norms. Similarly, Gherardi and Perrotta (2016) described how daughters take over leadership of the family firm by overcoming perceptions of gender inequality. Daughters may not see succession as a predetermined outcome for themselves but will join the family firm because of the occurrence of a triggering event. Also, support from their parents and mentoring for leadership encouraged daughters to persist in the family firm (Overbeke et al. 2013).

Many studies in the family firm literature have described the invisible woman. Hollander and Bukowitz (1990) reported that the invisible woman is not honored or respected for her achievements and qualifications, either inside or outside of the family firm, to such a degree that she may not only feel disrespected but invisible as well. In another study, Iannarelli (1992) found that the invisible women acted behind the scenes with little formal recognition. In a study of family firms in Brazil, Curimbaba (2002) discovered three separate roles for daughters: professional, invisible, and anchors. Factors affecting these roles included the daughters' positions in the family in regard to birth order and the presence of male siblings. Invisible heiresses were part of large families with older brothers and male family members, who made these heiresses appear to be unnecessary and invisible.

In a study of female successors in family firms, Vera and Dean (2005) found that daughters never assumed that they would be the successor and encountered work-life balance difficulties. Such work-life balancing issues often include household and child-care responsibilities. Cappuyns (2007) found that women are expected to play household and child-care roles. Statistical evidence supports these findings. Women shoulder more household responsibilities than men according to a recent survey conducted by the US Bureau of

Labor Statistics. On a daily basis, 49 percent of women did household chores like cleaning or doing the laundry compared to just 19 percent of men. In households with children under the age of six, women spent an average of one hour a day physically caring for them (by giving them baths or feeding them), while men spent 26 minutes doing the same (Bessler 2014). Although women do have greater household and child-care responsibilities, some family firms have offset this difficulty by allowing women flexibility to arrange their schedules to meet their child-care needs (Salganicoff 1990). In another positive finding for women in family firms, Cole (1997) found that the traditionally feminine roles, such as nurturing and peacekeeping and listening, may carryover from the family to the business and be helpful to both. Thus, women should have a valued place in the family firm.

Gender Bias

Gender bias in favor of males has existed for centuries in family firms. For example, Keating and Little (1997), in a study of New Zealand farm families, found a bias toward sons in succession in spite of espoused parental beliefs of gender equality. In a recent study, Ahrens et al. (2015) reported a preference for male family heirs, citing that only 23 percent of successors in their sample of German family firms were female. They also claimed that successions were more likely to occur when the predecessor had a son. Further, selected female successors possessed higher levels of human capital than selected male successors (human capital was based on a combination of work experience in the family firm and education). In other words, selected female successors were more highly qualified, but males were more often chosen.

Successor Teams and Conflict in Family Businesses

A group may be defined as a set of people typically numbering between 3 and 20 individuals (Orsburn and Moran 2000) who have a degree of interaction, shared objectives, and common purpose (Sundstrom et al. 1990). Dyads are a type of group in which a pair of individuals maintains a sociologically significant relationship (Merriam-Webster 2016). Teams may be short term in nature or a long-term component of a firm (Glassop 2002). Teams are differentiated from groups, in that they possess a higher degree of interaction among members, a stronger sense of personal responsibility for achieving desired outcomes, and a higher level of identification with the group (Sundstrom et al. 1990). In a classic study, Tuckman (1965) categorized four

stages in group and team development: forming, storming, norming, and performing. In the forming stage, group members get to know each other; in the storming stage, group members learn what is expected from them and how to relate to each other; in the norming stage, some amount of consensus is reached; and in the performing stage, the group is able to perform as a team and take action as an entity.

Sibling Successor Teams

Succession may be described as a dynamic process involving the transfer of both the management and ownership of a family firm to the next generation (Cadieux et al. 2002). Although succession has been the leading topic of research in family firms for many years, few studies have focused on the succession to multiple successors even though the practice is becoming common (Cater and Justis 2010; Cisneros and Deschamps 2015). In a study of sibling successor teams in South Africa, results showed that physical resources, skills diversity, and strategic leadership are important determinants of team success as measured in financial gains for the firm and team harmony (Farrington et al. 2012). Cisneros and Deschamps (2015) reported success in advising sibling teams on three levels: business, family, and individual.

Successor Team Development According to Cater et al. (2016), the predecessor chooses the successors and the positions they hold in the successor team. Cater and Kidwell (2014) described the stages of leadership development in successor groups, including a preliminary stage and four developmental stages. In the preliminary stage, the predecessor has only vague retirement plans, such as a desire to pass the business on to the next generation of the family. In Stage 1, the predecessor begins to plan for retirement and searches for successors. In Stage 2, the predecessor assesses the possible successors after they have entered the business and learned to manage in it. In Stage 3, the successor group is chosen and the retiring generation reduces its leadership role in the company. In Stage 4, the owner exits from the company through retirement or death, and the successor group operates the company.

Types of Successor Teams Cater and Kidwell (2014) probed the concept of successor group governance, recognizing four variations of sharing power and authority: (1) disagreement and group destruction, (2) a dominant leader in an unequal group, (3) first among equals, and (4) complete equals. Cater et al. (2016) added an additional type—divergent interests groups. Destructive

groups lead to the termination of the family firm in a colossal blowup, while divergent interest groups lead to the ending of the family firm in a type of burnout. A dominant leader has a greater percentage of ownership and greater management authority than their siblings in the family business. In complete equals and first among equals, each sibling has the same percentage or amount of ownership in the company. Complete equals also have the same amount of management authority, while the first among equal family business leader has more recognized management authority and may carry the title of CEO.

Successor Characteristics Researchers report that the key attributes for successors in the family firm include commitment to the business and integrity (Chrisman et al. 1998; Sharma and Rao 2000). In their literature review of desirable attributes of successors, Chrisman et al. (1998) developed six categories: relationship to the incumbent, relationships to other family members, family standing, competence, personality traits, and current involvement in the family business. They also stressed that successors must develop the trust of family members. Additionally, although primogeniture has been widely used in the past, there is a trend away from the exclusive practice of favoritism toward the firstborn male and toward the best qualified family candidate. Chrisman et al. (1998) concluded that gender and birth order were the least important traits in their survey.

Additionally, successors must be willing and fully committed to the process (Barach and Gantisky 1995). Successors must demonstrate the necessary skills, performance, and experience for leading the firm (Barach et al. 1988, 1995). Successors need a good education and a thorough training regimen to acquire firm-specific knowledge and to develop his/her capabilities (Morris et al. 1997). Dyck et al. (2002) recognize that the successor must have the desire to lead the family firm.

Conflict in the Family Business

According to Davis and Harveston (2001), conflict in family firms falls into two categories: substantive—consisting of task disagreements and affective—consisting of emotional issues. They found an increasing level of conflict as firms moved into the second and third generation. Family members may feel trapped in the firm and unable to leave, which makes conflict more personal and emotional (Schultze et al. 2003). Kellermanns and Eddleston (2004) found three types of conflicts in family businesses: task, process, and relation-

ship. Task conflict, focused on company strategy and objectives, may be helpful in moderate levels. Process conflict, characterized as disagreement concerning the manner in which work is accomplished and who does what, may also prove to be beneficial. However, relationship conflict, defined as personal animosity and incompatibility, is detrimental to the family firm. Altruism may help to reduce relationship conflict in the family firm (Kellermanns and Eddleston 2004). By gradually working younger family members into the firm, listening to their ideas, and allowing incremental change, incumbent leaders may reduce relationship conflict within the firm.

Conflict and disagreement are found all too often in family firms. Eddleston and Kidwell (2012) proposed that the parent-child relationship shapes the behavior of the child toward the family firm. Excessive or misplaced parental altruism may have adverse effects on children, promoting feelings of entitlement and rebellion. There are also notorious examples of family members who do not perform their job adequately or are carried on the company payroll to promote family harmony. A family-member employee may perform so poorly, whether intentionally or not, that they damage the operation or reputation of the family firm. This condition has been described as the “Fredo effect,” recalling the inept and ineffectual middle brother from *The Godfather* movies and books (Kidwell et al. 2013).

In summary, there is a theoretical foundation of research in the roles of women in family firms and gender bias, and successor teams and conflict in family business. There have been studies done in the specific area of successor leadership teams in family firms (Cater and Kidwell 2014; Cater et al. 2016; Cisneros-Martinez and Deschamps 2012; Farrington et al. 2012). However, gaps exist in this literature, and we seek to address these gaps with regard to the formation and function of sibling successor teams, highlighting the roles that women play in these increasingly important and relevant situations in family firms.

Method

We examined the changing roles of sibling successor teams in family firms, highlighting the growth of women in successor teams using a qualitative case study approach of 12 companies. We analyzed data from 44 in-depth, semi-structured interviews, using grounded theory methodology (Corbin and Strauss 2008; Strauss and Corbin 1998). Our study was designed to build on the existing theory in succession in family firm studies.

The Case Study Approach

The case study approach is appropriate for building theory (Eisenhardt 1989) and typically involves "how" and "why" questions (Yin 2009) and focuses on involved actors (Howorth and Ali 2001). The case study researcher seeks to communicate concepts of global significance from localized findings (Chenail 2009). A case study is "an empirical inquiry that investigates a contemporary phenomenon within its real-life context" (Yin 2009: 18). The investigator may employ case studies to explore such circumstances and to offer explanations leading toward theory building (Lambrecht 2005).

Using theoretical sampling, the case study investigator may purposively choose cases that are likely to replicate or extend the theory (Eisenhardt 1989). The researcher may also select cases that illustrate applicable concepts (Patton and Applebaum 2003). Therefore, qualitative samples may have the objective of developing theory rather than testing it (Eisenhardt and Graebner 2007). Case study researchers may look for critical cases to prove their main findings or confirming cases, disconfirming cases, extreme cases, or typical cases (Siggelkow 2007).

Increasing the number of cases involved in a particular study adds confidence to findings until the responses become repetitive. Yin (2009) compared the addition of cases to the addition of experiments, looking for replication. Eisenhardt (1989) proposed that researchers should continue adding cases in an iterative process until the incremental improvement is minimal. Our study follows the positivistic case study approach (Leppaaho et al. 2016).

Study Participants

We obtained formal permission from our university's Internal Review Board to conduct research using human participants before beginning this project. We advised all of the respondents of confidentiality and anonymity in their participation. All names of people, places, and companies have been removed or disguised. We refer to the respondent family firms in the study as Company 1 through 12 with the numbers randomly assigned. We received assistance in finding respondents from local business leaders, university colleagues, friends, acquaintances, and students. The authors had no connection or involvement in any of the family firms contacted for this study. One of the authors served as an owner-manager in a multigenerational family business, which provided some insight in the research process.

We defined a family firm in this study as a "business governed and/or 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 or a small

number of families in a manner that is potentially sustainable across generations of the family or families" (Chua et al. 1999: 25).

We contacted about 60 prospective firms to ascertain if the companies met the requirements of multigenerational family involvement, presence of both a female and male successor in the leadership of the company, and willingness and compatibility to participate in the research project. Several companies had multiple female successors (Company 5, 6, and 12) or multiple male successors (Company 1, 10) involved. We concentrated on the female and male successors in each family firm, interviewing them and other family members, and/or managers who knew them well. We collected data over a six-month period and found a level of redundancy of responses (Eisenhardt 1989; Merriam 2009) with little new information forthcoming at the end of this time. A copy of the interview questions is available from the first author upon request.

Firms from different industries participated in the study, including seven retail companies, three service companies, and two restaurant operations. The number of employees in the respondent firms varied from 7 to 450 with a median of 60. The respondent businesses ranged in age from 13 to 98 years, and generations of family participation ranged from 2 to 4. Each company involved from three to ten family members in management and ownership. The firms were located in three US states, but several have expanded beyond the local region or own multiple, but related, businesses (see Table 10.1). At present, all of the family firms remain in operation.

Among the 44 respondents, there were 28 family-member owner/managers, 11 family-member managers, 2 nonfamily managers, and 3 former owners (see Table 10.2). There were 22 women respondents and 22 men

Table 10.1 Demographics of respondent companies

Firm	Industry	Age of firm	# of employees	Est. annual sales US$
1.	Convenience stores	47	220	$88 M
2.	Design and construction services	25	110	$25 M
3.	Auto parts stores	49	420	$66 M
4.	Boat center	40	15	$3 M
5.	Tire retailer	65	35	$8.5 M
6.	Bakery and Café	31	15	$1 M
7.	Lawn service and restaurant	31	100	$6.1 M
8.	Jewelry store	39	11	$2.5
9.	Garden center	98	16	$1 M
10.	Mexican restaurant	20	85	$5.5 M
11.	Insurance company	13	7	$1 M
12.	Trucking company	53	450	$80 M

Table 10.2 Demographics of individual respondents

Family firm	Respondent(s)	Company position	Family bus. generation	Respondent age range	Sibling team relationship
1	A	Owner, Mgr.	3rd	30s	Sister
	B	Owner/ Mgr.	3rd	30s	Brother
	C	Owner/ Mgr.	3rd	20s	Brother
	D	Former owner/ Mgr.	2nd	50s	Mother
2	A	Owner/ Mgr.	2nd	40s	Sister
	B	Owner/ Mgr.	2nd	40s	Brother
3	A	Owner/ Mgr.	2nd	60s	Brother
	B	Owner/ Mgr.	2nd	60s	Sister
	C	Owner/ Mgr.	3rd	40s	Son/nephew
	D	Owner/ Mgr.	3rd	30s	Son/nephew
	E	Owner/ Mgr.	3rd	30s	Son/nephew
4	A	Owner/ Mgr.	3rd	30s	Sister
	B	Owner/ Mgr.	3rd	30s	Brother
5	A	Owner/ Mgr.	2nd	50s	Sister
	B	Owner/ Mgr.	2nd	50s	Sister
	C	Owner/ Mgr.	2nd	50s	Brother
6	A	Owner/ Mgr.	2nd	40s	Sister
	B	Family Mgr.	2nd	30s	Sister
	C	Family Mgr.	2nd	30s	Brother
	D	Manager	None	40s	None
7	A	Owner/ Mgr.	1st	50s	Father
	B	Owner/ Mgr.	1st	50s	Mother
	C	Family Mgr.	2nd	30s	Sister
	D	Family Mgr.	2nd	30s	Brother
8	A	Owner/ Mgr.	1st	60s	Grandfather

(*continued*)

Table 10.2 (continued)

Family firm	Respondent(s)	Company position	Family bus. generation	Respondent age range	Sibling team relationship
	B	Owner/ Mgr.	1st	60s	Grandmother
	C	Owner/ Mgr.	2nd	40s	Mother
	D	Family Mgr.	3rd	20s	Brother
	E	Family Mgr.	3rd	20s	Sister
9	A	Owner/ Mgr.	4th	30s	Sister
	B	Family Mgr.	4th	30s	Brother
	C	Former owner/ Mgr.	3rd	60s	Mother
	D	Former owner/ Mgr.	3rd	70s	Father
	E	Manager	None	20s	None
10	A	Owner/ Mgr.	2nd	50s	Brother-in-law, husband
	B	Owner/ Mgr.	2nd	50s	Sister
	C	Owner/ Mgr.	2nd	50s	Brother
	D	Family Mgr.	3rd	20s	Son, nephew
	E	Family Mgr.	3rd	20s	Daughter, niece
11	A	Owner/ Mgr.	1st	50s	Mother
	B	Family Mgr.	2nd	20s	Sister
	C	Family Mgr.	2nd	20s	Brother
12	A	Owner/ Mgr.	2nd	40s	Sister
	B	Owner/ Mgr.	2nd	40s	Brother-in-law

respondents. The total number of respondents exceeds the number suggested by Reay (2014). In grouping the 42 family-member respondents, 5 were first-generation family members, 23 were in the second generation, 12 were in the third generation, and 2 were in the fourth generation.

Data Collection

For the respondent companies, the research requirements were multigenerational family control of management and ownership and at least one female and one male successor involved in the leadership of the company. We chose

to include established family firms as opposed to start-up companies. We began with an exploratory interview of a senior family firm manager to obtain consent for participation in the study and determine appropriateness of the firm. Next, we interviewed available owners and managers in the organization. The interviews were semi-structured and involved open-ended questions concerning the treatment of both women and men as successors of the firm. For example, one question was "Has the treatment of women in your family business changed in your experience over the years? Please describe." Qualitative interviews comprised the vast majority of the data collected along with some company documents.

In-depth Interviews One of the authors conducted the in-depth interviews. These tape-recorded interviews were conducted individually with respondents at each family firm, totaling 44 participants. We transcribed about 28 hours of interviews, which varied in length from 30 minutes to one hour, averaging 45 minutes each. The transcribed interviews totaled 282 pages, for an average of 6.4 pages per respondent.

Documents The researchers preceded each interview with a careful reading of each respondent company's website and relevant information online. Although observations and documents about each company were collected, these were supplemental in nature. The in-depth interview transcriptions formed the basis of the data analysis.

Data Analysis

The analytic techniques used in this study followed the procedures outlined by Strauss and Corbin (1998) as grounded theory analysis. First, in an extensive and time-consuming step, we analyzed each case separately. In Tables 10.1 and 10.2, we report this information in summarized form.

Then, we performed content analysis of the data looking for insights and patterns across the cases, using cross-case analysis and syntheses (Yin 2009). The transcribed interviews supplied the basis for our study as we coded and analyzed the data, using the NVivo10 qualitative software program. Merriam (2009) described this procedure as "simultaneous coding of raw data and the construction of categories that capture relevant characteristics of the document's content" (Merriam 2009: 205). We identified and separated important thoughts and phrases and labeled them as "references" and then "nodes" in the NVivo system. We equate this to unitizing methods depicted by Glaser and Strauss

(1967) and Lincoln and Guba (1985). In the midst of the analysis, we developed an initial model to organize our thoughts in the project. Simultaneously, as we progressed through the steps of coding, we refined and expanded our model of "Sibling Successor Team Formation and Function in Family Firms" through multiple attempts until we arrived at our model (see Fig. 10.1).

In the first step of the analysis, called "open coding" by Strauss and Corbin (1998), we began with the 282 pages of transcripts and through a comparative process identified 531 "references" or incidences of significant, recurring expressions or thoughts, which we placed in 442 "nodes" or subcategories.

In the second step, "axial coding" (Strauss and Corbin 1998), we placed the 442 "nodes" or subcategories into 388 categories, labeling the categories by company and respondent (1A through 12B), (see Table 10.3). This is the cat-

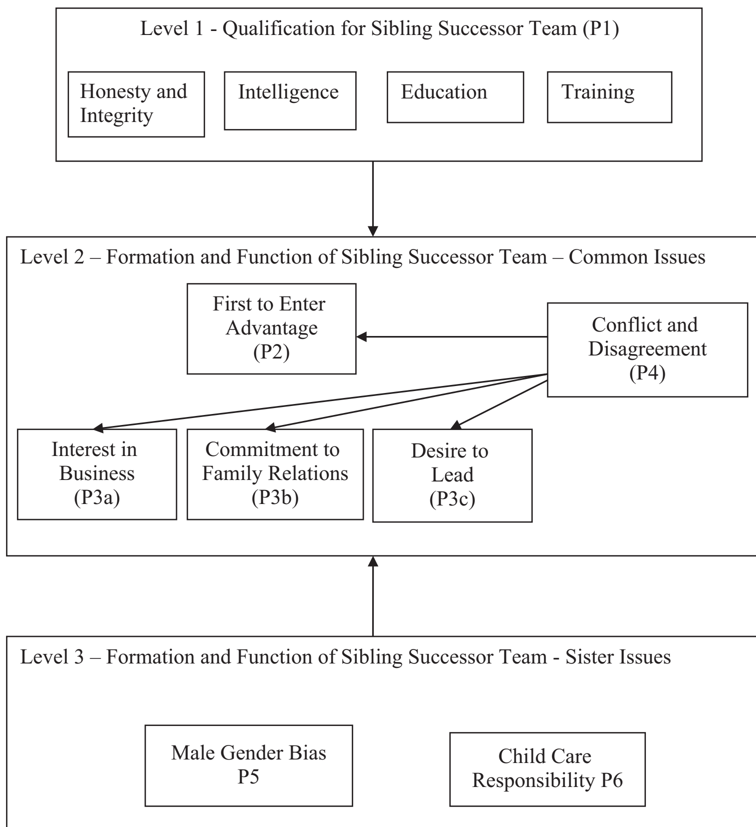

Fig. 10.1 Model of sibling successor team formation and function in family firms

Table 10.3 Axial coding

Axial coding General categories	Company (respondent)
Company history	1A,1D,2A,2B,3A,3B,4A,5A,5B,6A,6D,7A,7B,7C,7D,8A,8B,9A,9C,9D,10A,10E,11A,11B,12A,12B
Background/role in ff	1A,1B,1C,1D,2A,2B,3A,3B,3C,3D,3E,4A,4B,5A,5B,6A,6C,6D,7A,7B,8A,8B,8C,8D,8E,9A,9B,9C,9D,9E,10A,10C,10D,10E,11A,11B,11C,12A,12B
Birth order	1A,1B,1C,1D,2A,3A,3B,3C,4A,5B,5C,6A,6B,6C,7A,8B.8C,8E,9A,9C,10A,11A,11B,12A
Work as child in ff	1A,1B,3A,3B,3C,4A,4B,6A,6B,6C,7C,7D,10D,10E,11C,12A
Decision to enter ff	1A,1B,1C,1D,2A,2B,3A,3B,3D,3E,5A,5B,5C,6A,6B,8C,8D,8E,9A,9B,10A,10B,10C,10E,11B,11C,12A,12B
First successor to enter ff	1A,2A,3A,4B,5A,6A,7D,8D,9A,10B,11B,12A
Honesty and integrity	1D,2B,6C,9A,9B,9C,11B,12B
Value-take care of customer	1A,1B,1C,3C,3D,3E,6A,6C,6D,7B,7C,8B,8C,8D,8E,9B,9E,10B,10E,11A,11B,11C
Intelligence	1A,1D,2B,5A,7A,7D,9A,9B,9C,10E,12B
Education	1A,1B,1C,1D,2A,2B,3A,3B,3C,3D,3E,4A,5A,5B,6A,6C,7C,7D,8A,8C,8D,8E,9A,9B,10D,10E,11B,11C,12A,12B
Training in ff	1A,1B,1D,3A,3B,4A.6A,8D,9A,10E,11C,12A
Interest in business	1A,1B,5A,6A,8C,8D,9A,10E,12A
Commitment to family relationships (get along)	1A,1C,1D,2A,2B,3A,3B,3C,3E,5C,6A,7A,7B,7C,7D,8A,9A,9D,10A,10B,10E,11A,11B,12A
Desire to lead ff	1A,1D,2A,3A,5A,6A,9A,11B
Successor(s) chosen	1A,1B,1C,1D,2A,2B,3A,3B,5A,5B,6A,7A,7B,8A,8B,8C,9A,9C,10A,10D,11A,12A
Division of ownership	1A,1D,2A,3A,3E,4A,5A,5B,6A,7A,8A,8B,8C,9A,9C,9D,10A,11A,12A,12B
Male gender bias	1A,1D,2A,3B,6A,7D,8C,10B,11A,12A,12B
Child care responsibility	1A,2A,3B,5B,6A,7A,7B,7D,12A,12B
Conflict	1A,1D,2A,3A,4A,4B,6A,9A,10A,12A,12B
Equals	1A,1B,1C,1D,2A,2B
First among equals	4A,7A,7B,7C,7D,8C,8D,8E,10C,10D,10E,11B,11C,12A
Dominant leader	3A,5A,5B,6A,6C,6D,9A,9B,9C,9D,9E
Visibility	1A,1D,2A,3A,5A,5B,5C,6A,7D,8B,8D,9A,11B
Industry – male dom	1A,1D,2A,3A,4A,5A,5B,5C,6A,7A,8C,9A,10B,11A,12A,12B

egory level of analysis and the beginning of analysis of the data through interpretive lenses (Harry et al. 2005).

The third step of the process, identified as "selective coding" by Strauss and Corbin (1998), involves the development of themes across the cases. In this step, we coded the data into 15 central categories (see Table 10.5). We built clusters of thoughts and phrases and looked for unifying phrases and connec-

tive language to construct a framework for analysis (Creswell 1998). Among the differences in the 12 family firms, some recurring themes emerged. We traced these themes across the cases and built a theoretic base to understand the leadership roles of women in family firms. According to Strauss and Corbin 1998, this is Level 4 analysis—testing the themes. From this theoretical base, we developed six propositions and a model to explain the relationships of these propositions. Strauss and Corbin (1998) refer to these steps as Level 5—interrelating the explanations and Level 6—delineating the theory. In the rest of the chapter, we explore our findings and explain the six propositions and model. Then, we compare our study to the related family firm literature in a separate discussion section (Table 10.4).

Findings and Propositions

In our analysis, we first examined each family firm separately before proceeding to cross-case analysis. As part of the individual case analysis, we investigated types of successor teams and the most visible roles played by successors at each family firm.

Types of Sibling Successor Teams

We first report on our findings concerning types of successor teams following Cater et al. (2016). The successor teams in the present study were composed

Table 10.4 Selective coding – central categories

Central categories	Corresponding proposition/discussion
Equals	Finding
First among equals (brother, sister)	Finding
Dominant leader (brother, sister)	Finding
Role visibility	Finding
Honesty	1
Intelligence	1
Education	1
Training	1
First to enter family firm	2
Interest in business	3
Commitment to family	3
Desire to lead	3
Male gender bias	4
Child care responsibility	5
Conflict and disagreement	6

solely of brothers and sisters, differing from Cater et al. (2016) who included several teams involving cousins. We included teams identified as complete equals, first among equals, and dominant leader teams but no dysfunctional successor groups or divergent interests groups because we wanted to examine successful teams comparing brothers and sisters. Also, we describe the first among equals and dominant leader sibling successor teams as brother or sister led (see Table 10.5). We also indicate the stage of development of the successor teams (Cater and Kidwell 2015), with seven teams fully developed in Stage 4, three in Stage 3, and two in Stage 2.

Our results show two family firms with complete equals sibling successor teams (Company 1 and 2), four dominant leader teams (Company 3, 5, 6, and 9), and six first among equals teams (Company 4, 7, 8, 10, 11, and 12). In this study, we recognized women as dominant leaders or first among equals leaders in five of ten cases and complete equal leaders in two cases. For example, at Company 6, Respondent C acknowledged that her sister was a domi-

Table 10.5 Type of successor groups

Company	Generation of family own/mgt	Successor leadership group members (order of age)	Stage of development	Type of successor group
1	3rd	Sister and two brothers	4	Complete equals
2	1st and 2nd	Sister and brother	3	Complete equals
3	2nd and 3rd	Sister and brother	4	Dominant leader (younger brother)
4	1st and 3rd 2nd bypassed	Brother and sister	3	First (sister) among equals
5	2nd	Brother, sister, sister	4	Dominant leader (oldest sister)
6	2nd	Sisters, brother, and sister	4	Dominant leader (oldest sister)
7	1st and 2nd	Brother and sister	3	First (brother) among equals
8	3rd	Brother and sister	2	First (brother) among equals
9	4th	Brother and sister	4	Dominant leader (sister)
10	1st and 2nd	Brother, sister, brother, brother	3	First (youngest brother) among equals
11	1st and 2nd	Sister and brother	2	First (sister) among equals
12	1st and 2nd	Brother, three sisters	4	First (brother) among equals

nant leader, stating, "In my relationship with Respondent 6A, she was my boss, not my sister. Respondent 6A is a very strict person and she would get on me. She owns the business." At Company 11, Respondent C identified his sister as the first among equals leader stating, "As far as managing, my sister does it. We all have some authority, but I just do whatever." Company 1, Respondent D recognized her children as complete equals, stating, "They are one-third, one-third, and one-third owners. They are not clawing at each other to be the president." In this study, we wanted to examine family firms that provided a level playing field for brothers and sisters as successors as much as possible. Our results in the composition of sibling successor teams indicate an equal performance by women in the cases studied.

Most Visible Roles

Jimenez (2009) conjectured that brothers may take the most visible roles in family firms, relegating sisters to less visible or invisible roles. While Jimenez (2009) does not define "visible roles," we interpret the term to mean that a sibling successor team member enjoys a superior position noticeable outside the family firm or asserts a superior position inside the family firm. We identified the sibling successor team member with the most visible role at each of the 12 family firms in our study and provided an explanatory quote (see Table 10.6). Nine of the successors with the most visible roles cited internal measures, such as being the CEO, president, boss, or 100 percent owner. The remaining three most visible successors (Respondent 1A, 5A, and 8D) cited external sources, such as being president of their trade association, attending trade shows for their company, or representing their company at a performance group meeting. Our results concerning the most visible roles in sibling successor teams indicate a slightly superior performance by women, occupying 7 of 12 of the most visible roles.

Propositions

After our analysis of each individual case, we move to our cross-case analysis results. Progressing from the 15 central categories of the selective coding stage, we developed 6 propositions that highlight our process model of Sibling Successor Team Formation and Function in Family Firms (see Fig. 10.1). Taken together, these propositions combine findings from this study to enhance our understanding of sibling successor teams. Within the model, we

Table 10.6 Most visible roles of sibling successors

Company	Most visible sibling	Explanation – quote
1	Older sister	I am one of the youngest and first woman presidents of our trade association. There was a proclamation from the governor announcing that I was the first woman president of our association. Respondent 1A
2	Oldest sister	I am the oldest and I entered the business first. I invited my brother to return to the fb. It is a huge responsibility having all these people look to you. Respondent 2A
3	Younger brother	The structure now is that I am president. My dad said that if we ever had 10 stores that we would never have to worry again. I still worry. We have 26 stores. Respondent 3A
4	Younger sister	We just set it up recently that my grandfather is president and I am VP. My brother wanted to be the leader, but he did not have the proper authority. I think that the person who controls the money is the leader. Respondent 4A (office and money mgr.)
5	Oldest sister (middle child)	I have 1 percent more. I am the president and they are vice presidents. I am involved with the 20 group (performance group). Respondent 5A
6	Oldest sister	I am the owner, president and it is second generation. My brother is the baker, an employee, not the owner. Respondent 6A
7	Older brother	I work across all of the businesses. I am the technology guy and I help with management. When I am in leadership positions, I look at it as a paternal calling. Respondent 7C
8	Brother (middle child)	There is an independent jewelers' organization that hold shows twice per year. Respondent 8A and 8C did not go, but respondent 8D, my grandson did go. Respondent 8B
9	Younger sister	I am 100 percent owner. My brother works with me. I grew up being proud that I was the daughter of the owner of this business. In our little town, everybody knew company 9. Respondent 9A
10	Youngest brother	Respondent 10C has a lot of influence with my grandparents. He and my mom were the first ones to work in the business. Respondent 10E
11	Older sister	I am pretty much the boss as I am older and doing it longer. I talk more with the clients more personally if there are any problems. Respondent 11B
12	Older brother	My brother is the CEO of the company, but each of the children has an equal share of the stock. There has been some struggle with my brother. He can make some really great decisions and then some not-so-good ones. Respondent 12A

delineate three levels of sibling successor development: Level 1: Qualification for Family Firm leadership, Level 2: Formation and Function of Sibling Successor Team— Common Issues, and Level 3: Formation and Function of Sibling Successor Team—Sister Issues.

Level 1: Qualification for Family Firm Leadership

In this study, respondents emphasized the qualities of honesty, intelligence, education, and training in the family firm as prerequisites for both male and female successors. We refer to this as Level 1 in the succession process for sibling successor teams. According to Respondent B at Company 12, "The top values are honesty and integrity. Those are the biggest." Similarly, at Company 9, Respondent A reported, "Honesty, trust, loyalty, dependability, and kindness are the most important values shared in our family firm." At Company 11, Respondent B stated, "I would say honesty and good customer service, just being fair." The respondents often equated honesty and good customer service and prided themselves on those qualities.

While honesty and integrity were repeatedly mentioned as the most important values in the family firm, respondents also regarded intelligence as very important for successors. At Company 1, Respondent D remarked, "Respondent 1A is super intelligent. I am sure that you could tell that when you talked to her. Respondent 1A is very intelligent and capable." While the successors appeared to be intelligent in the abstract, such as appearing to have high IQs in personal interviews, their intelligence was also an advantage to the family firm. For example, at Company 7, Respondent A explained this situation, "Through his programming, Respondent 7C created our custom database so that we can track all of our properties and do routing. He brought us into the next level of technology."

In each of the 12 cases, family firm leaders stressed the importance of higher education. In 11 of the 12 family firms, the successors had attended college and most of them graduated with a college degree. In 9 of 12 cases in this study, brothers and sisters in the sibling successor teams achieved the same level of education in each firm, either a bachelor's degree, some college, a community college degree, or high school degree (Company 10). In the remaining three cases, the sisters achieved a higher level of education, graduating with bachelor's degrees, while their brothers did not. Respondents reported attending public universities and community colleges in their home states, often obtaining degrees in business administration. In the remaining firm (Company 10), which was founded by immigrants, the second-generation

successors did not attend college, but this generation did make it possible for their children to do so. At Company 10, Respondent E (female cousin) explained, “Respondent 10D (male cousin) and I will be the first ones in our family to graduate with a college degree (Accounting and Management). That is huge.”

In the majority of cases in this study, potential successors worked as children in the family firm, often starting their training at very early ages. “Once we were old enough to work in the restaurant, we started at the bottom – cleaning tables, busing tables. Then, I moved up to waitressing and now on certain occasions, I will go in to the kitchen and work washing dishes. When my parents are out of town, I will be the cashier and run the whole restaurant,” explained Respondent 10E. For successors, the qualities of honesty and integrity along with intelligence and the acquisition of higher education and basic training in the family firm were emphasized repeatedly by our respondents. Therefore, we propose the following.

Proposition 1: To be considered for participation in the sibling successor team in the family firm, successors (brothers and sisters) will exhibit honesty and intelligence and will acquire higher education and training in the family firm.

Level 2: The Formation and Function of Sibling Successor Teams: Common Issues

Many of the issues faced by brothers and sisters in the formation and function of sibling successor teams were similar or common, including the success factors of first to enter the family firm, interest in the business, family commitment, and desire to lead.

First to Enter the Family Firm

The ancient custom of primogeniture, practiced from Biblical times and developed legally over the past several 100 years in Europe, grants an exclusive right of inheritance to the oldest son in an attempt to preserve the family's wealth (Merriam-Webster 2017). Although practiced in the United States for many years, this custom is now considered to be in decline (Bonar 2016). Many of the respondents in our study agreed that birth order has little or no effect on sibling successor teams in family firms. At Company 1, Respondent C stated, “It makes no difference that Respondent 1A is the oldest of the three of us. They do not treat me as the youngest.” At Company 5, Respondent C

remarked," I am the oldest, then Respondent 5A, and then Respondent 5B. There is no effect of birth order really." Respondent 5A is the dominant leader at Company 5.

However, the oldest or older child in the family firm may still take advantage of birth order. Because the oldest child reaches the age of entry to the family business before their younger siblings, they have an opportunity to gain an advantage to become the leader of the family firm. By entering the business first, the oldest child may learn the business faster, and thus gain an advantage on their younger siblings that may last for many years. In all 12 cases except Company 4, the first sibling to enter the family firm became a top leader, as either the dominant leader, the first leader among equals, or a complete equal leader. However, the first sibling to enter the family business often was not the oldest child. Younger sisters entered first in Companies 5, 9, and 10 and younger brothers entered first in Companies 3 and 10. (A younger brother and sister entered Company 10 together before their three older siblings.) At Company 3, Respondent A commented, "I started the summer that I was 15 years old. Then, I worked through college. My older brother was in the Navy when Dad started the company and I was working in the business. Dad told me at a young age that I would have a good chance of running the company." Therefore, we propose the following.

Proposition 2: The first sibling to enter the business may gain a leadership advantage in the formation and function of sibling successor teams in family firms.

Most Important Success Factors

Beyond gaining an advantage by starting first in the family firm, our respondents reported that a genuine interest in the business was important for sibling successors and made lasting impressions on predecessors and fellow successors. For example, at Company 5, Respondent A recalled, "I guess my dad saw that I had the interest in the business. There have been times when my brother does not have the people skills or personality. He has never really just loved the tire business. He left for five years. My dad knew that I would take on the business and take hold of it." Her sister, Respondent 5B, concurred, "My dad and sister were 'best buds.' Although dad was hard-nosed, I think he always knew that she would take over."

In this study, while an interest in the business was important, successors also needed to be committed to the family. For example, some successors left the family business even though they enjoyed the business and took

industry-related jobs. At Company 3, Respondent A stated, "We bought my brother out. He did stay in the industry and went to work for a trade association that we were a member of at the time." So, the commitment for successors needed to extend beyond the business to the family as well. At Company 10, Respondent B explained, "It is my mother's dream. She wanted a restaurant. When they decided to open the restaurant, my brother and I, we have to be there and give support…The family is first. The family is a go-horse, a unit, a team, but we have to continue as a family."

Further, we found that some family members enjoyed the business and were committed to the family, but lacked the third element needed for successors—the desire to lead the family business. Others showed the desire to take on responsibility and make a difference in their family firm. For example, at Company 2, Respondent A explained, "When Respondent 2B and I came here; we wanted to be good stewards of what God has given us. To be good stewards, we needed to get everything in order. It would have been fine to leave things the way that they were." Similarly, at Company 9, Respondent A possessed a strong desire to carry on the family business, "My family questioned me and asked if I really wanted to do this and if I knew how much work it is. I had people laughing at me and saying, 'Are you nuts? Do you really want to do this?' I was brought up to be a strong person, who does not back down. I felt like I really needed to do this for the family." Therefore, we propose the following.

Proposition 3: The most important success factors in the formation of sibling teams in family firms will be: a. the successors' interest in the business, b. the successors' commitment to family relationships, and c. the successors' desire to lead the family business.

Conflict and Disagreement

Respondents reported relationship conflict in the formation and function of sibling teams in the majority of cases in our study. Relationship conflict may occur at any time during the formation and function of the sibling successor team and negatively affect all other factors. Differing levels of commitment to the business and the family and opposing desires to lead resulted in conflict and disagreement among sibling successors. For example, at Company 4, Respondent A reported the following.

> *Yes, my brother had quite a few disagreements with me. My grandmother taught me how to do the business office. She passed away (2009) and I came to be in control of the books and the spending. My brother did not like that…This resulted in brother and sister fighting…Yes, he felt entitled, like he should get this and this. We had a lot of disagreements. Even though, we have our differences, I do love my brother. He is my only sibling.*

At Company 3, differences in personality between siblings boiled over into conflict and disagreement. Respondent 3A described the situation.

> *I wouldn't say that there was conflict, but he saw things differently than we did. I think there could have been conflict. My brother was just different. In all fairness, he did help the company a lot in the years he was here. He was aggressive and more outgoing, more of a salesman-type. He did a good job, but it got to where he got too aggressive and was spending too much money. He was always a salesman and not a bottom-line guy. He never was a numbers guy – he was extravagant.*

These findings lead us to propose the following:

Proposition 4: Conflict and disagreement may negatively affect first to enter advantage, interest in the business, commitment to family relations, and the desire to lead in the formation and function of sibling successor teams in family firms.

Level 3: The Formation and Function of Sibling Successor Teams: Sister Issues

There were additional issues primarily faced by sisters in the formation and function of sibling successor teams. These issues were male gender bias and child-care responsibility.

Male Gender Bias

Our findings indicated that male gender bias existed in several different forms, including in industry settings, among customers, and within the family firms. In every case, family firm members related that their industries were male dominated. For example, at Company 2, Respondent A made the following statement: "Yes, our industry is still very male dominated. To find a female chemical engineer is very rare. There are still a lot of dinosaurs in our industry. It is very white, it is very male, and it is very gray-headed."

According to our respondents, customers also showed a bias against women. At Company 8, Respondent C observed,

Yes, bias still exists among the older generation. When you wait on a customer, male or female, they think the man knows more. One time, after I answered the questions, a lady did not believe me because I am a female. I was not taken seriously in the business. Some would ask, "Are you sure?" and have Respondent 8A (a man) take a look at it.

Further and perhaps most upsetting, discrimination against females has been practiced openly for many years in US family firms and, unfortunately, such inequities still resonate in far too many companies. Respondents reported incidences of unfair or unequal treatment within the family firm. In several cases, parents gave preference to brothers in sibling teams because they were male. For instance, at Company 12, Respondent A explained the following:

Like with any family you have struggles and do not see eye to eye. For example, I was required to go to college and to graduate in 4 years, but my brother did not have those requirements. Even though he is the CEO, he did not graduate from college. He was the only son because the other son had been killed in a tragic accident. They coddled him a little. My brother went to college and did not finish because he played a lot.

Therefore, we propose the following:

Proposition 5: Male gender bias may negatively affect sisters in the formation and function of sibling successor teams in family firms.

Child-Care Responsibility

Child-care responsibility falls most heavily on women in the United States. This adds another layer of complexity for women who pursue a career in the family firm. For example, at Company 1, Respondent A remarked on her carefully planned schedule,

My oldest two are in school. I dropped my 3 year-old off next door to my in-laws house and my mother-in-law will keep him until lunch time. My husband is a registered nurse and he works one 12 -hour shift per week. So, the kids are home with him until they start school. I pretty much stay home on Wednesday and load up my other days.

In some cases, family firm members help women with childcare, creating a win-win situation. For example, Company 7, Respondent D explained,

> *Right now, Respondent 7B is taking care of my daughter (during the research interview). My husband is a mechanical engineer. So, we have had some opportunities to move. But here my child can be with me and I can make my work schedule. The main reason we stayed here is that we have the family business and my parents can help.*

In our study, brothers in sibling successor teams faced child-care issues to a much lower degree. Even in excellent situations, such as Company 7 in which the grandmother helped with childcare, women have to juggle the competing roles of family firm owner-manager and mother. Some women in this study reported that they preferred to drop their family manager status and stay at home most of the time to raise their children. Company 12, Respondent A explained her situation as follows:

> *I did decide to stay home. I could have gone back and I started to go back when my son got to first grade, but then I realized that I would miss a lot. I like volunteering at school and taking part in their activities. I would have to travel again, but my husband and I decided not to go back. They had plans and were ready for me to come back, but in the end I decided that it was not worth it for our family.*

Therefore, we propose the following.

Proposition 6: Child care responsibility may negatively affect sisters in the formation and function of sibling successor teams in family firms.

Discussion and Conclusion

We believe that, first, our model of sibling successor team formation and function in family firms merits further comment in relation to the existing literature concerning the roles of women in family firms and gender bias, and successor teams and conflict in family business (see Fig. 10.1). Secondly, we would like to address the subject of invisibility versus visibility of women in family firms.

Model of Sibling Successor Team Formation and Function in Family Firms

In proposing the model, we develop the theory addressing the process-oriented elements of sibling team-based family firm succession. The model contributes to ongoing efforts to better understand the why and the how of team succession in family businesses. We add to the existing succession literature by addressing the under-researched topic of women as successors in teams, employing a three-level model of sibling successor team formation and function. The first level of our model addresses the issue of successor qualification for the sibling successor team. The second level analyzes the most important success factors for sibling successors in the formation and function of their teams. The third level specifically addresses issues that sisters in sibling teams face to a greater degree than their male counterparts.

In Level 1 of our model, we found four major areas of concern for successors to qualify for consideration for the successor team—displaying honesty and integrity, possessing intelligence, acquiring higher education, and obtaining training in the management of the family firm. In their study of successors, Chrisman et al. (1998) found that the most important attributes were integrity and commitment to the business. In our study, we found honesty and integrity as highly prized characteristics for all individuals in the family firm and as a basis for advancement to higher levels of trust and authority. We also found that predecessors demanded that successors attend college and graduate as a condition for joining the family firm. Once in the family firm, training in the operations of the firm became paramount. Our results fit with earlier studies stressing the importance of education and training in the family firm (Barach and Gantisky 1995; Barach et al. 1988; Morris et al. 1997).

In Level 2 of our model, we also recognized the importance of interest in the family business and its operations, similar to Chrisman et al. (1998). In our terminology, taken from our respondents' words, we identified commitment to family relationships as an additional factor beyond just liking or being interested in the family business. We identified the importance of positive relationships to the predecessor and other family members, especially team members, and the willingness to stay with the family firm in spite of conflict and disagreement with family members. Relationship conflict, as identified by Harveston and Davis (2001), is likely to occur at any time during the formation and function of the sibling successor team. We indicated this in Level 2 of our model (with arrows directed from conflict to each Level 2 factor). Conflict was evident in our study with multiple family members

leaving their family firms because of personal disagreement with other team members (Company 3, 4, 6, 9).

We found that the desire to lead the family firm was a complementary and necessary factor. For example, respondents at several firms expressed no desire to lead and were not leaders of their successor teams (Company 5, 6, 10, and 11). Dyck et al. (2002) explained that successors must be willing and able to lead the family firm. The qualities of interest in the business, commitment to the family, and a desire to lead the family firm worked together for the most successful sibling team members. Possessing one or two of the three qualities was not sufficient; rather, sibling team leaders needed all three qualities to function successfully in their sibling successor team.

In Level 3 of our model, we indicated two additional challenges for women in sibling successor teams that their male counterparts did not face to the same degree—male gender bias and the responsibility of childcare. Male gender bias is well noted in the literature (Ahrens et al. 2015; Keating and Little 1997). Male gender bias was revealed in our study in three areas—in male-dominated industries (All 12 Companies), customers not respecting the knowledge and expertise of women family members (Companies 4 and 8), and among family members who favored a male heir beyond his qualifications (Company 12). The responsibility for childcare falls more heavily on women in the United States (Bessler 2014). Although family firm members in our study helped to mitigate this concern for sisters in sibling successor teams (Companies 1, 2, 6, 7, and 10), childcare was still an issue on our respondents' minds.

Invisibility Versus Visibility of Women in Family Firms

We recognize that the family firm literature is replete with examples, descriptions, and explanations of the invisibility of women in family firms, in both older studies (Dumas 1989; Gillis-Donovan and Moynihan-Brandt 1990; Hollander and Bukowitz 1990; Salganicoff 1990) and more recent studies (Cesaroni and Sentuti 2014: Overbeke et al. 2013). The picture has been bleak for women in family firms for many years, but we believe that the landscape is changing. While predecessors 20 years ago may have expressed desires for gender equality but failed to act on them (Keating and Little 1997), our study finds that women are serving as leaders in sibling successor teams and sharing the spotlight in terms of visibility inside and outside of the family firm, given the opportunity to do so.

Limitations and Future Research

We examined questions of visibility among siblings in successor teams and success factors for siblings in successor teams, highlighting the roles of sisters. Our findings were generated in the context of US family firms. We recognize that cultural variations around the world may provide limitations in the application of our study. For example, we cannot comment on sibling successor teams in countries where women's rights are greatly limited by law or custom. We also acknowledge limitations as to sample size, and that data from a larger, representative sample obtained via survey work, could be obtained. We do not claim to have covered all aspects of sibling successor teams, but we view our study as part of an incremental development of understanding in this research stream. Further studies on sibling successor teams are needed in different cultural settings, either inside the United States (such as in the Hispanic, Asian, or African-American subcultures) or in other developed or developing countries. Researchers could also focus on dyads—teams of one sister and one brother only. Future studies should examine changes in women's roles in family firms and the leadership style of women in family firms.

Conclusion

Using a case study approach, we traced the formation and function of successors in sibling teams in family firms, highlighting the roles of sisters. We propose that successors in sibling teams progress through three levels: (1) qualification for the sibling successor team, (2) common issues in the formation and function of the sibling successor, and (3) sister issues in the formation and function of sibling successor teams.

We emphasized four important aspects of qualification for the sibling successor team, including honesty, intelligence, education, and training. We recognized four positive crucial elements in the formation and function of sibling successor teams, including first to enter advantage, interest in the business, commitment to family relations, and the desire to lead. Then, we found that conflict and disagreement may negatively affect the four positive variables. Finally, we observed that sisters in sibling successor teams must overcome two additional factors—male gender bias and child-care responsibility.

In our findings, we discovered that sisters may participate on an equal basis with their brothers in sibling successor teams as complete equals, first among equals, or dominant leaders. Also, in sibling successor teams, sisters may just

as easily as their brothers occupy the most visible roles in their family firms. Finally, for family firm practitioners, we encourage the complete use of all available family human resources in the family firm.

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11

Introducing the Enterpriseness of Business Families: A Research Agenda

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Putting Business Families at the Center Stage

The family is the social system that constitutes the family business via its coupling with the business and distinguishes family businesses from other types of firms. The family and its functioning are of major interest for family businesses, because it can be a source of strength and stability for the business, but can also turn into a source of interference and conflict. Vice versa, the business can be a source of power, coherence, and (socioemotional) wealth for the family as well as a source of pressure and dispute (Baus 2013). Whereas the influence and impact of the family on the business has been widely researched, knowledge concerning the functioning and management of families in business (business families) is still limited. While in the early stages of

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E. Memili, C. Dibrell (eds.), *The Palgrave Handbook of Heterogeneity among Family Firms*,
https://doi.org/10.1007/978-3-319-77676-7_11

development the topic of "family" was of great importance in family business research, the discussion of theories of the family has decreased significantly over the last few decades. However, the necessity of a well-founded understanding of the usually most important stakeholder in family businesses—the business family—cannot be denied. Without this understanding, there is the danger of favoring a one-sided approach that leads to research results that do not adequately account for the complexity of the specific reciprocal influence between the business and the family system. The neglect of the business family is all the more surprising as family science offers an arsenal of theories that provide a good connectivity to family business research (Jennings et al. 2014).

We define a business family as a family that owns one or more businesses and derives income via its businesses, where the business family's life is characterized by the influence of the businesses owned and in many cases also managed and/or controlled (Stamm 2013). By analogy with the heterogeneity of family businesses, also business families are very heterogeneous as regards their size, structure, management, and the relationship to the business. Business families are a special type of family, because on the one hand they are a family and on the other hand they are a business family. This "doubling" puts special demands on them, and, depending on their complexity, requires a family management (Von Schlippe et al. 2017). Thus, business families are faced with the task to manage family and business demands in a way that neither the family nor the business system is discriminated in the long run (Litz 2008). Since businesses are not viable without organizational learning, family businesses (compared to non-family businesses) are particularly endangered regarding their performance and existence when the business family neglects to develop strategies to successfully integrate the constantly changing challenges of the business into its way of life. Successful enterprising families therefore develop "enterpriseness" (Frank et al. 2010, p. 124) in the sense of accepting business-related rules and expectations as parts of their family life or even acknowledging their identity-generating value. Thus, as a working definition, we define the enterpriseness of business families as those structures that the business family develops based on the structural coupling with its business (or businesses) and the family. These structures represent business- and family-related expectations that are effective in the business family, i.e. that influence the business family's decision-making behavior (adapted from Hasenzagl 2018).

Putting more emphasis on the business family seems to be a precondition for answering a key question of family business research: "How does the family contribute to firm success?" (Zellweger et al. 2010, p. 54). If a business family does not ask the question how to organize and position itself vis-à-vis the business, it runs the risk of being a burden rather than a success factor for

the business. By doing more research on these issues, an important contribution is made to the sharpening of the distinctive boundaries of the family business research field and thus to its legitimacy and identity in the canon of management sciences (see Busenitz et al. 2003 with reference to entrepreneurship). Furthermore, given the fact that most family businesses do not fail due to market reasons, but rather because of bad family management (Baus 2013), the business family needs to be brought to the center of family business research (see also Salvato and Aldrich 2012). This becomes even more evident and important in case of complex business families, for example, those comprising several family branches or active and non-active stockholders, because increasing heterogeneity increases the risk of conflict, diminishing cohesion and trust, and consequently threatens business family identity. Furthermore, in economically and socially turbulent times, the sustained commitment of business families is a prerequisite for strengthening the resilience of family businesses. Consequently, researchers call for a stronger consideration of the family in family business research (Astrachan 2010; Bertrand and Schoar 2006; Danes and Stafford 2017; Nordqvist and Melin 2010; Sharma et al. 2014; Uhlaner et al. 2012; Zachary 2011). Due to the high number of business-owning families in most economies, and thus their societal and economic importance, this chapter places business families and their multidimensional challenges at the center and aims to develop opportunities for future research (see also Nordqvist and Melin 2010; Randerson et al. 2015).

Based on this brief problematization of the current predominant one-sided focus of family business research, we propose a conceptual framework for developing a research agenda for the enterpriseness of business families. Departing from thetripartite approach to familiness, we use involvement, essence and identity as a rough heuristic framework for capturing the enterpriseness of business families. This analogy makes sense because business families, just like family businesses, are social systems that distinguish themselves from their environment by means of structures, develop membership roles, have to make decisions as a family that are relevant for the firm (e.g. regarding successors), and have a more or less clearly developed identity as a business family.

To this end, our chapter offers several contributions. First, knowledge on business families is still scarce; yet it is indispensable as successful family businesses require well-functioning business families. Shifting the focus from the business to the family sphere opens up new research perspectives for the family business community and furthers the understanding of what makes family businesses different from other businesses. This also helps to strengthen the legitimization of family business research as a distinct field of research. Second,

the research agenda developed reverts to systems theory as a heuristic frame of reference, thereby bringing in an accepted view in family and management science and provides a differentiated starting point for many studies that focus on or include business family-related concepts. Third, analogous to the conceptualization of familiness developed by Zellweger et al. (2010), our chapter contributes to the conceptualization of enterpriseness by responding to the overarching question: How does the family business influence the business family? This conceptualization can be seen as a starting point for future measures of enterpriseness and its sub-dimensions. By being able to understand "the other side", family business researchers can develop a more comprehensive approach towards family businesses and explain how certain dynamics on the family side can retroact on the business.

The chapter is structured as follows: based on the great importance of systems theory in family business research and in the field of family science, the following chapter explains the core elements of systems theory by means of which business families can also be analyzed. Based on that, a conceptual framework for the description and analysis of business families and their enterpriseness is presented. Analogous to the familiness of family businesses, we distinguish between the involvement, the essence, and the identity of business families. Using a systems-theoretical perspective, an agenda for research on business families is developed. The final discussion and conclusion summarize and reflect on the insights gained.

Systems Theory as Frame of Reference

Employing a systems-theoretical view, which is widely accepted in family science (Jennings et al. 2014) and in family business research (e.g. Pieper and Klein 2007; Von Schlippe and Frank 2013) as well as in familiness research (e.g. Frank et al. 2010; Habbershon et al. 2003; Weismeier-Sammer et al. 2013), business families are considered as social systems. Systems theory, as used in this chapter, is based on Niklas Luhmann's theory of "Social Systems" (1995). This systems theory is characterized by its great reach and a high appropriateness for various social-science disciplines such as management (e.g. Hendry and Seidl 2003; Seidl and Becker 2006) and thus incorporates the potential to contribute to an interdisciplinary progress of knowledge (see also Stewart 2008; Stewart and Aldrich 2015). It is particularly suitable for researching family businesses and business families (e.g. Von Schlippe and Frank 2013), because its focus is on communication as the foundation of social systems. The relative stabilization of communication patterns vis-à-vis the sys-

tem's environment is at its center, that is, the creation of structures in families and businesses is considered as a form of organizing behavioral expectations, thus creating a system-specific boundary between the system and its environment. Family and business are interpreted as social systems that create themselves via communication. As a constructivist theory, it presumes that every environment of a system is seen as constituted by the system (Luhmann 1995).

Communication is defined as the tripartite selection of information, utterance, and understanding. Through an utterance, communication becomes action, attributable to a person. Social systems are based on chains of communication that make use of persons. In doing so, social systems depend on meaning which delimits the system from its environment. Meaning is decomposed into three dimensions: the temporal dimension (referring to the difference before–after), the factual dimension (themes of meaningful communication), and the social dimension (dissent–consensus). If a business family, for instance, describes its identity, the description is based on multiple selections of what is seen as relevant (factual dimension), how the identity was shaped by whom (social dimension), and what can be considered key historical events (temporal dimension). Consequently, systems act and react according to their meaning structure. Observing the environment and the system itself is dependent on its structure. A system perceives what it can perceive on the basis of its structures; also self-observation is determined by structure. Structures are stabilized expectations. Communication is guided by these meaning structures. With regard to organizations (e.g. businesses), autopoiesis is focused on communicating decisions which are the basal element of organizations as social systems (Luhmann 2000). In case of organizations, the autopoiesis is guided through decision premises (Frank et al. 2017), that is, decisions that guide a multitude of future decisions.

The family and the business system constitute (more or less) meaningful environments for each other and influence each other to various extents in terms of a co-evolution. The concept of structural coupling characterizes the interdependencies between systems, that is, the systems are mutually dependent and constitute a relevant environment for each other, although social systems' susceptibility for irritations stemming from other systems varies. For instance, the owners of a family business do not automatically find a condition of connectivity because of their position. Their interventions need to be connected to the meaning structures of the business. Therefore, formal measures of involvement like ownership stakes can be misleading in terms of actual influence (Frank et al. 2010). Generally, however, it can be assumed that management and/or control functions, as well as ownership, have an influence on the business families' structures.

The family is to be considered as a special system. Families typically reveal a high degree of people orientation, although here, too, the main focus of the family system is on attachment communication (Von Schlippe and Frank 2013). Anything relating to a member of the family is open to communication in the family system, which makes a difference to organizations like businesses with their focus on decision communication. With the latter, only communication related to a decision is considered as relevant, whereas in the family system the overall behavior of a person (in- and outside the family) becomes the reference point for communication, which makes everything relating to a person communicable, leading to potentially uninhibited communication. This of course does not preclude that families also make decisions, for example, the purchase of furniture for the living room. These decisions, however, usually take place in a family context and are not related to business expectations. Family communication can take place in the business, and vice versa, and is not bound to a specific place (Frank et al. 2010; Von Schlippe and Frank 2013).

Families and business families also create their own meaning structures which are influenced by the family cycle. The family cycle (from childhood to old age) follows a specific pattern. There are certain role differentiations, particularly the difference of parents–children, which are hard to alter. Furthermore, families can form sub-systems: for example, the sub-system "marriage", as there are topics not discussed with the children, or young family members who see themselves in opposition to the older generation, and family branches which can lead to a pronounced internal differentiation (Frank et al. 2010). To what extent and at what quality family and business really differ, however, cannot be decided on the basis of archetypical characterizations. There are businesses boasting a high degree of people orientation and long-term membership, which in other words resemble families; but there are also families characterized by comprehensive business-like arrangements and so bear characteristics of a business (Simon 2005) which can indicate a strong enterpriseness. However, the reflection on the enterpriseness of business families is not only a question of weak versus strong but also of different types of enterpriseness. A central and yet neglected question in family business research is therefore how families succeed in continually securing their connection with the business and how they are able to lead the business successfully while *at the same time* being able to remain a family (Von Schlippe et al. 2017). The concept of enterpriseness of a business family can thus be framed as a set of stabilized expectations ("rules") that families in business develop in order to manage business- and family-related influences. A business family system thus constitutes itself by means of a (more or less elaborate)

system of rules, which makes it possible to make decisions relevant for the firm while taking into consideration family expectations. This system of rules is, like the family and the business, subject to a development process, which addresses the problems and challenges within the family and the business, in the course of which family- and business-related problems and challenges are processed according to the specific system's logic. This means that business families make decisions on which expectations of the business and of the family they take into account in their decisions, thus creating a big potential for pragmatic paradoxes. This can be made more complex by different people being involved in the family and the business family due to different membership rules. If, therefore, family and business family constitute themselves as separate communication systems, where different expectation patterns emerge and then stabilize, this raises a number of questions presented below as a potential research agenda for business families. Figure 11.1 illustrates this relationship: the business family is a separate system, which, due to the structural coupling, is influenced by family and business alike, thus absorbing expectation structures stemming from both systems and processing these on the basis of its own structures (without excluding the possibility of family expectations influencing the business and vice versa).

The basic assumption thus is that family, business, and business family all have and can develop their own system logic and so, taking into account their structural coupling, all represent separate objects of cognition that equally contribute towards an understanding of family business. While the different system logics of families and businesses are undisputed in family business research (e.g. Tagiuri and Davis 1996; Von Schlippe and Frank 2013), the prerequisites for the emergence of a separate business family system and its enterpriseness have been researched much less extensively. Thus, in our research, we differentiate the three systems (1) family, (2) business family, and (3) business and concentrate on the introduction and description of the

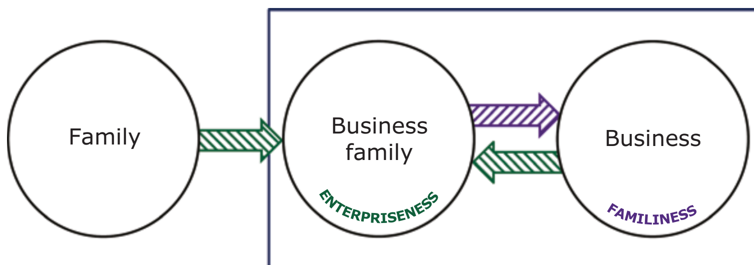

Fig. 11.1 The relationships between the family, the business family, and the business system

enterpriseness of business families, that is, the characteristics of business families resulting from the influence of the business on the family. This influence constitutes a business family, which is exposed to both, the influence of the business and the influence of the family. The enterpriseness of business families expresses the expectations (structures) of the business, which are considered as meaningful in the business family, whereas the familiness of a family business expresses the expectations that the business family has implemented in the business. However, enterpriseness and familiness cannot be considered simply as a mirror image, as influences are perceived and processed according to the specific structures of each system. Of course, there are also other influences on all three systems, which are not taken into account in Fig. 11.1 and in this chapter.

Conceptual Framework of Enterpriseness: Involvement—Essence—Identity

From a methodological point of view, a conceptual framework offers a reference point with regard to contents as it clarifies and structures what is relevant in terms of key research topics and provides a coherent way of answering questions (Wright and Kellermanns 2011). Furthermore, a conceptual framework does not anticipate decisions with regard to the theoretical approach; rather it allows the employment of different theories. However, we primarily refer to a systemic perspective.

The following subsections employ a multidimensional conceptual approach to business families. As such, they focus on involvement, essence, and identity and thus offer a differentiated view of the business family system. This is based on the assumption that the family sees itself as a business family and that any decisions related to the family and the business are made as and ascribed to the business family. Families unable to make family decisions relating to their business are not business families. We call a decision a decision if and insofar the act of giving meaning to an action reacts to an expectation directed towards itself (Luhmann 1984, p. 594). What cognitive and normative expectations (Luhmann 1995) are used for orientation can be based on a complex process of negotiation and establishing meaning or simply become apparent through actions. If certain family members are not invited to a meeting without any previous discussion or reason, this represents a decision. If, therefore, family decisions are communicated while taking into account expectations of the business, the business family constitutes itself and this provides a starting

point for describing its enterpriseness. The expectations can show various degrees of differentiation. A family that has withdrawn to the role of passive owners, or restricts itself to the role of investor, will work differently as a business family, and thus show a different degree of enterpriseness, than a family that determines its identity and influence on the business by means of its values and a management that consists solely of family members.

Components of Involvement Approach from a Business Family's Perspective

Regarding the familiness of family businesses, the components of involvement approach focuses on the family's involvement in ownership, management, and/or control (e.g. Chrisman et al. 2005). Specifically, this involves characteristics such as percentage of family ownership, percentage of family management, and/or control (see also Astrachan et al. 2002), which are also suitable to express the diversity within a family business, for example, as a share of family members or external managers in the top management team or as the number of generations holding stakes and/or management functions (e.g. Ling and Kellermanns 2010). Regarding the enterpriseness from the components of involvement point of view, the central question for the business family is: *How many members does the business family have (in relation to the family) and what is its diversity?* Size and diversity are expressions of more or less planned decisions that already point at the essence and therefore underline the interdependencies between the three dimensions.

Relating to the number of family members in the sense of family members that are related by blood and by marriage, there are three logical possibilities: (1) family = business family, (2) family < business family, and (3) family > business family. In all three cases, the question of boundary management arises (see subchapter "Essence Approach from a Business Family's Perspective"). Yet, in the first case, the need for an explicit inclusion or exclusion decision might be the lowest. The second case represents constellations which typically can be found in case of a high number of business-owning family members, and the business family is defined via ownership. In some cases, a few hundred owners may be unified through a joint interest or concern in the business, although in a family setting, the boundaries may be limited to relatives of the first or second degree (Wiechers 2006). As regards the third case, relatives by marriage are frequently excluded from ownership in the business and are seen as family members only (e.g. Fuetsch and Frank 2015). Furthermore, also the relation of the size of the business family to the

number of family members that are owners and/or the number of family members in management or control functions is of interest, as this can also express valuations regarding the importance of ownership and management.

A second central research question of the involvement dimension of enterpriseness of business families is: *What are the effects of size and diversity of business families?* These effects can refer to the functioning (inherent logic) of the business family itself, but also to the family or the business. Analogous to the questions which effects the percentages of family ownership, management, and control have on the business (e.g. its financial success; see, e.g. Sciascia and Mazzola 2008), there are numerous possibilities to research relationships that focus on the business family. Especially when the business family is larger and more diverse than the family members active in the business, that is, when also family members are included in the business family that neither are active in the business (management or control) nor own stakes, this question provides new opportunities to study influences on the business that have so far been widely excluded in research.

Although there is no strictly causal connection between the number of members of the business family and its complexity, it seems plausible to assume that an increase in size also entails an increase in the complexity of the system of the business family. As the number of members goes up, complexity of content can rise as more ideas and topics are brought up, though these can be taken up quite selectively and also selectively affect one another. An increasing number of members also normally raises social complexity, as families and business families are closely interconnected in interactions, the interplay of consent and dissent increasingly develops its own dynamics and role differentiations evolve. Temporal complexity is created through a mutually remembered past and a mutually designed future. Social systems are characteristic in that not only the past but also the future can influence decisions in the present, with different time horizons becoming effective for different issues (Willke 1993). Complexity of content, for example, in the form of many topics that are or have to be dealt with and decided on in the business family, as a rule necessitates a temporal order (e.g. urgent issues are dealt with first); the issue of intra-family succession will require a longer-term perspective than planning the next few meetings of the family council. Diversity (in respect of education, experience, age, sex, etc.), on the other hand, can increase social complexity and the complexity of content, as well as create a temporal order, by, for instance, emphasizing future orientation. The question of what the effects of size and diversity of business families are thus opens up a wide area for research incorporating the potential liability of complexity of business families. Diversity can, for example, improve the availability of different

knowledge and experience bases, but also encourage the emergence of groups in the business family, which in turn might dampen or even reverse effects (see, for instance, in connection with the board composition of family businesses Vandebeek et al. 2016).

The size of the business family (i.e. number of persons involved) has an effect on enterpriseness in the sense of taking into account business- and family-related expectations in the business family: the more people with business experience are involved, the more opportunities there are to integrate different expectations into the communication or decisions of the business family. On the other hand, the urge to avoid conflicts can make it possible that only few topics are dealt with and decided on in business families, as maintaining harmony is a major objective for the business family due to some massive conflict in the past; this can, for example, lead to the postponement of succession decisions (De Massis et al. 2008). This results in little differentiated enterpriseness. However, it is more likely to assume that large business families encourage the strong differentiation of sub-systems with different expectation structures. In line with an increase in the size of the business family, the coordination effort also rises, with the result that in very large business families, within their family governance, a manageable number of members are selected or delegated for particular purposes, that is, for instance, to establish advisory boards or committees (Suess 2014), which makes it possible to create further operational indicators relating to the involvement of the business family (e.g. number of members of the business family on advisory boards, etc. in relation to the total number).

A differentiated business-related expectation structure as expression of the enterpriseness indicates the usefulness of integrating the diversity of the business family into the discussion. Diversity is often conceptualized as the distribution of differences among the members of a group (like a business family) with respect to surface-level attributes (such as gender and age) and cognitive diversity (e.g. education) (Kearney et al. 2009). Gender and age, however, are not only superficially objective characteristics but also have social attributions (concerning gender, see also, e.g. Ely 1995) that influence communication and decisions in the business family. In connection with succession decisions, for instance, a preference for male successors can still often be detected (Kessler Overbeke et al. 2013; see also Nelson and Constantinidis 2017), although a potential female successor may be better qualified and willing to take the position. Age plays a role as regards different generations, as in numerous family businesses, two generations are involved in ownership and/or management, as well as control (e. g. Hauck et al. 2016). This means that decisions can significantly be influenced by the gender and age composition as well as cognitive

diversity. Filling positions with persons who are ascribed certain attributes also influences the hierarchical structure of the business family, which in turn creates various opportunities to influence decisions of the business family and thus the enterpriseness.

Age and gender as characteristics of diversity are considered useful also because these are directly connected with structural dimensions of families (in the sense of a traditional understanding of family; parents–children, mother–father). As regards the distribution of differences regarding age, it has to be noted that at times even not yet grown-up children are seen as members of the business family, although generally they will not have the human and social capital required to actively influence the enterpriseness of the business family. Yet they may be able to exert some indirect and structural influence, which can become effective simply because they exist—if, for example, the parents take early measures for the children's future involvement, or other family members see the underage children as future competitors and thus prepare themselves well in advance. It can be observed that business families with a branch structure often try to position some of their children as successors early on (Fuetsch and Frank 2015). In this case, family governance can extend influence on size and diversity of the business family by means of age (and qualification) rules (Süss-Reyes 2015). Concerning cognitive diversity, it can be assumed that it is functional for the enterpriseness of business families, as different educational and professional biographical features offer a greater variety of solutions for dealing with family and business expectations. Too much diversity, on the other hand, can also obstruct finding accepted decisions.

Although the parameters size and diversity are in most cases easy to operationalize, in contrast to the components of involvement approach of familiness, they are more subject to partly subjective appraisals with substantial consequences. Especially the relation business family to family is of interest at this point. If no family member sees themselves as a member of the business family, the property "family business" itself can be questioned. Reasons for such appraisals can be manifold, and, for example, conflicts can result in a complete dissociation and hence quasi-dissolution of the business family (and family), although from a systems-theoretical point of view conflict systems have very distinct structures and boundaries with their environment (see also Von Schlippe and Frank 2017). Reducing the family's self-conception to a passive ownership function, similarly to investing in a listed company, can also lead to this appraisal. As a consequence, this appraisal establishes a new boundary between the type of family business and non-family businesses: if (numerous) family members hold (relatively small) stakes, but do not actively

pursue any business interests with these, as the family members also have other sources of income, both the properties—business family and family business—can be called into question.

Overall, it can be stated that size and diversity of business families provide numerous opportunities to adopt business-related rules in the business family, but also mainly to define operational parameters, whose potential for characterization and explanation should be taken into account for the functioning of business families in the course of future research. Moreover, it has to be pointed out that the suggested conception of the components of involvement approach of the enterpriseness of business families uses the size and diversity of the business family as an analogy to the degrees of family management, control, and ownership, in order to describe structures of the business family. Also here, it holds that these characteristics describe potentials of enterpriseness rather than its actual configuration. Only looking at involvement, essence, and identity together provides a comprehensive picture of the enterpriseness of business families. At the same time, differences to the components of involvement approach of familiness become apparent: while familiness focuses on the degrees of ownership, management, and control, from the point of view of the enterpriseness of business families, also family members that do not hold any of these three functions (owner, etc.) can be included in the business family, as they are expected to provide major inputs. Likewise, family members that hold low- or medium-level management positions might be excluded from the business family's decisions, because, for example, only family members active in top management are seen as members of the business family, but not those on hierarchically lower management levels. All of these decisions are based on a particular (more or less reflected) understanding of enterpriseness. If only family members active in top management are seen as members of the business family, this might be based on the assumption that doing so puts the business family in the best position to integrate business expectations into the family, which is a common and little questioned assumption in much family business research. The particular reasons for these decisions, which can have either evolved on a case-by-case basis or been formulated as general rules, are, however, already an expression of the essence of the business family.

Essence Approach from a Business Family's Perspective

In the context of the familiness of family businesses, the essence approach focuses on the behavior of family businesses, especially business strategy and unique resources and capabilities influenced by the family (e.g. Chrisman et al. 2005).

It thus defines the actual influence of the business family in the business. In analogy to familiness, central research questions regarding the essence of enterpriseness concern the decision behavior of the business family in the context of the business and the family (see Fig. 11.1). With its reference to the essence of the enterpriseness of business families, the focus is on the business-related questions that the business family aims to address, with a first focus on making a meta-decision: *What business-related decisions should be made within the business family?* Often paradox requirements (family logic vs. business logic) can hinder the ability to make decisions and contribute to a passive behavior that neither deals with nor integrates objectives and decision needs of both the family and the business. At the core, it has to be decided which topics can be dealt with and how and when they can be decided in the business family. The tension between family and business expectations mentioned above thus decides on the specific content of enterpriseness. Depending on the degree of professionalization of the business family, rules and routines concerning the handling of business family issues are deliberately planned and developed or emerge randomly. In this context, family governance measures can play an important role, as they provide an opportunity to determine the business-related decision competences assigned to the business family and at the same time to define membership rules (Suess 2014). Family governance measures therefore generally have to be seen as an expression of enterpriseness, as they also imply a professional stance of the business family towards the business (Süss-Reyes 2015). The business family acts in the context of the family and the business and is thus affected by business- and family-related expectations. As a result, it has to decide on which expectations of the business and the family are taken up, hence ascribing it to the system business family, because not every decision where family members are involved is checked for family relevance. This means that decisions on the need for decisions in business families are a key aspect of understanding their enterpriseness.

Tied to the question regarding size and diversity of the business family, the question is: *On which considerations are membership decisions based?*, that is, the inclusion or exclusion of family members, which is the key element of the boundary management of business families (Wiechers 2006). This presupposes membership rules, which implicates drawing a boundary also related to the family. As a rule, the same three functions will play an important part that also make up the core of the components of involvement approach from a familiness perspective, that is, ownership, management, and control, because they directly entail decision-making rights and obligations. At the same time, the size of the stake and the number of functions may establish a hierarchy in

the business family and create different ways of enforcing business-related rules in the business family, if these are the business family's significant orientation parameters. The usefulness of this assumption rests on the fact that these functions make it possible, due to structural coupling (persons with a function in the business and family members), to communicate expectations of the business system in the family system as well, resulting in decisions which effectively constitute the business family system. Expectations of the business and the family are adopted and processed in the business family according to its specific structures. Especially if the business family also includes further individuals and/or excludes certain persons active in the company, this can be helpful in developing communication patterns and meaning structures in the business family with a different enterpriseness. Besides these opportunities of exerting influence, which follow formal criteria, enterpriseness can also be influenced by resources that members can contribute to the functioning of the business family, for example, leadership experience and competences to enhance solidarity and cohesion.

If the discussion is extended beyond the criteria of management, ownership, and control, a variety of different membership rules can be applied that mainly aim at providing a potential benefit for the business family, or are to be interpreted as recognition for services rendered or expected. Also a membership procedure that is deemed fair can play an important part in order to conform to familial expectations of justice and to avoid conflicts (Van der Heyden et al. 2005). This puts the focus on questions of *legitimacy*, which are to be located in the area of tension between family logic and business logic. Building on the question of who belongs to the business family, from the essence approach point of view, the informal and formal rules or decisions determining inclusion or exclusion are at the center of attention. While in organizations membership rules are based on the fulfilment of certain competences (Luhmann 1995, 2000), in family businesses business-related competences can become subordinate criteria. Instead, the family can bring people-oriented decision premises (e.g. equality of all family members, altruism) into play (Simon 2012). Thus, family members who enjoy high esteem and appreciation because of their former functions can remain members of the business family. This means that business families are able to organize membership not only along formal lines depending on, for instance, ownership but also to establish informal options to influence decisions of the business family and even to put this on a formal basis: for example, in shareholder meetings and decisions, members of the business family holding no stakes can influence decisions by means of a formally implemented advisory board as part of family governance. Sometimes, even trusted employees that have rendered

major services in the company's development and have reached important management positions are seen as members of the extended business family, despite they are not family members. They are, in a way, "adopted" business family members, who at least in their area of expertise have a great potential influence on decisions in the business family; for instance, as regards succession decisions, as they can contribute significantly towards the successor's quick acceptance in the company: employees can communicate expectations because they are interested in restricting membership in the business family to highly qualified and experienced family members in order to avoid putting their jobs at risk. In this manner, non-family managers can gain influence on the succession decision, by showing more or less support for potential successors from the family (Long and Chrisman 2014). Thus, family- and business-related expectations regulate the scope for the question: Who belongs to the business family? In addition, also family members who assume the primarily important social role for the business family (e.g. a mediating role in conflicts, looking after the children) can be accepted as members of the business family. This leads to a further two questions relating to basal decisions and thus extend the core of the essence approach of the enterpriseness of business: *Under what conditions can new family members be admitted into the business family or can members lose their membership in the business family?* These questions show the need for differentiating between family and business family: while the father will always be the father of his children and thus a family member, he will possibly only be a member of the business family as long as he holds a stake. Following a broader definition of the business family, a close kinship relationship (e.g. partner, child) with an active family member might be enough for a person to be included in the business family. If already children are defined as members of the business family, expectations regarding succession (whether in management and/or as owners) and related decisions regarding qualification requirements become a part of the business family's enterpriseness. Enterpriseness is to be assessed depending on the importance given to qualifications (prior to family membership).

A question directly linked to the question of membership rules, that is, inclusion and exclusion, is: *What legitimization strategies regarding membership do business families follow and what is the role of family and business expectations in this context?* Especially in families and business families, personnel decisions are particularly sensitive issues; if there is agreement concerning the legitimacy of such decisions, this can in fact make the decision feel less like a decision as such and decisions rather look like a "natural process". The reasoning for the "legitimacy" can be developed more or less explicitly and non-binding in order to avoid disappointments (Von Schlippe et al. 2017). The result of

these decisions can lead to consequences at very different levels and, especially if the legitimacy of a decision is questioned, relationship conflicts that are associated with negative emotions and potentially far-reaching consequences for the family and the business can be expected (Kellermanns and Eddleston 2004). Yet, decisions considered legitimate can also further trust, cohesion, commitment, tolerance, and other characteristics of family processes (see the related overview in Rieg and Rau 2017), which must be seen as major contextual factors for decisions in the business family.

Size and diversity of business families and the related membership decisions already indicate the opportunities for developing a pronounced enterpriseness provided by a differentiated social structure. As a rule, therefore, business families—even if they are small—have to be seen as a complex social field, where roles and positions tied to them are rarely predetermined, stable, and accepted, but are subject to more or less explicit negotiation processes and can change over time. A key decision usually ascribed to business families is succession. In the course of succession processes, a change in the social structure in terms of roles takes place (Long and Chrisman 2014). A closely connected question, which concerns most business families and the interface of family–business, is the socialization of descendants. The source of the entrepreneurial spirit is often considered to be rooted in the family. However, families differ in their approach to whether and how the entrepreneurial spirit is passed on from one generation to another (Zellweger et al. 2012). Socialization plays a major role in the transfer of values to the successors and a great share of the socialization process takes place within the family in early childhood years. Early childhood socialization has a broad reach. Later on, the socialization process expands to the business realm and is directed more specifically at potential successors (García-Álvarez et al. 2002). When values are passed on to potential successors, their commitment to the business might be encouraged and the likelihood of succession increased, as family members are more likely to take on an active position in the business and to have a higher satisfaction with the succession process when they are committed to the business (Dyck et al. 2002; Handler 1989; Sharma 1997; Sharma and Irving 2005). Whether and how values are passed on to the next generation can depend on the transgenerational orientation of business families, that is, the decision premise to keep the business in the family. In this regard, the question: *How do business families define their role for passing on values to the next generation?* is of interest. Business families can determine whether and to what degree they can offer a forum for raising the interest of their offspring in showing more or less enterpriseness.

In summary, it can be observed that the essence of enterpriseness of business families raises several questions concerning which business-related decisions should be taken by the business family only, inclusion/exclusion and thus boundary management, as well as the question of the related legitimacy. This establishes a framework that also influences what the business family, as an own separate system, sees as relevant for its decisions. Membership rules and roles are connected to expectations. The more emphasis is put on business matters, the more pronounced enterpriseness becomes. Yet, pushing back purely familial expectations too far might prove counterproductive, as family and business family (as well as family business) influence each other and a one-sided preference for business matters results in insufficient support of the family (see also Litz 2008). Deciding on the inclusion of persons creates an opportunity to integrate expectations that are more or less relevant to business and/or family into the business family, to stabilize them and thus to influence enterpriseness significantly. By admitting and ejecting members, not only size and diversity can be influenced directly but also the structure of business families concerning hierarchy and power, as well as processes taking place in this context (e.g. conflict, trust, cohesion). It must be kept in mind that the positions as well as the opportunities to exert influence need by no means be distributed equally in business and business family, but that different power structures might prevail in the business family than in the business (and family). The persons handing over power can still be influential in the business family, although ownership and management have long been passed on; they have the opportunity to realize their business expectations and so to influence enterpriseness (see also Harvey and Evans 1995). This depends on the circumstances determining how much influence they can exert: a business family that puts great emphasis on running a financially successful business, which is managed badly by the current generation, will possibly have to return the decision-making power to the previous generation (Frank and Hasenzagl 2005). This underlines the usefulness of clearly differentiating between family, business family, and family business.

Identity Approach from a Business Family's Perspective

Regarding the familiness of family businesses, family business identity "captures how the family defines and views the firm" (Zellweger et al. 2010, p. 57). Identities of social systems such as family businesses are based on self-descriptions (Frank et al. 2017) and also express collective self-conceptions towards different stakeholders (Memili et al. 2010a; b). Analogous to family

firm identity, business family identity captures how the business family defines and views itself in the context of the influence of the business. Thus, from an identity perspective, the central question for the business family is: *Who are we as a business family (compared to the family and the business)?* The business family's identity is constructed through narratives, with the family and the business forming many relevant contexts. Therefore, the identity of the business family has to rest on the differences to family and business. In this context, it must be pointed out that neither family nor family business needs to have an identity that is perceived by the business family system, in order to develop such an identity themselves. There are, for example, business families that clearly communicate that they do not see their business(es) as family businesses, yet have a clear identity as a business-*owning* family (Röd 2018). In this case, mutual ownership establishes identity, while the formally given property of a family business is communicated neither within the company nor vis-à-vis external stakeholders, as the intention is to avoid typical attributions (e.g. family businesses prefer incremental to radical innovations, Nieto et al. 2015, but the business operates in the high-tech sector driven by radical innovations).

Similar to family businesses, which oftentimes do not perceive themselves as such, although the majority of ownership shares and management positions are held by family members (Westhead and Cowling 1998), business families may not perceive themselves as such, because they may not reflect on themselves (and how they handle the influence of their businesses), their history and related decisions shaping this history and their future. In other words, identity does not exist in itself. As soon, however, the reasonableness of decisions made is discussed, and self-observation is a means for self-*assurance*, knowledge is created via itself. This self-conception may be only fragmentary or refer to the business family system as a whole; yet it shows that the construction of one's "own model", which illustrates the basic operational structure, is very likely (Willke 1993), particularly as the business and family context in which business families act is conducive to communicative self-observation and self-description. As soon as intentions to pass on the business within the family emerge, the family's entrepreneurial legacy may become imprinted on to the next generation (Jaskiewicz et al. 2015) and narratives may develop that resemble self-conceptions. It is thus quite plausible to assume that family cohesion, identification with the business, success and failure, consent and dissent, as well as the presentation as a business family to the outside world (see also Frank et al. 2017) influence the answer to the question: Who are we as a business family? However, certain topics may be avoided intentionally, as they point at conflicts and unsolved problems, failures, or

difficult decisions. Taboos control self-reflection—not communicating on certain topics and events is also a form of communication.

Admittedly, the assumption that business families have this *one* identity is a simplification. Already the reference point of the business as the object of reflection can bring forth different narratives and family branches which had leadership responsibilities in different generations might differentiate themselves as sub-systems, which develop and maintain their own separate identities. The question, therefore, is not only on what selections the development of an identity is based, but also *how and why do business families develop multiple identities?* As business families grow, members tend to pursue their own interests, their business goals tend to diverge, and their identification with the business tends to loosen (Zellweger and Kammerlander 2015). This may increase the potential for conflicts regarding the strategic direction of the business and may favor opportunistic behavior among different family branches or members that in the long run can affect the success and sustainability of the business (Kidwell et al. 2012) and the business family. Especially in larger business families, we can sometimes find different branches developing their own, distinctive identities (Suess-Reyes 2016) with every identity entailing dissimilar expectations with regard to involvement and essence; for example, one branch of the business-owning family is in charge of managing the business and preparing for leadership succession, whereas other branches are limited to their ownership function and not involved in the day-to-day business. Managing these diverging identities and anticipating or even avoiding negative consequences related to increasing "centrifugal forces" is a complex task and therefore a further central question is: *How do business families with multiple identities manage diverging expectations with regard to the business?*

How the business family defines itself also refers to its basic attitude towards the business and the family, providing crucial information about the importance it attributes to it. Basically, this focuses on the business family's emotional and/or economic relationship with the business. Supposedly, there are business families who view their business only as a source of income for family members, whereas others additionally have a truly emotional relation to the business and its history. When members draw affective meaning and value from membership in the business family, they usually share joint responsibility for the continuity of the business and may be willing to go to great lengths to retain the business in family hands (Zellweger et al. 2010). Yet family businesses can fulfil different functions for the business family (not limited to an emotional value), and business families tend to have various motivations

for investing time, money, and energy in their business(es). For some business families, continuing the family heritage and tradition is important (for others less), some would continue the family business even if economic returns reach a minimum (others not), some see the family business as a source of pride (others less), and so on. The (multidimensional) significance a business family ascribes to its business(es) therefore is of basal importance for developing its enterpriseness. A business family's reflective self-conception thus also regulates the influence of the business on the business family, that is, its communication processes and decisions.

Identity fulfils different functions, which can mainly be grouped into a sense-giving (Whetten et al. 2014; Zellweger et al. 2010) and a sense-making function (Fiol 1991; Weick 1995; Zellweger et al. 2010). It offers a frame of reference which provides behavioral norms for the business family. Consequently, within this frame of reference, the business family assigns meaning to behaviors (Ravasi and Schultz 2006; Zellweger et al. 2010) and differentiates between desirable and less-desirable behaviors. Thus, identity also has a normative aspect that becomes visible in how the business family acts inside and outside the business, creating an image that may impact behavior and identity. Oftentimes, the identity of business families is a marketing argument that stands for premium quality, trustworthiness, and a down-to-earth mentality, as a recent study shows (Maguire et al. 2013).

In summary, it can be said that the enterpriseness of the business family develops by means of structuring business-related expectations in the context of the family, based on the assumption that the dimensions of involvement, essence, and identity form a useful framework.

Model of Enterpriseness and Propositions

In order to specify the research questions below a model of enterpriseness and three *examples* of propositions are developed. However, this must not be seen as a direct recommendation to follow an empirical-quantitative research strategy, especially as the research deficit mentioned earlier rather suggests addressing the topic of business using qualitative methods first.

We assume that business families can be characterized based on involvement, essence, and identity, taking into account internal and external contextual factors, in order to understand their functioning. Enterpriseness emerges from the interplay of involvement, essence, and identity of the business family in the context of family- and business-related expectations. Decisions on the

size and diversity of the business family (involvement), on membership rules, and on the decision which decisions remain the preserve of the circle of the business family (essence), as well as on the self-conception as a business family (identity), form its enterpriseness. Concerning the three different dimensions of enterpriseness, mutual influences have to be assumed rather than any unidirectional effects. For understanding the specific mutual interactions, a qualitative research strategy is suitable, mainly because of the current lack of knowledge and the missing operationalization and validation of a scale of enterpriseness, but also because of the theoretical frame of reference (Fig. 11.2).

To understand enterpriseness, it is also necessary to take into account the contextual factors in which enterpriseness is embedded. These include mainly the business itself, the family structures, and processes (see Rieg and Rau 2017) such as the number of family branches, trust, cohesion, and so on. In a climate of trust and open communication, business-related expectations and decisions can be discussed more comprehensively, evaluated, and decided on more solidly in the family than in a climate of mistrust and conflict. Additionally, external contextual factors can play a role: a great degree of appreciation of the business family in the community can, for instance, increase the pressure to succeed for the business family and result in a more comprehensive discussion of business expectations in order not to disappoint

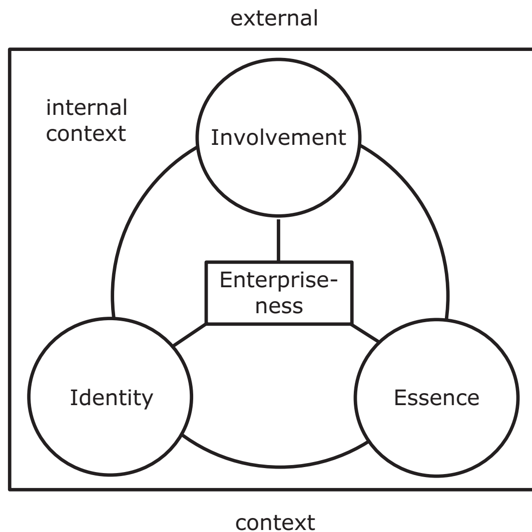

Fig. 11.2 The concept of enterpriseness and its dimensions

these stakeholders. A family business, on the other hand, that is not anchored in the local community and does not desire this can perhaps mostly ignore this contextual factor.

Based on the assumed interdependencies between the three dimensions, three propositions are developed below that each focus on one of the three "building blocks" of enterpriseness.

Depending on size and diversity of the business family, there are different ways of dealing with business-related expectations in a useful manner. The more family members are included in the business family, the greater its general capacity to seize and decide on the multiplicity of business expectations. The same holds true for diversity. It is even likely that increasing diversity makes it easier to deal with the potential variety of these expectations. On the other hand, it is also plausible that a very high diversity and a great number of members make coordination more difficult and further both the emergence of groups and conflicts (Zellweger and Kammerlander 2015), so that eventually family matters overshadow business matters and the business family becomes increasingly busy with itself. This leads to the following proposition:

Proposition 1a: There will be a curvilinear (inverted U-shaped) relationship between the size of the business family and the enterpriseness. Specifically, small and high numbers of business family members will lead to low enterpriseness, whereas a moderate number of business family members will result in higher levels of enterpriseness.

Proposition 1b: There will be a curvilinear (inverted U-shaped) relationship between the diversity of the business family and the enterpriseness. Specifically, low and high diversity will lead to low enterpriseness, whereas a moderate diversity will result in higher levels of enterpriseness.

Additionally it should be mentioned that, depending on the diversity, also other interconnections can be plausible and very large business families also have the option to avoid certain consequences of size by electing small committees.

Membership rules in business families are deemed particularly sensitive, as ultimately decisions regarding human beings are made. There can be particularly dramatic consequences if a family member working in the business has to be dismissed. As people maintain their status as family member in the business family, decisions that are perceived as hurtful are therefore a particular problem with potential effects that cannot easily be predicted and quantified.

This is true for both taking on and letting go family members. Families that are aware of such problems beforehand and are able, in a process free of conflicts, to agree to a form of family governance in which membership rules are developed that focus on business interests and are free of potential nepotistic or altruistic interests, have better chances to develop a functional enterpriseness. After all, it is quite plausible for business expectations to be discussed intensely in the business family, but the connected conflicts prevent the development of a distinctive enterpriseness, although a very distinct enterpriseness would be given (on distinctive and constrictive familiness, see Habbershon et al. 2003). This leads to the following proposition:

Proposition 2: There is a positive relationship between business families that develop membership rules for family members by means of family governance and a distinctive enterpriseness.

Business families can deal with their history and particularly the history of their business in manifold ways and address these to different degrees. There are numerous options available, from a secretive account of its status as a family business and the business history all the way to detailed historical presentations often even involving historians. Accordingly also the reflection on the business family's way of dealing with the influence of the business and the development of rules on how to manage this influence varies significantly and can be more or less reflected. Some family businesses have a written business history, in which also the family and its importance for the business are shown and can indicate a strong family business identity. These forms of mutual communicative self-constitution provide opportunities to determine and further develop the attitude towards the business and how to deal with business expectations, as a distinct identity as a business family is also an important premise for future decisions, and so can show an identifiable benefit. What is crucial in this context is in which family-internal context these self-descriptions are developed. A positive climate in the business family, that is, an open communication culture, trust, and emotional and cognitive cohesion (Björnberg and Nicholson 2007), can improve how the business influence is handled, compared to a culture that is characterized by dissent and conflicts. This can either facilitate or inhibit the development of a family business identity. This leads to the following proposition:

Proposition 3: A positive family climate moderates the relationship between the enterpriseness of the business family and the family business identity.

Specifically, the potentially positive effect of a good family climate reinforces the development of a distinctive enterpriseness.

These propositions call for a differentiated view on enterpriseness. This can—archetypically seen—be on the one hand highly or little pronounced in the sense of the degree of integrating business-related expectations into the business family's decisions. On the other hand, it can be a constrictive or distinctive enterpriseness. This distinction shows how good or bad the business family's decision-making regarding business expectations is and so creates the conditions for the chance to design its influence on the business in the sense of (constrictive or distinctive) familiness.

Discussion and Conclusion

Business families are subject to contradictory expectations that on the one hand concern the family and on the other hand concern the fact that business-related expectations have to be fulfilled. Furthermore, external contextual factors (e.g. the local community) and internal contextual factors (e.g. the business, trust, cohesion) may intervene in the structurally coupled systems. Therefore, the business family has to develop and implement some form of structures (stabilized expectations) that guarantee the condition of connectivity to both the family and the business and at the same time allow the business family system to develop its own meaning structures and decision premises. The development of the research agenda is based on a conceptual framework for the enterpriseness of business families, leading to a set of research questions that can potentially contribute to enhancing and deepening the understanding of the business family system as a system operating in the context of one or more families and of one or more family businesses (as well as additional contextual factors not addressed in this chapter, such as different external stakeholders) (Table 11.1).

The basal research questions developed also refer to the need for a certain degree of organization (as it is also expressed through family governance measures), which can contribute greatly towards the business family seeing itself as such and becoming as well as remaining able to make decisions (Suess 2014) and managing the liability of complexity. Family governance, or in a broad and comprehensive sense a certain degree of organization when dealing with business-related expectations, can thus be interpreted as a key aspect of enterpriseness (Caspary 2017). Implementing family governance measures is an expression of a development process that can range from a few very simple

Table 11.1 Research agenda

Involvement	Essence	Identity
How many members does the business family have and what is its diversity? What are the effects of size and diversity of business families?	What business-related decisions are to be made within the business family? On which considerations are membership decisions based? Under what conditions can new family members be admitted into the business family or can members lose their membership in the business family? What legitimization strategies regarding membership do business families follow and what is the role of family and business expectations in this context? How do business families define their role in passing on values to the next generation?	Who are we as a business family (compared to the family and the business)? How and why do business families develop multiple identities? How do business families with multiple identities manage diverging expectations with regard to the business?

rules up to detailed family constitutions. This means that business families as a social system are not just subject to a development process: also their formation is subject to a process that from a systems-theoretical point of view starts with a decision. In the beginning this can be fairly straightforward; there are, for instance, company matters that should not be discussed with non-family staff, to be discussed and decided on every first Saturday afternoon each month. By doing so, the unplanned discussion of topics, which is nonetheless ever-present in many families, without reflecting on which elements are family and which are business communication, is abandoned and a development process is initiated, which also leads to the question of development dynamics and logic (see Frank and Lueger 1995, 1997) of the system business family. The central question across all phases of development is always how the business family manages to live its enterpriseness and hence its tie to the business in such a manner as not to lose its tie to the family, that is, to develop a frame of meaning that goes beyond the individual systems (Von Schlippe et al. 2017).

Compared to familiness, the enterpriseness of business families does not focus on those resources and decision premises which the business family develops and implements for the company, but on those resources, decisions, and decision premises which the business family develops for itself because of the structural coupling with the family business and the family. While, thus,

the familiness focalizes the structural character of the family business through business family influence (e.g. Frank et al. 2017; Habbershon and Williams 1999), enterpriseness deals with the treatment of the business' influence on the business family, which acts in the context of the family. If the business family did not allow any influence of the business, it would have no enterpriseness and therefore be no business family. As a consequence, the business family must decide which business and family expectations it integrates into its own system-specific way of operations and how it deals with contradictory expectations arising from the different system logics of family and business. The idea is how the business family as a social system manages to develop its own logic while at the same time acting as a partner for family and business (Von Schlippe et al. 2017). If only business expectations were dealt with, the family character would be lost. Enterpriseness therefore develops also in the context of family expectations. What expectation and meaning structures are inherent in family and business, and which of these structures the business family uses, and hence decides what "makes sense" for it, provides an opportunity to determine its enterpriseness. In this respect, the familiness of the family business affects enterpriseness and vice versa. If and because family, business family, and family business all have their own rules (expectations), influences are processed according to the respective system-specific rules. Just as the influence of the family or the business family is processed according to the rules of the business family, the influence of the business on the business family is processed according to the rules of the system business family. Mainly founder families initially have problems in setting themselves apart from the business; for this reason, the business often becomes dominant and family communication is pushed back considerably. Only once communication becomes aware of this problem as such and deals with it, can rules be formulated that regulate how to treat family and business expectations and (subsequently) also emphasize decisions on which business expectations are tackled in the business family (and not with non-family members). This is more a balancing act than an attempt to achieve "maximum" enterpriseness.

Enterpriseness and familiness mutually influence each other. The more differentiated the expectation and meaning structures of the respective system are, the more this influence will be formed according to these rules. This is the main argument in favor of enterpriseness: we assume that the differentiation of a separate business family system for this reason alone is not just functional, that is, contributing to the survival of family and business, but also has to be interpreted as an expression of professionalization. It has to be kept in mind, though, that, within a systems-theoretical approach to enterpriseness,

involvement, essence, and identity are to be interpreted as mutually influencing (non-overlapping) meaning structures. Hence diversity regarding age and gender is already an expression of essence, because it is based on (more or less explicit) decisions, and the diversity characteristics—age and gender—can have an influence on the decision behavior in the business family and produce multiple identities. The specific ways of operation always have to be kept in mind: it can make a difference whether a democratic or patriarchal leadership style is practiced in the business family. At the same time, diversity is about how to deal with differences, which can influence enterpriseness. In this connection it has to be said that involvement and essence can be controlled and designed through decisions much more than the identity of enterpriseness. Identity is more likely to manifest itself as a phenomenon that can be decided on only with difficulty or not directly, that is, as an expression of the emerging business family culture (see also Luhmann 2000, who conceives organizational culture as a non-decidable decision premise).

This chapter contributes to further integrating the business family into family business research. We can recently notice a shift towards a stronger focus on a family perspective as a reaction to multiple calls made in family business research (e.g. Danes and Stafford 2017; Sharma et al. 2012, 2014). In this regard, the chapter at hand provides a structured agenda for addressing research questions that aim at a more comprehensive understanding of the business family than currently available. A stepwise response to the questions raised will contribute to sharpening our picture of business families and their influence on and importance for family businesses systematically. As Sharma et al. (2012) state, it is crucial "to deepen our knowledge of variables related to the family system so we will better understand why, when, and how its characteristic attributes are likely to influence the behaviors and performance of the family firms" (p. 86). By establishing a more profound understanding of the business families, family business researchers can develop a more holistic understanding of family businesses.

This chapter is naturally not without limitations. The topics and questions that we introduced are of course not all-encompassing and to some extent selective. Furthermore, another theoretical lens can lead to different questions and a different research agenda. We strongly have to emphasize that the heterogeneity of families, business families, and family businesses has mostly been neglected in this chapter, although a great influence on enterpriseness has to be assumed. Therefore, we invite further family business scholars to engage in the discussion in order to address and extend our research agenda.

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12

Corporate Governance Codes: How to Deal with the Bright and Dark Sides of Family Influence

Stefan Prigge and Felix K. Thiele

Introduction

Since the Cadbury Report was published in the UK in 1992, many countries and supranational organizations, like the Organization for Economic Cooperation and Development, have developed and introduced corporate governance codes (Nordberg 2011). These codes are defined as "sets of recommendations on good corporate governance, primarily concerning the structure, organization and decision processes" of listed companies (Thomsen and Conyon 2012, p. 98). Most codes work on a voluntary "comply or explain" basis and can be regarded as soft law. Thus, they depend on a strong de facto binding force caused by a required compliance disclosure (Thomsen and Conyon 2012; Cuomo et al. 2016). This works for the rather homogenous group of listed companies, as these have similar ownership structures and depend on their access to the capital markets. However, a direct transfer of these rather strict

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E. Memili, C. Dibrell (eds.), *The Palgrave Handbook of Heterogeneity among Family Firms*,
https://doi.org/10.1007/978-3-319-77676-7_12

code concepts to unlisted family firms does not promise to be successful and might even be harmful to family-owned businesses (Lane et al. 2006). Among other things, this is due to different models of corporate governance and, thus, a stronger heterogeneity of private family firms compared to listed companies. The various governance constellations particularly result from the overlapping of the three systems: business, ownership, and family (Tagiuri and Davis 1996; Gersick et al. 1997; Chua et al. 2012; Nordqvist et al. 2014).

Against this backdrop, corporate governance codes specific to private family firms have been established in many countries (Cuomo et al. 2016). In contrast to the aforementioned corporate governance codes, those specific to family firms consider the family next to the business perspective (e.g., German governance code for family firms 2015). Therefore, it can be expected that the main contribution of these codes is to provide recommendations with respect to the positive and negative effects of the family's involvement in the management and ownership of the company. A positive effect, for instance, is linked to an alignment of management and ownership, which decreases the potential for conflicts and lowers agency costs for monitoring management (Jensen and Meckling 1976; Chrisman et al. 2004; Miller and Le Breton-Miller 2006; Villalonga and Amit 2006; Dawson 2011).

However, "family firms are anything but immune to the problems of principal-agent dysfunction" (Chrisman et al. 2004, p. 338), as, for example, family CEOs who control the firms' resources might misuse their power to extract private benefits at the expense of the other family owners. Free-riding (decreasing work effort) or nepotism (favoring relatives) can be the further negative aspects of the family's involvement in the business (Chrisman et al. 2004, 2012; Dawson 2011). Overall, the characteristics of managerial behavior in family firms can range from a self-serving, economically rational behavior postulated by agency theory to a self-actualizing, collective-serving behavior suggested by stewardship theory. Particularly, stewardship seems to be the more effective form of governance (James et al. 2017).

Based on this, the present study investigated the following research questions:

1. How and to what extent do corporate governance codes specific to private family firms address the bright and dark sides of family influence?
2. Do the codes' recommendations assume more of an agent- or a steward-like behavior of the involved family members?

To answer both questions, the study drew upon the arguments of both agency and stewardship theories and particularly focused on family involvement at three levels: the CEO level, the top management or below, and the ownership level. An international sample of codes from eight different countries was analyzed and the analysis followed a qualitative methodological approach by using

a content analysis technique to compare the corporate governance codes specific to family firms and their respective recommendations.

The contribution of this chapter to literature is twofold. First, it contributes to the existing knowledge of the influence of families on their business. This study analyzed code recommendations that represent how the family's involvement is handled in practice (best practice recommendations). Thus, insights from an international code sample can be beneficial for both theory and practice. Second, the findings of this study can be relevant for the literature on corporate governance codes. There are, of course, comparative studies on corporate governance codes for listed firms (e.g., Aguilera and Cuervo-Cazurra 2004, 2009; Hermes et al. 2006; Zattoni and Cuomo 2008; Cicon et al. 2012). However, to the best of the authors' knowledge, there is no study dedicated to the comparison of codes for private firms and particularly for private family firms, though this group of firms represents the majority of companies in a lot of countries.

The structure of the chapter is as follows: The next section describes the insights from the existing literature regarding the family's positive and negative influence on the business by using the perspectives of agency and stewardship theories. This is followed by a description of the methodological approach. Subsequently, the results of the code analysis are presented and discussed. The chapter closes with a short conclusion.

Family Involvement and Influence

According to Chua et al. (1999, p. 25), a family business is "a business governed and/or 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 or a small number of families […]." Thus, family businesses are influenced by their owner families, which possess a dominant ownership proportion and participate at the management or advisory board levels. Nevertheless, extant literature reveals that neither is a family a homogenous group of people with aligned interests, nor are all family businesses the same, as many different governance structures exist (Gersick et al. 1997; Sharma et al. 1997; Chrisman et al. 2004; Chua et al. 2012). Nordqvist et al. (2014), for instance, established a typology of nine family firm governance structures based on different configurations of management and ownership. The heterogeneity of family firms is further illustrated by the results of empirical studies. For example, Schmid et al. (2015) found that corporate diversification decisions differ significantly between firms simply owned by families and those owned and actively managed by owner families.

All in all, it can be assumed that the owner families' scope of influence can be diverse and impact decision-making both positively and negatively. Therefore, it can be expected that corporate governance codes specific to family firms mainly aim at providing recommendations to support the bright side and curb the dark side of family influence. To present the insights of existing literature into the potential positive and negative effects of family involvement, the present study focused on three areas of family involvement:

1. Family members as CEO
2. Family members in the top management or the lower levels in the business
3. Relationships among family owners and between family owners and family members without shares

Family Member as CEO

From an agency theory perspective, the relationship between owners as principals and CEOs as agents is the most prominent example of agency problems (agency problem I) (Villalonga et al. 2015). It results from a separation of ownership and control and assumes that a hired manager will act in a self-interested manner and, thus, pursue goals that are different from those of the owners if the right incentives and monitoring are not in place (Berle and Means 1932; Ross 1973; Jensen and Meckling 1976). However, the monitoring of the agent's behavior to be in line with the principal's objectives causes agency costs. The task is easier if ownership is concentrated among individuals or a small group of persons (Jensen and Meckling 1976; Villalonga et al. 2015). In the case of family firms with owner-managers, extant literature further assumes that agency costs will be insignificant or even zero due to the alignment of interests (Jensen and Meckling 1976; Chrisman et al. 2004).

Nevertheless, this constellation can still lead to new agency problems specific to family firms, such as misinterpreted altruism, self-serving behavior, or problems of self-control, which offset the reductions in common agency costs (Schulze et al. 2001; Chrisman et al. 2007). These new problems might occur, for instance, if a family CEO with enough voting rights misused their power to extract private benefits at the expense of the other family owners or overrule these owners in decision-making. Free-riding and hiring of cronies or incompetent family members can also lead to conflicts of interest between family CEOs and other family owners (Schulze et al. 2001, 2003; Chrisman et al. 2004, 2012; Miller and Le Breton-Miller 2006; Dawson 2011).

In contrast to agency theory, stewardship theory posits that stewards (managers) are intrinsically motivated and act altruistically for the collective good

and the benefits of the business and its principals (owners) (Donaldson 1990; Davis et al. 1997). "Even where the interests of the steward and the principal are not aligned, the steward places higher value on cooperation than defection" and subordinates personal goals to the owners' goals (Davis et al. 1997). According to Miller and Le Breton-Miller (2006) and James et al. (2017), this kind of relationship is particularly prevalent among family-owned businesses, in which the leaders are family members. The authors stated that especially family CEOs can be associated with stewardship motives like higher commitment, longer job tenures, or farsighted investment decisions. Thus, the goals of principals and stewards are commonly aligned if both parties pursue the same vision for the business (Chrisman et al. 2007). Consequently, monitoring is not necessary and, in some cases, even counterproductive (e.g., destruction of trust). Instead, stewards need to be granted autonomy so that they can decide on their own how to achieve the objectives (Davis et al. 1997; Velte 2010). However, the latter can also lead to hazardous decisions if the controlling family CEO takes too risky decisions or resists action (stagnation) (Miller and Le Breton-Miller 2006).

In the previous discussion on agency and stewardship theories, the positive and negative aspects of family CEOs have been outlined and the arguments for both theories to be prevalent in the context of family firms have been emphasized (James et al. 2017). Therefore, in terms of analyzing corporate governance codes specific to family firms, this raises the question as to whether the codes expect family CEOs to behave more as agents, which can lead to, for example, self-control problems, or as stewards. This fundamental decision can be linked to the assumption that if family CEOs behave more like agents, the codes should recommend imposing agency cost-control mechanisms on family CEOs (Chrisman et al. 2007). The introduction of monitoring mechanisms can be justified based on the specific agency problems that occur in the case of owner-managers. Some existing studies also reveal that family CEOs are not necessarily driven by a common family interest (Gomez-Mejìa et al. 2001). The degree to which agency control mechanisms are required from family CEOs depends on the extent to which these family managers act as stewards (Chrisman et al. 2007). Contrarily, if the corporate governance codes assume that family CEOs behave more like stewards, they can be expected to recommend fewer agency cost-control mechanisms.

In line with the aforementioned arguments, codes are further expected to recommend independent (non-executive) directors to the board (one-tier system) or the establishment of an independent supervisory board (two-tier system) as a mechanism to ease agency threats due to the unchallenged control of family CEOs (Schulze et al. 2001; Miller and Le Breton-Miller 2006; Villalonga and

Amit 2006; Villalonga et al. 2015). Both tools can lead to a more objective monitoring of the discipline and performance of family managers (Miller and Le Breton-Miller 2006). Moreover, in practice, the role of non-executive directors or voluntary boards in family firms varies from being that of an advisor or advising entity to being a supervisor or a more monitoring entity. Therefore, it can be argued that corporate governance codes specific to family firms emphasize the independence of these directors or entities if they tend to assume an agent-like behavior, which requires supervision rather than consultancy (Velte 2010).

Existing family ties between agents (CEO) and principals can further lead to a contracting that differs from economic rationality (Gomez-Mejía et al. 2001). It can be assumed that family-related contracting (partly) decouples the agent's employment from performance, as this evaluation might be subjective and biased due to the principal's emotional attachment to the agent and, thus, his/her positive expectations concerning the agent's behavior (Gomez-Mejía et al. 2001; Chua et al. 2009). Thus, corporate governance codes might suggest a more formal performance evaluation and the corresponding incentives to professionalize the family business (Chua et al. 2009). Contrarily, extrinsic or financial incentives are less relevant if stewardship represents the dominant behavior (Velte 2010). Overall, extant literature suggests the application of formal governance—for instance, performance evaluation or written guidelines—and the offering of incentives to both family and non-family agents (Schulze et al. 2001, 2002). Against this backdrop, corporate governance codes are expected to propose guidelines that apply equally to family and non-family CEOs. Furthermore, it can also be useful to increase external accountability to reduce agency costs due to family CEOs and enhance the provision of information toward family owners (Gomez-Mejía et al. 2001). Therefore, the recommendations of corporate governance codes specific to family firms can be assumed to include, for example, external audits to increase the objectivity and validity of results.

Family Members in Top Management or Lower Levels

Agency problems unique to family-owned businesses are often linked to the construct of altruism. Altruism creates in each employed family member a feeling of being a de facto owner. Based on agency theory, this could lead to an alignment of interests, reduction of monitoring costs, and a decrease in information asymmetries (Schulze et al. 2002). However, altruism can also create new agency costs by providing incentives for family members to shirk, free-ride, or develop self-control problems. Furthermore, family agents might use the company's resources to enhance their own or the family's welfare through

secure employment, excessive consumption, or other privileges (Schulze et al. 2002, 2003; Chua et al. 2003; Chrisman et al. 2004; Chua et al. 2009).

The mentioned issues become especially significant in the case of owner-parents and family agents. Such parent-altruism might lead to more generous compensation packages for children compared to non-family managers or employees, even though the effort and competences may not justify this. Moreover, parent-owners may have difficulties monitoring and disciplining their children as agents, leading to biased perceptions of performance and making contract enforcement and punishment for poor performance more difficult (Schulze et al. 2001, 2003; Chua et al. 2003, 2009; Chrisman et al. 2004).

Altruism can also be relevant from the perspective of stewardship because the underlying framework can encourage family managers to subordinate their own goals to the firm's objectives and consider the effects of their actions on the firm and the family. Moreover, altruism can enhance family involvement and participation, foster a collectivistic organizational culture, and decrease conflicts (Zahra 2003; Corbetta and Salvato 2004; Kellermanns and Eddleston 2004; Eddleston and Kellermanns 2007). In terms of multiple stewards (family members) involved in the business, extant literature suggests that this can only be beneficial for the firm if no rivalries occur. However, if conflicts arise, factionalism might be the consequence, which decreases stewardship (Miller and Le Breton-Miller 2006).

Against the backdrop of the mentioned aspects, corporate governance codes specific to family firms can be assumed to recommend a fundamental decision regarding the involvement of family members in the business. Such a decision would comprise defining whether the business or the family is the main reference point in decision-making ("family first" vs. "business first" approach). If the intention is to actively involve family members in the firm, it can be further expected that the codes' recommendations will follow solutions suggested by extant studies. Schulze et al. (2001), for instance, suggested the application of objective measures for the performance evaluation of family agents and to tie (parts of) their wages to these objective measures. Following this, it can be assumed that corporate governance codes recommend that the family members are paid an objective and market-based remuneration, which equals that of non-family managers or employees. That would avoid the self-serving activities of non-family managers or employees, which might result from unjustified promotions or privileges for family members (Schulze et al. 2002). In the same vein, corporate governance codes specific to family firms might additionally propose to define objective qualification criteria for hiring or promoting family members, as well as to determine the process and authority of the mentioned decisions.

Relationships Among Family Owners and Between Family Owners and Family Members Without Shares

Additional conflicts of interest can arise in the context of the family at large, which mainly involves relationships among family owners as well as between family owners and the non-shareholder family members. Villalonga et al. (2015) defined this as agency problem IV, in which family owners act as agents to the whole family (defined as the super-principal). "As agents of the family to which they belong, family shareholders are for instance entrusted with preserving and enhancing the family legacy (a key objective of the principals), given that the family firm, over which shareholders are delegated control by the family, is central to that legacy" (Villalonga et al. 2015, p. 644). This type of principal-agent relationship is particularly relevant in the context of succession. The previous generation decides which family members can and will be the succeeding shareholders and transfers the ownership, for example, via gifts, inheritance, or sales. Nevertheless, family firms are vulnerable to conflicts during and after this process—especially when the ownership is split into equal parts among family factions, which can lead to rival ownership blocs (Schulze et al. 2003; Miller and Le Breton-Miller 2006; Villalonga et al. 2015).

Although family owners, as part of the family, are likely to share some or most of their principal's objectives (which can result in aligned interests), they are also likely to have their own objectives, which may clash with those of the family at large. A common example is linked to the expected amount of dividends paid. These expectations often vary between active and passive family shareholders (Miller and Le Breton-Miller 2006; Villalonga et al. 2015). Since such conflicts can affect the business and its performance, it is useful to prevent conflicts via different contracts at the family level (e.g., family constitution or assemblies) or by clearly defined exit options for the family owners who are not willing to participate in the family firm any longer or who need further liquidity (Kellermanns and Eddleston 2004; Nosé et al. 2015; Villalonga et al. 2015).

Three assumptions can be made based on the insights gained from extant literature into family owner conflicts and agency relationships between family owners and other family members in the context of corporate governance codes specific to family firms. First, it can be assumed that particularly the issues of dividend payments and exit options, which represent areas of potential conflicts between owners, are part of the codes' recommendations. Thereby, the codes might recommend a clear definition of exit options and tying the amount of dividends paid to objective performance indicators.

Second, further family governance measures can be expected to be suggested to prevent conflict and determine aligned objectives among family members (Villalonga et al. 2015). This can also include guidelines for the family owners who actively represent the whole family in the business. Third, it can be assumed that corporate governance codes specific to family firms will recommend different measures on how the present generation can prepare the subsequent one to take over the role of family owners or even of managers. This not only helps to align the interests between new and former shareholders, which can reduce agency problem IV, but also helps avoid family conflicts that might harm the business performance.

Methodology and Data

The present study followed a qualitative research approach to collect and analyze existing corporate governance codes specific to family-owned businesses. The search and selection process started with the definition of the search terms. The search terms were formulated in German and English and consisted of various combinations of the following terms: "governance," "corporate governance," "codes," "principles," "guidelines," "family firms," "family businesses," and "family companies." Following the standards of extant comparative studies (e.g., Cicon et al. 2012; Cuomo et al. 2016), the main source of code documents was the rather comprehensive website of the European Corporate Governance Institute (ECGI) (www.ecgi.org/codes/). Nevertheless, extant literature indicates the existence of further code documents that were not at all listed on the ECGI website or their latest version was not available (e.g., Hirsch 2013; Cuomo et al. 2016). Therefore, an additional Internet research, using Google as well as the websites of other international corporate governance associations, was also done.

Overall, the search and selection process resulted in 10 corporate governance codes that explicitly focus on family-owned businesses. Codes concentrating on small and medium enterprises (SMEs) or private companies were neglected, even if they contained a specific section of family firms. The sample was derived from different countries across the world. Due to language restrictions, the codes from Spain and Colombia were excluded, as they were only available in Spanish. Even when this text was being written, a code for private family firms was being prepared in Italy (finally disclosed in October 2017). In total, eight code documents were analyzed. As the Austrian and German codes have the main initiator in common, the documents are very similar. Table 12.1 summarizes the key facts about the selected corporate governance codes.

Table 12.1 Sample overview

Country	Name	Year of publication	No. of revisions	Language	Type of code issuer	Length	Main goal	Source
Austria	*Österreichischer Governance Kodex für Familienunternehmen*	2017	2	German	Private consulting firms	24 pages	Help business-owner families to ask the relevant questions and to find answers that are individually tailored to the situation specific to the business and the family involved	Internet search
Finland	Good corporate governance in family business—governance of ownership, business, and family	2009	1	English	Private association	20 pages	Help family firms develop their corporate governance practices and thereby improve their competitiveness	Internet search
Germany	Governance code for family businesses. Guidelines for the responsible management of family businesses and business-owner families	2015	2	English	Private associations and consulting firm	40 pages	Help business-owner families to ask the relevant questions and to find answers that are individually tailored to the situation specific to the business and the family involved	Hirsch (2013)
Kosovo	Governance guide for family-owned businesses	2015	0	English	Private association	52 pages	Pinpoint the most common corporate governance challenges, and propose good practices that can help to overcome these challenges	Internet search

Netherlands	The family business governance report. Practices and recommendations	2003	0	English	Private association	48 pages	Contribute to developing good governance of family businesses	Hirsch (2013)
Pakistan	The corporate governance guide family-owned companies	2008	0	English	Private association	28 pages	Support sustainable growth and long-term value creation in family-owned companies	Hirsch (2013)
Switzerland	*Governance* für *Familienunternehmen. Familie, Unternehmen, Umfeld*	2011	1	German	Private consulting firms	36 pages	Point out how various measures can enhance family firm professionalization	ECGI Internet search
Turkey	Governance guide for family companies—"in the light of corporate governance principles"	2010	0	English	Private association	58 pages	Support family businesses to pursue corporate governance best practices	Internet search

From the table, one can observe that the majority of the code documents were derived from European countries. Furthermore, two documents (Austria and Switzerland) were only available in German, while the other six documents were published in English. The year of (first) publication varies from 2003 (the Netherlands) to 2017 (Austria). Four documents have never been revised since publication, while two documents have been revised once and two documents twice. Looking at the type of code issuer, it should be noted that the codes have been issued by private family businesses or corporate governance associations (five documents), private consulting firms (two documents), or by a cooperation between a private association and a consulting firm (one document). The length of the documents varies between 20 and 58 pages and the codes' goals mainly focus on supporting the development of good corporate governance practices, improving the professionalization of family businesses, or helping the owner families to craft an effective corporate governance structure for their specific circumstances.

As mentioned in the beginning, the present study used a content analysis technique to compare the corporate governance codes specific to family firms and their respective recommendations. Thereby, the following procedure was applied. First, both authors separately read every code document and started the analysis by establishing a system of codings and higher-level categories. Second, the two separate lists of categories were compared, discussed, and merged into a single list of categories. Based on this, both authors reviewed their codings once again and amended, wherever necessary, the assignment of codings to certain categories. Overall, the procedure was conducted to increase the validity and objectivity of the analysis results. In the end, the analysis yielded 447 codings and 19 categories belonging to the three areas of family involvement mentioned above (as shown in Table 12.2).

Analysis and Findings

Family Member as CEO

Three of the analyzed codes (Finland, Kosovo, and Switzerland) deal with the family CEO more prominently. Especially Finland and Kosovo represent quite different opinions about whether the family CEO acts more like an agent or a steward. Finland is the most extreme representative of the stewardship position. It describes the family as the super-principal in a broader sense than Villalonga et al. (2015) did. The owners of the active generations are expected

Table 12.2 List of categories of codings

Area of family involvement	Categories of codings	No. of codings
Family member as CEO	Relationship between family CEO and family owners	13
	Moral binding of family CEO	6
	Written guidelines for family CEO	13
	Family CEO (top management) incentives	18
	Monitoring of family CEO	12
	Role of boards (supervision vs. advice)	30
	Board incentives	12
	Independent board members	22
	Provision of information toward board and owners	26
	Auditor	13
Family members in top management or lower levels	Family first vs. business first	13
	Family top management (qualification, remuneration, promotion)	42
	Family non-top management (qualification, remuneration, promotion)	31
Relationships among family owners and between family owners and family members without shares	Dividends	17
	Family as principal (norms, values, etc.)	47
	Intra-family owner conflicts	27
	Next generation	33
	Prevention of intra-family conflicts	64
	Written guidelines for family board members	8
		447

to act like stewards: "Ownership of a family firm is often considered to be a gift from the previous generations or as a loan from successive generations. The aim of the family firm is to transfer the company to the next generation in better condition than it was when received from the preceding generation". (Finland 2009, p. 5) This statement refers to family owners, but the expectations from a steward can also be assumed to apply to the family CEO. This interpretation receives further support, as the family members active in the family firm are expected to work in an "exemplary manner" (Finland 2009, p. 12). However, despite the general stewardship perspective, the Finnish code still recommends monitoring and incentivizing tools that typically address agency problems. The Dutch, Austrian, and German codes have a similar view on owners as stewards, but in their discussion of monitoring and incentivizing, they do not distinguish between family and non-family CEOs.

Kosovo is located at the other end of the spectrum. For family firms that exceed a certain size, the Kosovan code recommends explicitly a non-family CEO (Kosovo 2015, p. 13), presumably because family shareholders might have partly conflicting goals, especially in mature family firms (Kosovo 2015, p. 12).

In its essence, this code assumes that the specific facets of agency problem I, caused by the "family member" status of the CEO, outweigh the advantages of having a family member as CEO, as discussed above (cf. Jensen and Meckling 1976; Chrisman et al. 2004). Accordingly, the code proposes the implementation of typical monitoring tools like independent non-executive directors in charge of overseeing management performance and internal and external auditors. The code seems to suggest these tools mainly for the recommended non-family CEOs. But following the code's reasoning that family CEOs might cause family-specific agency problems, one may conclude that these monitoring mechanisms are also advisable for a setting with a family CEO.

The Swiss code also explicitly addresses the family CEO. In the case of a strong concentration of power in the family CEO, a mainly independent monitoring board is recommended as a counterforce (cf. Miller and Le Breton-Miller 2006). The code underlines that monitoring feedback loops should also apply to family managers. But it gives no hints as to whether this recommendation only addresses incapable family managers or the opportunistic ones too (agency perspective). Thus, there is some mistrust in a family CEO, but it does not rest on specific agency reasoning.

The other codes do not specifically discuss the family CEO. The Austrian, Dutch, and German codes recommend appointing independent non-executive directors. Whereas the Dutch code emphasizes their advisory function, the Austrian and German codes also mention their monitoring function. Since the two codes do not distinguish between family and non-family CEOs, the monitoring function also includes the family CEO. The Turkish code underlines the missing separation of ownership and control in family firms, as well as the family's loyalty to the family firm (Turkey 2010, p. 27). Thus, it seems that the Turkish code assumes an advantage of family firms with respect to agency problem I. However, this reasoning does not play a role in the Turkish code, as, like the Pakistani code, it considers agency problem I issues like general corporate governance codes with just a few family-firm-specific considerations.[1]

In conclusion, the codes take a typical agency perspective on the non-family CEO. The family CEO is only rarely discussed directly. The Kosovan code stands out with a clear recommendation against a family CEO—for instance, it emphasizes the importance of family-specific facets of agency problem I. The other codes are less consistent. Even when they seem to tend toward a steward

[1] The quite general approach of the Turkish code might be due to the fact that the organization that developed the code for family firms, the Corporate Governance Organization of Turkey, also set up other corporate governance codes for specific settings—for instance, the Codes for Turkish Football Clubs.

perspective of family CEOs, they nevertheless recommend the installation of monitoring and incentive structures typically applied to curb agency problem I. This is in line with the results of James et al. (2017) which presented arguments for both governance approaches, even though stewardship seems to be more effective. Table 12.3 summarizes the analysis results for each code regarding the first area of a family member as the CEO.

Family Members in Top Management or Lower Levels

"Business first" versus "family first" is a very fundamental decision to be taken by the family. It has a major impact on the prevalence of altruism in the family firm. All codes cover this topic either explicitly or implicitly, and in the end, all codes favor a business-first approach. The Turkish code suggests the family constitution for documenting the family's preferences in this respect. Though they do not label it "altruism," the Dutch, Kosovan, and Turkish codes describe, even with specific examples, the potential consequences of a family-first policy. The families should be aware of potential consequences while deciding to deviate from a business-first policy and behave altruistically. The strongest statement can be found in the Dutch code (p. 28): "The family business will need to realise that affording precedence to family members has a price: talented non-family members will sooner or later look for career opportunities elsewhere. Such a family business will find it hard to recruit external talent."

Barring family members from any top management team (TMT) position or lower in the family firm would eliminate a major reason for altruistic problems, but would, at the same time, cut off the firm from profiting from the positive effects of family involvement (cf. Schulze et al. 2002). Only the Austrian and German codes go to the extent of asking for a decision from the family on whether the family members will be allowed to work in the family firm at all.

Except for the Pakistani code, which is very brief on this topic, all the remaining codes, while differing in terms of the extent of detail, further specify what equal treatment of family members and non-family members implies. As discussed in the literature section, the codes typically mention equal payment and equal standards for hiring, performance evaluation, promotion, and dismissal (cf. Schulze et al. 2001). Furthermore, the decision-making authority should be determined. In the case of appointing family members to high-level positions, the involvement of non-family members in decision-making is often proposed. All in all, the codes reflect the dark sides of altruism discussed in the academic literature and suggest how to limit the negative effects. Table 12.4 summarizes the content of each code in this respect.

Table 12.3 Summary of code content concerning family members as CEO

Issue	Austria and Germany	Finland	Kosovo	Netherlands	Pakistan	Switzerland	Turkey
Explicit or implicit assumption about family CEO's behavior (agent or steward)	Indirect steward assumption: Code assumes steward behavior of owners	Indirect steward assumption: Code assumes steward behavior of owners. Family members active in family firm are expected to work in an exemplary manner	Especially in mature family firms: Family CEO does not necessarily act in the best interest of all family shareholders → agency perspective	Indirect steward assumption: Code assumes steward behavior of owners	No	Some mistrust against family CEO, but no specific agency reasoning	Absence of separation of ownership and control, and loyalty of family members to family firms are managerial advantages of family firms. Without mentioning monitoring purposes explicitly, establishment of a family board is recommended for coordination among family shareholders with executive positions and family shareholders who do not hold an executive position in the family firm
Agency cost-control mechanisms recommended in case of family CEO	Not covered as there is no distinction between family CEO and non-family CEO			Not covered as there is no distinction between family CEO and non-family CEO	Code is very general on this aspect, i.e., not family-firm-specific, corporate governance considerations		Code is very general on this aspect, i.e., not family-firm-specific, corporate governance considerations

Independent non-executive directors with clear monitoring task recommended		If not mandatory, establishment of supervisory board with the instruction to supervise management is recommended; supervisory board should also include some independent members	Yes		Control mechanisms like board with a majority of independent non-executive directors also important in case of a family CEO
High degree in formal governance (e.g., written guidelines, advanced requirements for (audited) reports)		If not mandatory, voluntary external auditing recommended; written management contract also for family executives; written definitions of responsibility areas of CEO and board	Yes, e.g., annual report by board of directors, audit committee, internal audit function, external auditing		Written organization structure, leadership principles; adequate reporting system enabling monitoring by non-executive directors

(*continued*)

Table 12.3 (continued)

Issue	Austria and Germany	Finland	Kosovo	Netherlands	Pakistan	Switzerland	Turkey
Performance evaluation		Professional development of family managers should be evaluated	Board of directors oversees management performance			Legal obligation of (monitoring) board	
Incentivizing recommended		Yes, but it seems to address implicitly mainly non-family CEOs; incentivization should be linked to long-term continuity of family firm	Yes, but refers implicitly to non-family CEO recommended above; linked to long-term development of company			Not forcefully; if there is a performance-related component in the remuneration it should be long-term oriented	

Table 12.4 Summary of code content concerning family members in top management or lower levels

	Family first vs. business first	Performance evaluation, promotion, and wages of family members
Austria and Germany	Clear decision recommended regarding the relative priorities of the interests of the company, the family, and single family members	Basic decision has to be taken whether family members should work in the family firm at all Definition of objective and transparent criteria as well as definition of responsible decision-making authority for hiring and dismissal of family members Equal treatment of family and non-family TMT members Involvement of non-family members recommended in decision of hiring family members for or dismissing them from the TMT
Finland	Not covered, but implicitly favoring business first	Equal treatment of family members and non-family members. But: "If any exception are made to this rule, they must be generally known by the executives of the company" (p. 12)
	Underlining that there are effects on the whole organization if treatment of family members is not based on achievements and personal abilities	
Kosovo	Not explicitly covered, but explicit discussion of potential consequences of a family-first policy, e.g., employing more family members than needed, keeping unprofitable lines of business alive. Examples show that code clearly favors business first	Equal treatment of family members and non-family members; market-based remuneration; performance evaluation system Definition of clear family employment policy, including objective position requirements and grounds for dismissal of family members No recommendation to involve non-family members in family member employment policy

(*continued*)

Table 12.4 (continued)

	Family first vs. business first	Performance evaluation, promotion, and wages of family members
Netherlands	Basically in favor of business first	Generally, equal treatment of family members and non-family members recommended. When, as an exception, a family member is given preference for management positions, this should be explained to non-family candidates
	Discusses potential consequences of even slight deviations from a business-first policy	Clear rules for hiring family members, definition of requirements and hiring authority; in case of hiring family members for TMT positions, involvement of non-family board members recommended
		Extra discussion of management succession: Family council should agree in advance on qualification criteria for next generation and on decision-making process
Pakistan	Not explicitly covered, implicitly in favor of business first	No detailed discussion, just a few points briefly mentioned: no discrimination between family members and non-family members; employment policy based on qualifications and experience
Switzerland	When family takes the decision on business first, family first, or an intermediate solution, it should be aware of the decision's consequences for family and family firm	Equal treatment of family members and non-family members (explicitly includes dismissals of family members due to weak feedback results); preferential treatment of family member when family member and non-family member dispose of equal aptitude
	Contents of code clearly favors business first	Market-based remuneration for family members. Pre-defined qualification criteria and decision-making authority; in case of family members applying for executive positions, non-family experts should be involved in decision-making
Turkey	Family constitution appropriate document to state whether business first or family first applies; code contrasts basic characteristics of family-first and business-first family firms. Nevertheless, the code is not neutral and favors business first (p. 16)	Description what business first means: equal treatment of family members and non-family members: Family council and advisory committee (including non-family members) set up qualification requirements for potential family TMT candidates, advisory board might also be involved in selection process

Relationships Among Family Owners and Between Family Owners and Family Members Without Shares

Agency problem IV, introduced by Villalonga et al. (2015), looks at the relationship between the "family at large" (the super-principal) and the family shareholders. One of the super-principal's key objectives is to preserve and enhance the family legacy (Villalonga et al. 2015, p. 644). This approach can be found very prominently in the codes of Austria, Finland, Germany, and the Netherlands. They emphasize the idea that the generation that currently oversees the family and the company has taken the company as a loan from the preceding generations to sustain this legacy for the following generations. For instance, the Dutch code recommends "to the owner manager to keep in mind the consequences for the next generation, as inheritors and maybe successors in the long run. It is advised to consult the grown-up children about important issues concerning the future of the family business" (Netherlands 2003, p. 19).

This intergenerational perspective might be even more encompassing than that of Villalonga et al. (2015). They considered the intergenerational perspective more implicitly (possibly in the term "legacy"). Taking the perspective of the abovementioned codes, the "family at large" as the super-principal should be augmented with a clearly intergenerational perspective. The Swiss and Turkish codes also consider the intergenerational perspective, but not as forcefully as the other four codes do. The Kosovan and Pakistani codes do not cover the idea of the super-principal.

Some of the codes directly address the fact that family shareholders are not necessarily homogeneous in terms of their interests in the family firm. The typical dividing lines mentioned are those between the family shareholders who work in the family firm and those who do not (Finland, Kosovo, and the Netherlands), and the potential conflicts between the different family branches and generations (Turkey). The Finnish code stands out with its elaboration of different kinds of owners: "There is, nevertheless, a great need for different kinds of owners in the family firm: active, business-experts, owners who do not participate in governance at all but transfer the family traditions, and patient general supporters" (Finland 2009, p. 16).

Although the other codes (Austria, Germany, Pakistan, and Switzerland) do not discuss intra-family conflicts and conflicts among family shareholders in great detail, they, nevertheless, consider typical instruments to mitigate such conflicts. The only exception is the Pakistani code, which addresses

neither payout policy nor exit options for family shareholders. The other seven codes provide rather similar advice—that is, an early agreement on dividend and shareholding policies, though with different degrees of comprehensiveness. Since fierce intra-family conflicts can be quite harmful to the family firm, it makes sense that all codes, apart from the Finnish and Turkish ones, recommend turning to external mediators in such cases.

All codes deal with family governance instruments—again, with diverging emphasis. All codes discuss at least two instruments; some cover many more instruments. It is important to note that the intended purpose of family governance tools is not only to organize the family or resolve conflicts but also to support the unity of the family and its links to the family firm—for instance, to develop the "family at large" as the super-principal. This line of thought can be found in almost all codes. In some codes, it is more explicit. In others, it is less. For instance, most codes (all except for Finland and Pakistan) propose a mission statement of the family to substantiate the family's future perspective on the family business. Strengthening the family's unity is also a future-oriented task. Therefore, it comes as no surprise that six out of eight codes (Kosovo and Pakistan are the exceptions) also cover the next generation and emphasize, among other things, the importance of familiarizing the next generation quite early with the history and values of both the family and the family business.

Summarizing the findings of this topic, one can state that the three topical areas derived above (exit and payout, family governance tools, and next generation) are actually covered by the codes' content. Though in varying degrees, almost all codes consider payout and shareholder policies, recommend family governance tools to prevent and resolve conflicts, and discuss how to integrate the next generation in the family and the family business. Thus, there is a clear link between research and recommended practice. Furthermore, all the codes concede, at least implicitly, that neither the family shareholders nor the family members are necessarily homogenous groups, and so conflicts might occur. Some codes seem to extend the idea of the "family at large" even beyond Villalonga et al. (2015), as they underlined the intergenerational dimension of the family as the super-principal. Table 12.5 summarizes the analysis results for each code regarding the third area of relationships among family owners and between family owners and family members without shares.

Table 12.5 Summary of code content concerning relationships among family owners and between family owners and family members without shares

	Family as super-principal	Intra-family shareholder conflicts	Payout policy	Exit of family shareholders	External conflict resolution	Family governance for conflict prevention	Preparation of next generation
Austria and Germany	Code assumes steward behavior of owners who take company as a loan and sustain it for future generations Sustaining in the long run requires to establish strong cohesion among the family and to keep them committed to the firm	Not considered except for a sentence emphasizing the importance of unity in the owning family for the future existence of the business as family firm (Austria p. 5). Family member heterogeneity considered, incumbent generation, next generation, and spouses as subgroups explicitly mentioned; might also cover intra-family shareholder conflicts	Determine range for payout ratio, balancing funding needs of company and payout interests of family members	Determine conditions, valuation approach, and payment terms	Commitment to use mediation or other tools in case conflicts cannot be solved	Importance of managing family should be similar to managing the business. Family governance supports identification with firm. Many instruments mentioned, e.g., family constitution; family day; clear regulation of who is a family member; define mission, vision, values, and goals for the family; define interface between family and family firm	New family members need to be prepared early for their responsibility as owner or member of owner family (might also apply to spouses)

(*continued*)

Table 12.5 (continued)

	Family as super-principal	Intra-family shareholder conflicts	Payout policy	Exit of family shareholders	External conflict resolution	Family governance for conflict prevention	Preparation of next generation
Finland	Code assumes steward behavior of owners who take company as a loan and sustain it for future generations. Code recommends to respect the traditions of the founder(s); helps to establish an obligation of the family members toward the family firm	Code considers conflicts between managing family shareholders and other family shareholders possible, e.g., payout policy. Code defines different kinds of owners: "There is, nevertheless, a great need for different kinds of owners in the family firm: active, business-experts, owners who do not participate in governance at all but transfer the family traditions, and patient general supporters" (p. 16). For instance, this is not an issue but rather a higher-level headline for the subsequent four issues. Thus, the answers in this row (per country) are the same for all of the subsequent four issues	Dividend payout decisions need to balance family dividend policy and company's needs	Exit option necessary; details should be determined by council of owners	Not covered.	Enhance cohesion and unity among family shareholders and family. Formal instruments like council of owners and family council considered, but also informal forums for exchange	Create close connections between next generation and family via, e.g., summer jobs, writing thesis, training program, owner qualification, membership in family council

Kosovo	Not considered	Potential intra-family shareholder conflicts lead to recommendation to avoid family members in executive positions at all. Payout policy is typical field of conflict between active and passive family shareholder	Written dividend policy recommended, which should be transparent, understandable, and predictable	Set up shareholder policy regulating family shareholder exit to mitigate conflicts	External mediator recommended in case of severe conflicts	Recommended to set up clear family governance to avoid conflicts, create discipline, and ensure sustainability of company. Key role for family charter: outlines the vision and mission for the company; defines the roles, responsibilities, relationships, composition, and powers of key bodies and structures. Family meetings and family letters as means to enhance communication and information	Not considered

(*continued*)

Table 12.5 (continued)

	Family as super-principal	Intra-family shareholder conflicts	Payout policy	Exit of family shareholders	External conflict resolution	Family governance for conflict prevention	Preparation of next generation
Netherlands	Code assumes steward behavior of owners who take company as a loan and sustain it for future generations. Transfer history to upcoming generation, e.g., via storytelling and company history. Owner manager should keep in mind the consequences of his decisions for the next generation and consult grown-up children about important issues concerning the future of the family business	Natural that passive family shareholders are more distant to family business. Their interest, and thus their commitment, needs to be nurtured differently. Recommended: meetings of all family members with executives	Consensus on target return on investment for company and typical payout ratio	Define procedures for exit (timing and price setting); build up reserve either in the family or in the business to facilitate share purchase	In specific cases use of trained mediator recommended	Essential to create general support, acceptance and consensus among the family members involved. Clarification of the family's history, mission, and vision. Proposed family governance instruments include a trusted and respected family leader, family council, family meeting, family association, family constitution. Rules and regulations of family governance should be documented in written form. Regular update of mission and vision	Intensive communication between parents and next generation; accompanying career development plan with the involvement of a family outsider to evaluate match of potential successor profile and company requirements; agreement on requirements for potential successors in family council

Pakistan	Not considered	Not specifically considered. Only general discussion of the disruptive effects of conflicts among family members or branches of the family	Not considered; term only mentioned	Not considered	Family council should turn to professional mediator in case of severe conflicts	Key role ascribed to family council: platform for communication and consultation linked to the business, gives guidance to TMT on family's interest, plays major role in resolving conflicts and succession issues. Family constitution also mentioned	Not considered

(*continued*)

Table 12.5 (continued)

	Family as super-principal	Intra-family shareholder conflicts	Payout policy	Exit of family shareholders	External conflict resolution	Family governance for conflict prevention	Preparation of next generation
Switzerland	Pass on family priorities as well as the roots and the future course of the family firm to the next generation in family mission statement	Not considered except for a sentence stating that they should be avoided	Family vision should include statement on family's expectations toward payout policy	Determine how family shareholders could exit and how company will be valued	In case of severe conflicts, external moderator or mediator could be involved	Open discussion of potential conflicts should be encouraged, different opinions should be accepted. Recommended family governance instruments are family assembly, family council, agreement on family mission statement and wealth strategy; determine treatment of family members representing a minority position	Early involvement of next generation increases understanding and identity of family and family business; instruments are, e.g., education, storytelling by parents, contact with company in youth age

Turkey	Goals are transfer of ownership in family firm to next generation and company's sustainability	Considers conflicts among family members in more mature family firms; might also cover intra-family shareholder conflicts Underlines heterogeneity of family members, e.g., active or passive participation in family firm, different family branches, different generations	Financial expectations of family owners need to be clarified and dividend policy needs to be established	Creation of a system enabling sale and purchase of shares recommended	Policies for resolving conflicts need to be established; no mentioning of external mediation	Family constitution as living document expresses the family's mission, vision, philosophy, values, rules, and expectations; family council as forum to increase intra-family communication; family board for coordination among family shareholders; written succession plan approved by all family members	Children grow up with family's basic values; establishing a training and development system, and succession plans with identifying capabilities of individual family members; participation of next generation in family council

Discussion

The goal of the present study was to investigate (1) how and to what extent corporate governance codes specific to family firms address the bright and dark sides of family influence and (2) whether the codes' recommendations assume an agent- or a steward-like behavior of the involved family members. To answer both questions, eight international corporate governance codes that explicitly focus on family-owned businesses were analyzed. The applied qualitative research approach to analyze and compare the content of the eight codes resulted in 19 categories of codings belonging to the following three areas of family involvement in the business: a family member as the CEO, family members in top management or lower levels, and relationships among family owners and between family owners and family members without shares.

Overall, the analysis revealed that there is no "one size fits all" answer to the second research question, as more or less all the codes explicitly or implicitly discuss both agency and stewardship elements regarding family CEOs. Furthermore, there is no unified picture of the assumed managerial behavior across the different countries. Thus, it seems that in practice—assuming that corporate governance codes represent the state of the art in practice—there is no one-time fundamental decision between agency and stewardship as the governance approach in family firms. It rather seems that both approaches can be applied in a complementary manner. Moreover, it seems worth adding that in most codes, the reflections of Villalonga et al.'s (2015) idea of the family at large as the super-principal can be found.

Regarding the first research question, various bright and dark side aspects of family involvement in business have been discussed within the eight codes. Once more, there is no unified picture across all codes. However, several codes consider some common aspects, though with different levels of detail. For instance, all of them recommend the importance of family governance mechanisms, such as family constitutions, to prevent conflicts. Also, several codes suggest having an objective criterion for hiring family members, or an equal and market-based remuneration for family and non-family employees or managers, in order to restrict the dark side of family influence. More or less, consensus exists among the eight codes regarding the decision of "business first" versus "family first," with a clearly implicit or explicit preference for the business.

The present chapter advances theory particularly in two ways. First, it contributes to literature by investigating the way family members influence their business. Against this backdrop, it analyzes the underlying assumption of the

codes concerning the question of whether the involved family members act in the sense of an agent or a steward. In fact, the findings reveal that the family members involved in a family business are often characterized by the elements of both theoretical concepts. Thus, the results challenge the common theoretical assumption of agency and stewardship as opposite theories. Moreover, the findings support the emerging discussion on the complementarity of both concepts in the first existing studies (e.g., James et al. 2017). Second, the findings provide some support to the "family as super-principal" concept of Villalonga et al. (2015). Actually, the provisions in some codes suggest that this concept is developed further with a specific focus on an intergenerational perspective.

Nevertheless, the present study also has its limitations. For example, the sample size was restricted to the existence of corporate governance codes specific to family firms in German or English, which resulted in an exclusion of codes in different languages. Moreover, two codes (Pakistan and Turkey) appeared to be rather general, with only a few family-firm-specific aspects. Therefore, some aspects of these codes have not been discussed, which restricted the comparability with the remaining code documents.

The implications for future research can also be derived from this study. For instance, the findings regarding the relevance of both agency and stewardship elements in the family-firm-specific corporate governance codes emphasize the need for further research on the complementarity of both theories in the context of family firms. Furthermore, the comparative analysis of the codes' content revealed an importance of family governance mechanisms, such as family constitutions or family meetings, in practice. As extant research on family governance tools is scarce, additional research activities to investigate, for example, the impact of such tools can be beneficial for the future development of family business research. Besides that, it would also be interesting for future research to investigate the adherence of family firm owners to the codes' recommendations, as these corporate governance codes are based on voluntary compliance.

The findings and the presented research directions can also be summarized in exemplary propositions, which future research can test. For instance:

- The behavior of actively involved family members toward their business is characterized by complementary elements of stewardship and agency theories.
- Family constitutions are a useful family governance tool to avoid conflicts within the owner family.
- The adherence of family owners toward non-binding corporate governance codes depends on the adaptability and the phrasing of the recommendations.

Implications for Practice

Implications for practice can also be derived from this research project. For instance, family firm owners and managers can benefit from such a comparative study, as the recommendations in each code address common and relevant issues of family firms in practice in the respective country. Thus, family firm owners or managers facing similar problems can benefit from the sharing of best practice experiences and potential solutions recommended in the codes of other countries. For example, the practitioners may benefit from insights into the measures of professionalization, such as transparent rules for the employment and remuneration of family members, which are applied by family firms in other countries. At the same time, insights into issues and solutions of family-owned businesses in other countries can be beneficial for family firm advisors or supervisors as well, as they might help improve the family and business governance of the advised or supervised businesses.

Conclusion

All in all, corporate governance codes specific to family firms can be seen as an underlying framework for the topic of family governance, which has been getting increasing attention in recent years, in theory as well as in practice. Therefore, comparing multiple governance codes regarding the bright and dark sides of family influence can be seen as a first step toward gaining a better understanding of family governance and its intermediary role between family and business.

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13

Defining Family Business: A Closer Look at Definitional Heterogeneity

Vanessa Diaz-Moriana, Teresa Hogan, Eric Clinton, and Martina Brophy

Introduction

In the inaugural issue of *Family Business Review* (*FBR*), the editors, Lansberg, Perrow, and Rogolsky (1988), decided against offering a definition as to 'what is a family business?' and instead allowed the ensuing dialogue of *FBR* to set the parameters of the field. Since then, family business research has expanded significantly, both theoretically and empirically, and upon the eve of *FBR*'s 30th birthday, a review of the contribution of researchers in terms of providing definitional clarity is timely.

This chapter sets out to identify, classify, and evaluate the most important definitions of family business. Our comprehensive analysis is not limited to the past 30 years as we examine material both peer-reviewed and non-peer-reviewed, acknowledging early contributions to an emerging field. We begin this chapter with an overview of the key developments in the discipline from a research perspective. This is followed by the 'Theoretical Background' section which features the theoretical background of the definitional debate in the family business field. The 'Methodology' section describes the methodol-

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E. Memili, C. Dibrell (eds.), *The Palgrave Handbook of Heterogeneity among Family Firms*,
https://doi.org/10.1007/978-3-319-77676-7_13

ogy we used to identify systematically the key definitions of family business within the literature. This is followed by an analysis of the collated definitions. Stemming from this analysis, we review five main family business definition approaches—'the three-circle model' (Gersick et al. 1999; Tagiuri and Davis 1996), defining the family firm by distinct behavior (Chua et al. 1999), defining the family firm by degree of family involvement (Astrachan and Shanker 2003), the familiness construct (Habbershon and Williams 1999), and the Family Influence on Power, Experience, and Culture (F-PEC) scale and Substantial Family Influence (SFI) (Astrachan et al. 2002; Klein 2000). These approaches stem from systematic identification of the most significant articles on definitional development of the field and as an extension of Bernhard and Sieger's (2007) work. Finally, we present our discussion, extend recommendations and conclude.

Family firms play an important role within the world's economy (Muñoz-Bullón and Sanchez-Bueno 2011) representing the oldest (Colli 2003) and most common (Nordqvist and Melin 2010) form of organization; approximately 90% of all firms worldwide are family firms (Aldrich and Cliff 2003). Researchers have long highlighted the significant impact of family firms on the growth of national economies (Ibrahim et al. 2001) and the economic development of local communities (Zahra and Sharma 2004). In addition, these organizations are increasingly acknowledged as major sources of technological innovation and economic progress, important creators of employment, and incubators and financiers of new businesses (Zahra 2005).

Prior to 1975, research in the area of family business was relatively limited (Handler 1989) and confined to the domains of sociology and small business management (Bird et al. 2002). Over the past 20 years, interest in exploring the family as a unit of analysis has expanded to other domains, such as finance (e.g. Anderson and Reeb 2003; Villalonga and Amit 2006), economics (e.g. Bennedsen et al. 2006; Pérez-González 2006), and entrepreneurship (e.g. Sirmon and Hitt 2003; Villanueva and Sapienza 2009). Nevertheless, as a discipline, family business has struggled for recognition as an independent domain (Astrachan et al. 2002). The first journal dedicated to examining the family firm, *Family Business Review*, appeared in 1988. By 2016 it had an impact factor of 4.229 and was ranked 15th among 121 business journals within the Journal Citation Reports (Clarivate Analytics 2017). As evidence of the growing interest in both the field and the journal, in 2016, *FBR* received 264 submissions from first authors based in 43 countries, representing the highest number of submissions received by the journal thus far.

This expanded interest is evident by the increase in volume of academic articles appearing in the field. This has resulted in higher-quality publications

(Gedajlovic et al. 2012) featuring in top-tier journals (e.g. Miller et al. 2010; Schulze et al. 2003) and at leading international conferences (e.g. Babson College Entrepreneurship Research Conference). In 1970, only 111 peer-reviewed articles on family business were published (Short et al. 2016). The number of articles increased to over 2000 during the 1990s (Sharma 2004). While in a four-year period (i.e. 2010–2014), over 4000 articles were published (Short et al. 2016). This expansion has led to three important developments in the field. Firstly, the publication outlet for family business research has split into two separate domains—academic and practitioner. Secondly, there is an increased focus on addressing the role of family in business (Sharma et al. 2007). Thirdly, it is now widely acknowledged that if family involvement is ignored, critical factors that are family-related could be missed (e.g. Chrisman et al. 2003; Heck et al. 2008).

Despite this expansion, family business is still an emerging field of study (Chrisman et al. 2008) or in an evolutionary phase (Benavides-Velasco et al. 2013). One major reason for this is the issue of definitional clarity or what constitutes a family business (Evert et al. 2015; Sharma 2004). The difficulty in establishing a widely accepted definition is mostly due to the lack of legitimacy surrounding the family business domain (Sharma 2004). Researchers in the field are driven by the economic importance of family firms; however, this driver is not sufficient. To legitimize the field, the definition of family business must be clear and a separate research domain must be established (Sharma 2004).

In this chapter, we seek to examine systematically prior literature to identify the papers that have been most influential in the development of the family business definition. We identify and classify 82 separate definitions, the oldest dating from 1960 to the most recent from 2011. We review those definitions in an attempt to explain how they have contributed and shaped our existent understanding of the family business field. Lastly, based on the identification and review of these works, we offer recommendations on how these definitions can be applied more effectively to improve future research.

We contribute to the literature in family business by analyzing the main studies that have shaped the recent state of the art in defining what a family business is. In so doing, we gain a better understanding of the field and why it has been guided by certain definitional approaches. By reexamining these studies, we are better able to identify gaps in the literature as well as the limitations of the current definitions of family business which will help future scholars in family business to progress in the field. Finally, we provide a simple conceptual diagram that maps the key theoretical pillars that inform family business definitions and a three-step verification checklist to guide empirical researchers in the field.

Theoretical Background

To date, understanding the paradoxes and dilemmas of family firms in order to pass the learning to future family business owners, managers, and advisors has been the main goal of family business scholars (Salvato et al. 2015). However, greater research focused on family firms' complexities is required in order to understand how they compare with and differ from other types of organization. Substantial work is still necessary for expanding theoretical approaches (Sharma et al. 2007), finding valid and reliable methods to measure constructs of interest (Pearson and Lumpkin 2011), reviewing theories from other disciplines (James et al. 2012), and integrating the thinking from multiple disciplines (Sharma et al. 2007). In fact, it is acknowledged that developing a theory of the family firm will involve research contributions from a variety of disciplines (Chrisman et al. 2008).

A fundamental challenge for all academic disciplines is the development of conceptual and operational definitions, and the field of family business is no exception. Definitional clarity offers the theoretical underpinnings upon which conceptual and empirical investigations are made, and is central to the advancement of scholarly insight. Commenting on the wider challenge of definitional clarity in behavioral science, Hoy and Verser (1994, p. 9) posit that 'given the complexity, diversity, and evolution of human behavior, there are few terms in behavioral science literature that have universally accepted definitions'. Since the earlier work of Handler (1989) through to the contemporary work of Astrachan and Shanker (2003), the challenge of definitional clarity of what constitutes a family business persists (Evert et al. 2015; Sharma 2004).

The economic contribution and prevalence of family business activity in both developing and developed economies is highly sensitive to the definition applied (Westhead and Cowling 1997). This is because a common family business definition is not included in the official statistical surveys of most countries. A similar issue prevailed in the context of small business, until the European Commission introduced a common definition for small and medium-sized enterprises (SMEs) to be employed by all national statistical offices in the EU (European Commission 1996, Recommendation 96/280/EC and amended by European Commission 2003, Recommendation 2003/361/EC). This has facilitated greater cross-country comparisons both spatially and temporally within the EU as well as a greater appreciation among researchers of the qualitative difference between the three component size categories of micro, small, and medium enterprises. There is a need for an agreed

definition of family business for national statistical purposes. Until such time, while much is written about the economic and social contribution of family firms, the credibility of such contributions is greatly eroded (Wortman 1994).

The lack of definitional agreement has made it more difficult for researchers to 'build up on each other's work, to compare results of different research studies, to generalize results and to make exact transnational comparisons' (Flören 2002, p. 16). The results are a lack of comprehensive conceptual investigations (Upton et al. 1993) and a dearth of extensive quantitative research (Shanker and Astrachan 1996), major methodological problems (Wortman 1994) including issues of oversampling, group comparison and statistical usage, and insufficiently explained family business behavior (Smyrnios et al. 1998).

Having surpassed the 29th year of family business research output in *Family Business Review*, it is questionable if clarity has been reached (Astrachan et al. 2002). Researchers in the field have used a myriad of definitions to study family firms. Although the focus has mainly been on defining family firms so that they can be differentiated from non-family firms, there is a greater acknowledgment that family businesses are heterogeneous (Naldi et al. 2007) and that variance within family firms needs more examination for the advancement of the field (Chua et al. 2012; Evert et al. 2015). While the available definitions are not completely incompatible with each other, they are sufficiently diverse as to convey ambiguity in what the family business field is about or how it differs from neighboring fields.

While the lack of consensus is an inherent problem of the family business field, it highlights the complexity and heterogeneity of family business research as well as the development of a field that it is still emerging (Benavides-Velasco et al. 2013). One major reason for the difficulty in establishing a widely accepted definition is the lack of legitimacy surrounding the family business domain (Sharma 2004). 'A research field can only be built and win legitimacy if it is differentiated from neighboring fields' (Bruyat and Julien 2001, p. 166). Furthermore, even with a clear definition as the one provided by Chua and colleagues in 1999, there are multiple approaches to operationalizing it due to the intangible features associated with the definition (Evert et al. 2015).

Despite the absence of an agreed definition, family business researchers have a widely shared understanding and a common vision of what forms their field. Consequently, the lack of definitional clarity is not suggestive of a lack of investigation; rather numerous scholars have sought to offer their own nuanced perspectives from a diversified pool of academic disciplines including social psychology, finance, organizational theory, strategic management,

family counselling, psychology, and economics (Whiteside and Brown 1991). Through our review of this diverse body of literature, we offer an analysis of 82 family business definitions dating from 1960 to 2017.

Methodology

We followed a systematic approach comprising three stages, namely, data collection, data analysis, and synthesis (Crossan and Apaydin 2010; Keupp et al. 2012). Published studies were identified through a search of ISI Web of Science accessible through the authors' university library system. First, we proceeded with a broad search using a combination of the following terms in the title, the abstract, and/or the keywords for each database: *family firm*, *family business*, *family enterprise*, *family owned*, *family led*, *family controlled*, or *business family*. The period covered dated from 1960 to 2017 and only peer-reviewed journal articles, books, or conference proceedings in the English language were included. Next, we narrowed our search to focus on the main business and management categories and the most relevant social science categories in Web of Science. This initial search yielded 3293 documents. Interestingly, six of the top ten most cited articles from this broad search are in finance and economic journals examining the influence of family ownership on firm value. These are followed by articles in top management journals, including *Organizational Science* (the 5th highest number of citations), *Administrative Science Quarterly* (the 6th), *Journal of Management Studies* (the 8th), and *Academy of Management Journal* (the 10th). The highest citation for an entrepreneurship domain-specific journal was the 2005 article 'Corporate governance and competitive advantage in family-controlled firms' by Carney in *Entrepreneurship Theory and Practice*, which was ranked 11th with 353 citations.

In an effort to narrow the focus of our search, we included an additional search term '*defin**' to the previous combination of keywords in an attempt to identify publications that specifically referred to the issue of definitions. This search yielded 172 documents (see structure of search terms in Table 13.1). These documents were downloaded and analyzed. However, additional searches were required as historical coverage for key journals is restricted in Web of Science (e.g. coverage for *Entrepreneurship Theory and Practice* (*ETP*) begins in 2003 and *FBR* is included from 2005). In addition, the search term '*defin**' did not prove fully exclusive as some authors use the term, but not in the context of family business. By adhering to a systematic approach, we were also confronted with the issue of whether or not to include non-peer-reviewed material and thus excluding important early contributions.

Table 13.1 Search terms

Date	1960 to May 2017
Language	English
Document type	Articles Conferences proceedings Reviews Book chapters
Web of Science categories	Business OR Management OR Economics OR Business Finance OR Ethnic Studies OR Law OR Family Studies OR Planning Development OR Urban Studies OR Social Sciences Interdisciplinary OR Operations Research Management Science OR Sociology OR Psychology Applied OR Ethics OR Women's Studies OR Agriculture Multidisciplinary OR Geography OR Hospitality Leisure Sport Tourism OR Humanities Multidisciplinary OR Agricultural Agricultural Economics Policy
Search terms	family business* OR family enterprise* OR family firm* OR family own* OR family led* OR family control* OR business famil* AND Defin*

To ensure thorough coverage (Kontinen and Ojala 2010), we also conducted a manual search in the most relevant journals of family business research, namely, *Family Business Review* (*FBR*), *Entrepreneurship Theory and Practice* (*ETP*), *Journal of Business Venturing* (*JBV*), *Journal of Small Business Management* (*JSBM*), and *Journal of Family Business Strategy* (*JFBS*) and included those articles which featured definitions specifically. Articles were excluded if they did not specify a family business definition or if they were using the same definition as a previous study (only the original study was included). Once all possible studies had been identified, we selected our final sample after reading the abstract and evaluating the document's relevance to the study. In all, 82 publications were accepted for the final review.

Data Analysis

Once publications were identified, a three-step process was used to code the information. First, the general information about the publication was identified. This included publication year, author, journal, type of article (i.e. empirical vs. conceptual), and method. Second, the family business definitions in

each study were coded. Third, we developed a coding protocol (Lipsey and Wilson 2001) for extracting data related to all the different categories included in each of the definitions. To develop initial categories, we refer to Flören's (2002) classification of family business definitions. In his study of succession challenges in Dutch family firms, the author gathers 50 family business definitions which he subdivided into ten categories (i.e. family ownership, voting control, family management, family employment, combination of ownership-management, generational transfer, interdependent subsystems, multiple inclusive, multiple exclusive, and others). Drawing on Flören's core classifications, we identify seven categories to classify our definitions, namely: ownership, management, control, generational, subsystems, perception, and others. We analyzed all definitions and categorized them according to the characteristics used to define a family business within those seven categories. The category 'others' includes any element in the family business definition which did not fit any of the previous categories.

We analyzed 328 units (82 documents by 4 analytical units[1]) which were summarized and placed into matrixes. Table 13.2 provides descriptive statistics for the documents included in our analysis. The majority of the documents (85%) included were peer-reviewed journal articles. We included definitions from eight book chapters. In addition, and breaking with our original classification schema, we included definitions from three reports and one practitioner magazine. These definitions were deemed worthy of inclusion as they were derived from reports by important contributors to the field, including Pratt and Davis (1986) and Johansson and Lewin (1992). Our only inclusion from a practitioner magazine is that by Ward and Aronoff (1990) in the *Nation's Business* (see Appendix for the full listing). The journal with most contributions is *Family Business Review* (51%), followed by *Entrepreneurship Theory and Practice* (9%), and *Journal of Small Business Management* (7%). In contrast to our broad search on the topic of family business via Web of Science, which resulted in a top citation list of predominantly finance and economics articles, our narrowed search on definitions of family business showed that the domain-specific journal, *Family Business Review*, prevails. All other sources contain only three sampled articles or less. There are three citations from the *Journal of Corporate Finance*, which again reflects the research interest within that discipline into the impact of family ownership on firm value. The strong showing for *FBR* is evidence of the consolidation of the research field and the rise of FBR in journal rankings (i.e. in 2016, *FBR* ranked 15th of 121 business journals within the Journal Citations Report).

[1] The analyzed units were: year, journal, type of article (conceptual/empirical), and Family Business (FB) definition.

Table 13.2 Descriptive statistics for documents

	Number	%
Panel A: document type		
Book	8	10
Journal article	70	85
Report/practitioner journal	4	5
Total	**82**	**100**
Panel B: publication decade		
Pre-1990	21	26
1990–1999	37	45
2000–2017	24	29
Total	**82**	**100**
Panel C: journal title		
Family Business Review	36	51
Entrepreneurship Theory and Practice	6	9
Journal of Small Business Management	5	7
Journal of Corporate Finance	3	4
Others	20	29
Total	**70**	**100**
Panel D: conceptual or empirical		
Conceptual	19	23
Empirical	63	77
Total	**82**	**100**

The earliest article included was that by Donnelley from *Harvard Business Review* in 1964. In total, 21 articles were published in the period between 1960 and 1989. There are 37 articles (45% of our sample) from the 1990s, which emphasize the expansion of the discipline at this time, following the appearance of *FBR* in 1988, and the growing recognition for the need to develop a universally agreed definition. Across the 17 years, from 2000 to 2017, there are only 24 articles, none of which emerge during the period 2012–2017. The latest inclusions stem from two *Family Business Review* articles by Muñoz-Bullón and Sánchez-Bueno, and Sacristán-Navarro, Gómez-Ansón, and Cabeza-García (2011, Volume 24, Issue 1). This is an interesting pattern, as it may suggest some consensus among researchers in the field (Kotlar 2012; Sharma et al. 2014) and a sign that the struggle for recognition as an independent domain is abating. Given the lack of attention to this important topic in recent years, this review is timely.

Findings

Our findings consist of a synthesis of the results from all 82 empirical studies along with the categorization of each article based on definition (see Appendix). Table 13.3 gives a full breakdown of definition categories. In general, researchers ascribed to definitional categories regarding family ownership, family control,

Table 13.3 Breakdown of definition categories

Definition category	Number	%
Ownership	54	66
Management	32	39
Control	31	38
Generational	14	17
Subsystems	12	15
Perception	4	5
Others	26	32

and family management (e.g. Barry 1975; Davis 1983; Donckels and Fröhlich 1991; Ward 1987). Most definitions (66%) included the ownership category, followed by management (39%) and control (38%) of the family firm. Categories such as generation or subsystem only appeared in 17 and 15% of the definitions respectively. The least applied category is the requirement to be perceived as a family business, that is, perception, which features across only four definitions of our sample (5%).

Other categories, albeit not as common, include size (e.g. Riordan and Riordan 1993), family employment (e.g. Rue and Ibrahim 1996), or surname (e.g. Goldberg 1996), among others. We identified 26 definitions (32% of our sample) including some other elements besides ownership, management, control, generation, subsystem, or perception and classified these under the category 'others'. Furthermore, Flören's classification system attaches several conditions to these categories; some definitions are multiple inclusive, where at least one of the conditions must be fulfilled (e.g. Gasson et al. 1988), while others are multiple exclusive, where all the conditions must be fulfilled (e.g. Hulshoff 2001).

Given the number of definitional configurations, arising from the definition categories (see Appendix), we focus on five main family business definition approaches. These approaches stem from systematic identification of the most significant articles on definitional development of the field and an extension of Bernhard and Sieger's (2007) work. First is the renowned 'three-circle model' which represents a family firm as having three simultaneously interactive systems: the business, the family, and the owners (Gersick et al. 1999; Tagiuri and Davis 1996). Second, while the 'three-circle model' has received significant scholarly attention, researchers have also advanced knowledge by examining family firms' distinct behavior (Chua et al. 1999), which includes themes such as intention or vision. Third, family involvement in ownership, governance, management, and succession has featured as a prominent definitional type (Astrachan and Shanker 2003). Fourth, the familiness construct (Habbershon and Williams 1999) has also gained considerable attention as a feature of distinction from non-family firms. Finally, the fifth relates to the family's influence on the business and specifically the F-PEC scale, which

consists of the subcategories—power, experience, and culture—through which the family can influence the business (Astrachan et al. 2002). Each of these five approaches is discussed in greater depth.

Approach One: Circle Models

The circle models of family business, whether two, three, or four spheres, are well-established as a means of defining and depicting the main characteristics and features of a family business. Two-circle models show the family business as two highly interdependent systems; family and business (Barnes and Hershon 1976; Danco 1975; Donnelley 1964). The family system is viewed as being emotion based, inward-looking, encouraging of long-term loyalty, and possessing a conservative stance to change, while also ensuring the equilibrium of the family remains intact (Leach 1990; Poza 2007). In contrast, the business system is based on task accomplishment and is firmly orientated toward results and performance. It revolves around contractual arrangements, where most behavior is consciously determined.

Building on a dual-systems perspective, the three-circle model, introduced by Tagiuri and Davis (1982), suggests the fundamental strategic management issues within a family business reside in the nexus of the three spheres, namely, ownership, family, and business (Hoy and Verser 1994). Using the systems perspective of the three spheres of influence in the family business—namely, owners, managers (employees), and family members—Tagiuri and Davis (1996) introduce the bivalent attributes of the family firm. The bivalent approach suggests that the family firm has several unique, inherent attributes, which are a source of advantage and disadvantage for owning families, non-family employees, and family employees. Some bivalent attributes include simultaneous roles, shared identity, emotional involvement and ambivalence, private language, mutual awareness, lifelong common history, privacy, and a sense of meaning of the family company (Tagiuri and Davis 1996).

Approach Two: Defining Family Business by Behavior

Chua et al. (1999) seek to define the family business based on distinctive behavior. The authors contend that the family business is defined by its specific behavior and 'not on the basis of the components of family involvement,

but by how these components are used to pursue the family's vision' (1999, p. 27). As family involvement is the main source of difference between family businesses and other businesses:

> *a business governed and/or 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 or a small number of families in a manner that is potentially sustainable across generations of the family or families*. (Chua et al. 1999, p. 25)

Approach Three: By Degree of Family Involvement

Astrachan and Shanker (2003) present three varying definitions of what constitutes a family business modelled around the 'bulls eye' approach. The broadest definition (outer ring) requires that there is active family participation in the business and that they have significant influence and control over future strategic direction (Astrachan and Shanker 2003). This all-encompassing definition addresses 'a gamut of possibilities, from a large public company that has descendants from the original founding family as stockholders or on the board to an independent building contractor whose daughter manages his books and whose grandson performs occasional manual labor for him' (Astrachan and Shanker 2003, p. 212). The middle ring definition of a family business dilutes the latter definition by requiring that the business owner plans for active involvement of multiple family generations in running the business. The onus is on the founders to establish a long-term vision for the business that purports to build a viable economic entity for their children. The founder or descendent (s) of the founder must play an active role in the running of the business. Finally, there is the bull's eye, or the narrowest possible definition of a family business. Multiple generations of the family business need to be actively involved and able to influence the workings of the family business. This may include a grandparent/founder acting in a chairperson position, with two or three siblings holding senior management positions, one sibling with ownership, but no day-to-day active involvement, and younger cousins present in entry-level positions (Astrachan and Shanker 2003).

Approach Four: Familiness

One promising stream that may offer clarity surrounding the family business definition debate is that of familiness (Habbershon and Williams 1999), which applies the resource-based view (RBV) to the family business context. RBV is particularly relevant to family firms as it appreciates the strategic importance of behavioral and social phenomena that allow firms to create and implement their strategies (Barney and Zajac 1994). Familiness contends that the idiosyncratic family influence on firm level resources explains the competitive advantages or disadvantages of family firms. Using systems theory and leveraging the resource-based view of the firm, Habbershon and Williams (1999) identify the unique nature of family business resources describing it 'as the idiosyncratic firm level bundle of resources and capabilities resulting from the systems interactions' (Habbershon et al. 2003, p. 451). Chrisman et al. (2003, p. 468) later defined the familiness construct as '…resources and capabilities related to family involvement and interactions'. Both definitions propose that the family business system creates resources and/or has an influence on resources in a way that makes them valuable, rare, and highly inimitable by competitors (Barney 1991). Indeed, as family firms have been typified as dynamic, unusually complex, ubiquitous, and rich in stocks of both tangible and intangible resources, RBV offers an appropriate theoretical lens for analyzing the idiosyncratic nature of their resources, capabilities, and competencies (Cabrera-Suárez et al. 2001). The distinctive resources and capabilities of the family firm are created through the systemic interaction of the family, business, and the individual family members, with such resources and capabilities forming the antecedents to competitive advantage and wealth creation (Habbershon et al. 2003).

Applying evolutionary theory of the firm, Craig and Moores (2005) describe familiness as a core essence of family firms and describe it using a balanced scorecard perspective (innovation and learning, financial, customer, and internal process). They suggest that such familiness can influence business development, strategic management, and the succession process. Ram and Holliday (1993, p. 629) suggest that familiness reflects the 'social relationships of the family, reflected in the flexibility and constraints created within the workplace'. Tokarczyk et al. (2007) investigate whether familiness qualities present in a family firm contribute to the evolution of a competitive market orientation, thus providing a source of competitive advantage. They conclude that familiness qualities, including customer orientation, market understanding, strategic focus, family relationships, and organizational and operational efficiencies, lead to an effective market orientation.

Approach Five: F-PEC and SFI

Astrachan et al. (2002) suggested, through their F-PEC scale, that the definition of family businesses should allow for heterogeneity. That is, family firms should be assessed on a continuum which permits firms to vary in their degree of familiness. Instead of evaluating particular traits or behaviors, F-PEC measures the family in terms of its influence on the organization. F-PEC considers family ownership, voting control, family management, family employment, generational transfer, and interdependent subsystems, and is multiple inclusive. Three distinctive channels have been identified through which a family can influence a business and are integrated into a model consisting of three subscales: (1) power subscales reflects ownership and leadership positions held by the family; (2) experience subscales refer to lessons learned and rules installed with each generational transition; and (3) culture subscales reflect the overlap of family values and business values as well as the family's commitment to the business.

The power component of the F-PEC scale seeks to investigate the family influence on ownership, governance, and management. The focus on ownership and management aligns with much of the earlier works in the field including Barnes and Hershon (1976) and Lansberg et al. (1988). The ownership subscale reflects the voting rights of both family and non-family members in the firm. The governance subscale accounts for the number of family and non-family members on the governing board, while management reflects the number of family and non-family members serving on the top management team. To distinguish between family and non-family firms, Klein (2000) applied the power component of the F-PEC scale which was termed the Substantial Family Influence (SFI). In subsequent work, Klein Astrachan and Smyrnios (2005) sought to calculate the full power influence of the F-PEC which ranges from zero to three. This score is the summation of three measures, the controlling family's share in equity (zero to one); the family share of the supervisory board (zero to one); and the share of the top management team (zero to one).

Discussion and Recommendations

On evaluation of the five family business definition approaches, developed from seminal studies within the field, we evaluate each to determine their utility for future research. First, the circle models of family firms have been instrumental as a means of illustrating the complex relationships within the

family business; however, the measurement and operationalization of such a systems approach has proven difficult. The 'three-circle' model has undergone criticism for stereotyping of the family business subsystems and insufficiently analyzing interpersonal relations and the family business system as a whole (Whiteside and Brown 1991). Second, Chua et al.'s (1999) argument for defining the family business by behavior is the second most cited article in family business scholarship (Chrisman et al. 2010). However, definitional consensus in the field remains elusive, mainly due to the numerous difficulties in measuring the definitional attributes such as intention, dominant coalition, and vision (Evert et al. 2015). Third, the use of multiple operational definitions to determine family involvement by Astrachan and Shanker (2003) is a suitable approach to dividing the family business into three homogenous groupings, yet when compared to other approaches, it is broad and too vague (Poza 2007). Furthermore, not all researchers agree with the criteria employed. Fourth, despite its conceptual power, researchers have found it difficult to operationalize familiness into a functional research construct. While the familiness construct is in its infancy, early research fails to identify what specific resources and capabilities constitute this construct: 'vaguely specified relationships between familiness and other factors suggest that its nomological net requires further development' (Pearson et al. 2008, p. 952). To date, there have been few empirical articles on familiness despite Habbershon and Williams' (1999, p. 13) call for scholars to determine 'the conditions and antecedents of distinctive familiness'. Fifth, and finally, the F-PEC scale (Astrachan et al. 2002) has paved the way for researchers to account for family firm heterogeneity in their research by measuring variances in family influence and involvement (Kotlar 2012; Bernhard and Sieger 2007). Through further testing and validation, the F-PEC scale has 'shift [ed] the discussion of family firms along a more rich, multidimensional continuum of power, experience, and culture rather than a simplistic categorization scheme' (Holt et al. 2010, p. 86). Family firms must not be viewed in terms of either-or; rather they best fit on a continuum (Tsang 2002). Thus, we recommend empiricists curb their over-reliance on a *one-size-fits-all* or dichotomous definition of family business, as more benefit can be derived from measurement instruments that account for firm heterogeneity, such as the F-PEC scale.

The disagreement and ambiguity surrounding a single definition is reflective of the heterogeneity of family firms (Chua et al. 2012). One definition cannot sufficiently indicate the variances between family and non-family firms (Astrachan et al. 2002). Hence, it has become necessary to discern the significant variables not only between family and non-family firms but also across family firms (Kotlar 2012). Central to analyzing family firm heterogeneity is

distinguishing the family and business as separate units of analysis. However, defining the family is a source of contention (Kotlar 2012); as a result, numerous family business researchers continue to view these entities in terms of the business system alone (Michael-Tsabari et al. 2014). The two main approaches to defining family are the structural view and the transactional view. The structural view pertains to the biological and legal relationships that link a family (Brannon et al. 2013). The transactional view defines family as a 'group of intimates who generate a sense of home and group identity and who experience a shared history and a shared future' (Koerner and Fitzpatrick 2002, p. 71). Adopting a transactional perspective affords the researcher greater scope to investigate diverse family forms (Koerner and Fitzpatrick 2002; Noller and Fitzpatrick 1993). Thus, Brannon et al. (2013) posits that a transactional perspective of the family can prove valuable in qualitatively analyzing the nuances of family business relationships. Since the family is the source of idiosyncrasy, and thus heterogeneity, within family firms, we echo scholarly calls (e.g. Sharma et al. 2014; Zellweger et al. 2012) for more family-centric research by which the family, in all its diverse forms, is the unit of analysis.

Definitional clarity is also necessary for garnering the economic contribution and prevalence of family firms. In order to progress empirical investigation, great consideration must be afforded to the 'operationalization of the "family firm" variable' (Sharma et al. 2014, p. 6). As evidenced by Westhead and Cowling (1997) and Shanker and Astrachan (1996), variances in family business definitions can cause major discrepancies in empirical data. Mandl (2008) found a total of 90 various definitions of family business used for research investigation throughout Europe; most definitions had not been operationalized, especially in regard to the 'family' variable. In order to create a replicable body of empirical work from which generalizations can emerge (Flören 2002), scholars must be highly cognizant of the definitional parameters of their research and explicitly communicate the criteria used (Kotlar 2012). By utilizing an ambiguous or case-specific definition (Astrachan et al. 2002), scholars serve only to delegitimize the field.

Almost 30 years since Lansberg et al. (1988) called for debate regarding a definition of family business, the number of novel definitions has stagnated with many scholars reverting to earlier versions (e.g. Arregle et al. 2012; Kim and Gao 2013). As observable from this review, the field is honing in on key definitional criteria (Kotlar 2012); in turn, this has led to consensus regarding 'a more inclusive theoretically focused 'essence based' definition and a sharper focused operational definition that relies on the 'components of involvement' in business (Chua et al. 1999)' (Sharma et al. 2014, p. 6). In defining family

business, the 'essence'-based and the 'components of involvement'-based approaches can be utilized hierarchically, 'as family essence partially mediates the relationship between family involvement and adoption of FCNE (family-centered non-economic goals)' (Chrisman et al. 2012, p. 269). While the components-based approach is simpler to measure and to draw comparisons between family and non-family, the essence-based approach assesses family behaviors and is central to identifying family firm heterogeneity (Zellweger et al. 2010). Lumpkin, Martin and Vaughn (2008) proposed the concept of family orientation (FO) to address, in part, the values and involvement of individual family members in a family business. Their family orientation concept intends to reflect the ways in which individuals perceive, relate to, and value family. As such, family orientation focuses on describing and explaining the extent to which individuals inject the family essence into a family business setting. Drawing on the concept of family orientation from Lumpkin et al. (2008), future research should attempt to consider this criterion, that is, the family orientation of the firm and the source of heterogeneity, when investigating family firms. Such an approach would allow researchers to shed further light on various family firm behaviors and norms (e.g. primogeniture) and, in turn, family firm heterogeneity.

To summarize, our proposed diagram (Fig. 13.1) fills the gap between these approaches, by outlining how family essence works to intergroup the three spheres (ownership, management, and family), providing a more com-

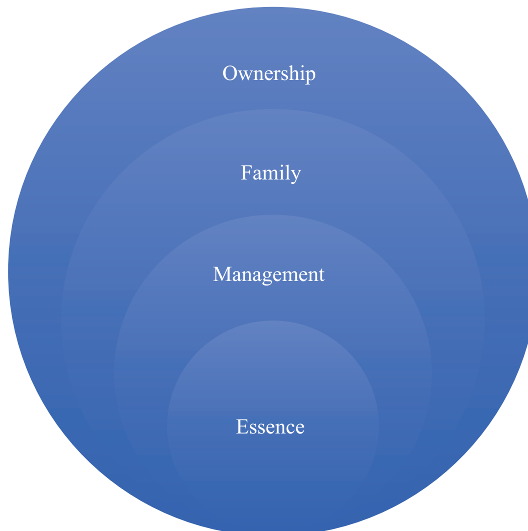

Fig. 13.1 Definitional diagram of family business

prehensive representation of family business. From our analysis we posit that family essence is at the heart of family firms and, thus, this phenomenon must be present in a family firm definition. Thus, we propose family essence to be an umbrella concept covering the relation and interaction between the spheres.

From an empirical research perspective, we note that divergent research objectives require researchers to adopt variations of an agreed definition. There is a requirement for an agreed baseline definition, driven by an economic research agenda, for comparative regional or national statistics on family business. This definition would include measures from the outer circle components of ownership and management. The adoption of the EU SME classification in family business research would also be useful in broad macro studies, at least in Europe. At the conceptual level, researchers examining theoretical issues, for example, the differences between family and non-family businesses, require greater definitional clarity on the essence of family business.

The main contributions of this study are threefold. First, through a review analysis of family business definitions published over a period of 47 years, we identify the articles that have been most influential in shaping the family business concept. Second, we provide a summary of the findings and we identify the main categories to which those definitions pertain. Accordingly, we cluster those categories to provide a perspective of how the definition of family firm has taken its current course of development. Finally, by searching for common categories among those definitions, we are able to observe avenues for future research.

In conclusion, the quest for definitional clarity is ongoing. Firm and intra-family heterogeneity have fueled the definitional debate, resulting in dissent and ambiguity regarding a single definition (Chua et al. 2012). Notwithstanding, scholarly consensus on certain definitional criteria (Kotlar 2012; Sharma et al. 2014) indicates progress. In our attempts to offer clarity on the principal pillars upon which these definitions are grounded, and duly explain family firm heterogeneity, we recommend that future scholarly work incorporates heterogeneity in both conceptual and operational definitions of the family firm.

Appendix: Family Business Definitions

Author	Year	Definition	Category	Journal
Donnelley	1964	A company is considered a family business when it has been closely identified with at least two generations of a family and when this link has had a mutual influence on company policy and on the interests and objectives of the family	Generational Control Subsystems	*Harvard Business Review*
Church	1969	The whole capital is privately held, practically all the important and administrative posts are filled by members of the family	Ownership Management	Book
Channon	1971	A family member was a chief executive officer, if there had been at least two generations of family control and a minimum of 5% of the voting stock was still held by the family or trust interests associated with it	Generational Control	Book
Barry	1975	An enterprise, which, in practice, is controlled by the members of a single family	Control	*Journal of General Management*
Barnes and Hershon	1976	Controlling ownership [is] rested in the hands of an individual or of the members of a single family	Control	*Harvard Business Review*
Alcorn	1982	A profit-making concern that is either a proprietorship, a partnership, or a corporation…. If part of the stock is publicly owned, the family must also operate the business	Management Others	Book

(*continued*)

(continued)

Author	Year	Definition	Category	Journal
Tagiuri and Davis	1982	Organizations where two or more extended family members influence the direction of the business through the exercise of kinship ties, management roles, or ownership rights	Ownership Management Subsystems	Book
Beckhard and Dyer	1983	The subsystems in the family firm system include (1) the business as an entity, (2) the family as an entity, (3) the founder as an entity, and (4) such linking organizations as the board of directors	Subsystems	*Organizational Dynamics*
Davis	1983	[The] interaction between two sets of organizations, family and business,… establish[es] the basic character of the family business and defines its uniqueness	Subsystems	*Organizational Dynamics*
Rosenblatt et al.	1985	Any business in which the majority ownership or control lies within a single family and in which two or more family members are or at some time were directly involved in the business	Ownership Control	Book
Dyer	1986	A family firm is an organization in which decisions regarding its ownership or management are influenced by a relationship to a family (or families)	Subsystems Control	Book
Pratt and Davis	1986	One 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	Subsystems Control	Report

(*continued*)

(continued)

Author	Year	Definition	Category	Journal
Stern	1986	[A business] owned and run by members of one or two families	Ownership Management	Book
Babicky	1987	[A] small business started by one or a few individuals who had an idea, worked hard to develop it, and achieved, usually with limited capital, growth while maintaining majority ownership of the enterprise	Ownership Management	*Journal of Management Consulting*
Churchill and Hatten	1987	It is either the occurrence or the anticipation that a younger family member has or will assume control of the business from an elder	Generational	*American Journal of Small Business*
Upton and Sexton	1987	A business that includes two or more relatives and has at least two generations working together in an operating capacity	Generational Others	*Journal of Small Business Management*
Ward	1987	Business that will be passed from one generation to another to manage and control	Generational Management Control	Book
Gasson et al.	1988	A family business satisfied one or more of the following conditions: (1) the principals are related by kinship or marriage, (2) business ownership is usually combined with managerial control, and (3) control is passed from one generation to another within the same family	Generational Ownership Control	*Journal of Agricultural Economics*
Hollander and Elman	1988	A business that is owned and managed by one or more family members	Ownership Management	*Family Business Review* (Editor's notes)
Lansberg et al.	1988	A business in which the members of a family have legal control over ownership	Control	*Family Business Review*

(*continued*)

(continued)

Author	Year	Definition	Category	Journal
Handler	1989	An organization whose major operating decisions and plans for leadership succession are influenced by family members in management positions or on the board	Generational Management Subsystems	*Family Business Review*
Dreux	1990	Economic enterprises that happen to be controlled by one or more families (that have) a degree of influence in organizational governance sufficient to substantially influence or compel action	Control Subsystems	*Family Business Review*
Leach	1990	A company in which more than 50% of the voting shares are controlled by one family, and/or a single family group effectively controls the firm, and/or a significant proportion of the firm's senior management is members from the same family	Management Control	Book
Ward and Aronoff	1990	Family businesses can be defined as owner-managed enterprises with family members exercising considerable financial and/or managerial control	Ownership Management Control	Magazine
Donckels and Fröhlich	1991	Family members in one family own 60% or more of the equity in the business	Ownership	*Family Business Review*
Gallo and Sveen	1991	A business where a single family owns the majority of stock and has total control	Ownership Control	*Family Business Review*

(*continued*)

(continued)

Author	Year	Definition	Category	Journal
Lyman	1991	The ownership had to reside completely with family members, at least one owner had to be employed in the business, and one other family member had either to be employed in the business or to help out on a regular basis even if not officially employed	Ownership Others	*Family Business Review*
Schwartz and Barnes	1991	Both management and ownership control is in the hands of family members	Ownership Management	*Family Business Review*
Daily and Dollinger	1992	Two or more individuals with the same last name were listed as officers in the business and/or the top/key managers were related to the owner working in the business	Others	*Family Business Review*
Johansson and Lewin	1992	A business owned or controlled by a single person or limited group of persons and their families, who also are actively engaged in management functions within the business	Ownership Control Management	
Dumas	1992	A business owned and operated by a family that employs several family members	Ownership Others	*Entrepreneurship Theory and Practice*
Holland and Oliver	1992	Any business in which decisions regarding its ownership or management are influenced by a relationship to a family or families	Subsystems	*Journal of Business and Entrepreneurship*

(*continued*)

(continued)

Author	Year	Definition	Category	Journal
Stoy Hayward	1992	A family-owned business is defined by any one of the three following criteria: (1) more than 50% of the voting shares are owned by a single family; (2) a single family group is effectively controlling the firm; and (3) a significant proportion of the firm's senior management is drawn from the same family	Ownership Management Control	*Professional Service Firm Report*
Dannhaeuser	1993	A family business must be owned and managed by at least two or more members of the same family, serve as a major source of family income, and employ no more than 50 people	Ownership Management Others	*The Journal of Developing Areas*
Riordan and Riordan	1993	A business with 20 or fewer employees in which ownership lies within the family and two or more family members are employed	Ownership Others	*Journal of Small Business Management*
Welsch	1993	One in which ownership is concentrated, and owners or relatives of owners are involved in the management process	Ownership Management	*Family Business Review*
Astrachan and Kolenko	1994	Family ownership of more than 50% of the business in private firms or more than 10% of the stock in public companies; more than one family member works in the business or the owner anticipates passing the business to the next generation of family members or the owner identifies the firm as a family business	Ownership Generational Perception Others	*Family Business Review*

(*continued*)

(continued)

Author	Year	Definition	Category	Journal
Carsrud	1994	A firm's ownership and policy making are dominated by members of an 'emotional kinship group' whether members of that group recognize the fact or not	Ownership Control	*Entrepreneurship Theory and Practice*
Covin	1994	A business owned and operated by a family that employs several family members	Ownership Management Others	*Journal of Small Business Management*
Fiegener et al.	1994	A firm that is both family owned and managed	Ownership Management	*Family Business Review*
Lansberg and Astrachan	1994	A company that is owned or controlled by a family and in which one or more relatives is involved with management	Ownership Management Control	*Family Business Review*
Corbetta	1995	Those businesses where one or more families, connected by family or affinities ties or strong alliances, hold a share of risk capital sufficient to ensure control of the enterprise	Control Ownership	*Family Business Review*
Cromie et al.	1995	A family business satisfied one or more of the following conditions: (1) more than 50% of the shares are owned by one family, (2) one family can extend considerable control over the business, and (3) a significant number of top managers are drawn from one family	Ownership Control	*International Small Business Journal*
Galiano and Vinturella	1995	A business in which the members of a family have legal control over ownership	Control	*Family Business Review*
Gallo	1995	A business in which one or two more families held a percentage of equity equal or greater than 50%	Ownership	*Family Business Review*

(*continued*)

(continued)

Author	Year	Definition	Category	Journal
Litz	1995	A business firm may be considered a family business to the extent that its ownership and management are concentrated within a family unit and to the extent its members strive to achieve and/or maintain intraorganizational family-based relatedness	Ownership Management Others	*Family Business Review*
Shanker and Astrachan	1996	Broad def.: requires family to have some degree of effective control of strategic direction, and the intention of keeping the business in the family. Mid-range def.: all the above + founder or descendants of the founder should run the business. Narrow def.: all the above + multiple generations should be involved in daily operations of the business	Control Generational Management Others	*Family Business Review*
Goldberg	1996	When there were two or more officers or executives listed with the same surname, or when one of the officers or executives had the same surname as the business	Others	*Family Business Review*
Rue and Ibrahim	1996	Those businesses in which the controlling interest is held by a family and in which one or more family members (including in-laws) are employed or reasonably expected to be employed in the future	Control Others	*Family Business Review*

(*continued*)

(continued)

Author	Year	Definition	Category	Journal
Ward	1997	A business in which there are two or more family members influencing the business	Subsystems	*Family Business Review*
Westhead and Cowling	1997	Have undergone an intergenerational transition, speak of themselves as a family firm, more than 50% shareholding owned by family, 50% of daily management team are family members	Ownership Management Generational Perception	*International Journal of Entrepreneurial Behavior and Research*
Smyrnios et al.	1998	Family business as one in which any one of the following four criteria hold true: 50% or more of the ownership is held by a single family; 50% or more of the ownership is held by multiple members of a number of families; a single family group is effectively controlling the business; and a significant proportion of the senior management is drawn from the same family	Ownership Control Management	*Family Business Review*
Gallo	1998	Family businesses have the following characteristics: (1) one family owns a majority of the stock, (2) family members are involved in the company's management, and (3) there is a clear desire to transfer ownership to future generations	Generational Management Ownership	*Family Business Review*

(*continued*)

(continued)

Author	Year	Definition	Category	Journal
Winter et al.	1998	To qualify as a family business, the owner-manager had to have been in business for a least a year, worked at least 6 hours per week year-round or a minimum of 312 hours a year in the business, been involved in its day-to-day management, and resided with another family member	Ownership Management Others	*Family Business Review*
Donckels and Lambrecht	1999	A family business is one in which the majority of the shares are in the hands of one family, and in which the general management of the business belongs to the same family	Ownership Management	*Family Business Review*
Gudmundson et al.	1999	A business is a family business when the organization is family owned or considers itself a family business	Ownership Perception	*Family Business Review*
Heck and Trent	1999	A business that is owned and/or managed by one or more family members	Ownership Management	*Family Business Review*
Chua et al.	1999	A business governed and/or 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 or a small number of families in a manner that is potentially sustainable across generations of the family or families	Ownership Management Control Others	*Entrepreneurship Theory and Practice*

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Author	Year	Definition	Category	Journal
Klein	2000	A family business is a company that is influenced by one or more families in a substantial way. Influence in a substantial way is considered if the family either owns the complete stock or, if not, the lack of influence in ownership is balanced through either influence through corporate governance or influence through management. For a business to be a family business, some shares must be held within the family	Ownership Subsystems Management Control	*Family Business Review*
Littunen and Hyrsky	2000	A family business is one where the controlling ownership rests in the hands of one individual or the members of a single family	Ownership	*Family Business Review*
Lee and Tan	2001	A family enterprise is an establishment with at least 50% equity from the family	Ownership	*Family Business Review*
McConaughy et al.	2001	A public corporation whose CEOs are either the founder or a member of the founder's family	Others	*Journal of Small Business Management*

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Author	Year	Definition	Category	Journal
Koiranen	2002	Family business is a business operation owned and controlled by one family that has either transferred, is in the process of transferring, or will transfer to the next generation, and a family business, regardless of its form, is the economic unit in which the business operations of the family take place and in which the interactive interests of family life, ownership, and business are applied to the ever-changing circumstances	Generational Ownership Control Others	*Family Business Review*
Anderson and Reeb	2003	The family owns (any) share of risk capital and/or some of its members are on the board of directors	Ownership Others	*The Journal of Finance*
Olson et al.	2003	A business that was owned and managed by one or more family members	Ownership Management	*Journal of Business Venturing*
Chrisman et al.	2004	A firm that is owned and managed by family members and seeks to ensure transgenerational involvement through family succession	Ownership Management Generational	*Entrepreneurship Theory and Practice*
Chrisman et al.	2005	Family involvement is only a necessary condition; family involvement must be directed toward behaviors that produce certain distinctiveness before it can be considered a family firm	Others	*Entrepreneurship Theory and Practice*

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Author	Year	Definition	Category	Journal
Lee	2006	Family business if founding family members or descendants hold shares or if they are present on the board of directors	Ownership Control	*Family Business Review*
Westhead and Howorth	2006	Family firm if more than 50% of ordinary voting shares is owned by members of the largest single family group related by blood or marriage and the company is perceived by the CEO managing director/chairman to be a family business	Ownership Perception	*Family Business Review*
Hutton	2007	…any company where founders or descendants continue to hold positions in top management, on the board, or among the company's largest stockholders.	Ownership Management Others	*Journal of Accounting and Economics*
Martínez et al.	2007	…a company that falls into one of the following criteria: (1) a firm whose ownership is clearly controlled by a family, where family members are on the board of directors or top management; (2) a firm whose ownership is clearly controlled by a group of two to four families, where family members are on the board; (3) a firm included in a family business group; and (4) a firm included in a business group associated with an entrepreneur that has designated his family successor	Ownership Others	*Family Business Review*

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Author	Year	Definition	Category	Journal
Miller et al.	2007	…a firm in which multiple members of the same family are involved as major owners or managers, either contemporaneously or over time	Ownership Management	*Journal of Corporate Finance*
Andres	2008	… it has to meet at least one of the following two criteria: (1) the founder and/or family members hold more than 25% of the voting shares, or (2) if the founding family owns less than 25% of the voting rights, they have to be represented on either the executive or the supervisory board	Ownership Control	*Journal of Corporate Finance*
Cucculelli and Micucci	2008	A firm characterized by a transgenerational involvement in the family succession	Generational	*Journal of Corporate Finance*
King and Santor	2008	A firm where a family owns more than 20% of the voting rights	Control	*Journal of Banking and Finance*
Miller et al.	2008	Family business is when there is more than one family member involved in the business	Subsystems	*Journal of Management Studies*
Rutherford et al.	2008	A business where at least two of the business' officers or directors have the same last name	Others	*Entrepreneurship Theory and Practice*
Saito	2008	The founder or his descendant is a president or chairman and/or the founding family is the largest shareholder in the firm	Ownership Others	*Journal of the Japanese and International Economies*
Chu	2009	A firm that has more than 5% family shareholdings and has at least one family member on the board of directors	Ownership Others	*Small Business Economics*

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Author	Year	Definition	Category	Journal
Arosa et al.	2010	Family firm if the main shareholder is a person or a family with a minimum of 20% of firm equity and there is a family relationship between this shareholder and the directors based on the coincidence of their surnames	Ownership Others	*Journal of Family Business Strategy*
Muñoz-Bullón and Sánchez-Bueno	2011	A business is considered a family firm when both of the following conditions are met: (1) two or more directors are related and (2) family members hold a substantial proportion of equity	Ownership Others	*Family Business Review*
Sacristán-Navarro et al.	2011	We defined a family firm as a company in which the ultimate owner or the large owner was a family or an individual who held more than 10% of the voting rights	Ownership Control	*Family Business Review*

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Part III

Non-financial and Financial Dynamics

14

Private Family Business Goals: A Concise Review, Goal Relationships, and Goal Formation Processes

Ralph I. Williams Jr., Torsten M. Pieper, and Joseph H. Astrachan

Introduction

The centrality of goals for performance is well documented in psychological research (e.g., Latham and Seijts 2016). In mainstream business research, and until recently in family business research as well, the role of goals for overall performance has been less well understood owing greatly to the explicit assumption that all businesses share the primacy of financial performance goals. However, this is not necessarily always the case (Berrone et al. 2012; McKenny et al. 2012; Zellweger et al. 2013). Taking a cue from other sciences, this chapter explores the likelihood that family businesses have a wide variety of goals and goal structures that may not often include financial performance as a higher order goal.

A goal is a desired level of performance, a preferred outcome, or the "aim of actions" (Seijts et al. 2004, p. 229). In prioritizing desired outcomes from multiple possibilities, goals provide a rubric for decisions and actions as well

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E. Memili, C. Dibrell (eds.), *The Palgrave Handbook of Heterogeneity among Family Firms*,
https://doi.org/10.1007/978-3-319-77676-7_14

as a basis for assessment of performance (Simon 1964). The strong relationship between goals and performance appraisal suggests that goals regulate behavior and action (Latham and Locke 2006). When goals are missing, employees lack direction and performance assessment is limited in meaning and clarity (Folan et al. 2007). Goals guide decisions, including those related to resource allocation (Thompson and McEwen 1958). Goal development may expose management team conflicts related to organizational aspirations (Neely et al. 2000), and employees may choose to identify with organizational goals, even raising goals to a sacred status (Kayes 2005).

A distinguishing characteristic of family business is the amalgamation of family and business goals (Chua et al. 1999; Kotlar and De Massis 2013; Kotlar et al. 2014a). It is proposed that in family businesses, owning-families seek both satisfactory family and business goal outcomes (Zellweger et al. 2013), and this may be particularly apparent in private family businesses given the absence of outside investor scrutiny with their competing preferences as well as the regulations and restrictions imposed through public listing.

This chapter contributes to the literature by providing a succinct overview of family business goals, with a focus on privately owned businesses. Further, this chapter considers the intricate relationships between financial and non-financial goals, thereby offering novel insights into their dynamic interplay. Lastly, this chapter contributes a discussion of potential processes applied in forming family business goal sets, an emergent topic worthy of consideration in future family business studies (Williams Jr. et al. 2018).

An Overview of Family Business Goals

As an overview, this section addresses the complexity of family business goals, the idiosyncratic nature of family business goals and their heterogeneity, and the fit between goals and family business strategy.

Complexity of Family Business Goals

As family businesses seek to fulfill multiple goals simultaneously, where likely no one goal takes precedence (Tagiuri and Davis 1992), goals in family firms are complex. While these attributes are not exclusive to family businesses, what is quite different from non-family businesses is that leaders of family firms set goals in the context of family and business interaction and must

manage oft competing demands from each of the interdependent systems (i.e., family and business). In addition, as families are not homogeneous groups of individuals with similar interests and aspirations (Chrisman et al. 2004; Sharma et al. 1997), family members likely seek different family business goals, and this may increase the number of goals pursued by a family business. Likewise, goal alignment among family members is challenging (Sharma 2004) and adds to the overall complexity of family business goals.

The complexity of family business goals may be illustrated by the consideration of family business systems. Early models of the family business included two or three overlapping circles to illustrate the interaction of family and business subsystems (see Fig. 14.1 a, b) (Habbershon and Williams 1999; Tagiuri and Davis 1992).

While limited in their understanding of the need and ability to harmonize goals and limit competing goals in family business, these initial models implied a simple interaction of the family and the business, which were conceived as being largely independent and thus had competing goals with consequent straightforward strategic trade-offs between family and business goals (Habbershon and Williams 1999; Stafford et al. 1999). However, family business subsystems are far more complex than conceptualized in early models. The entire open family business system (Pieper and Klein 2007) includes the family, the business, the ownership, and the management subsystem (see Fig. 14.2).

As an illustration of multiple subsystems' effects on goal setting, Pieper and Klein (2007) show that the entire open family business system contributes to the understanding of private family business goal complexity (Zahra 2007). Figure 14.3 represents a publicly traded family business in which the ownership subsystem from Fig. 14.2 is changed to outside shareholders, and the size of the family subsystem is reduced, indicating an owning-family's reduced

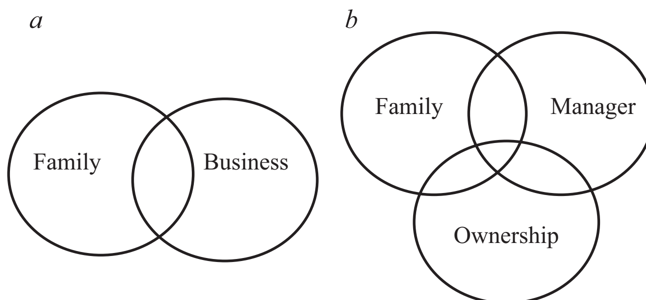

Fig. 14.1 **(a, b)** Models of the family business consisting of two or three overlapping circles used to illustrate the interaction of the family and the business system (Habbershon and Williams 1999; Tagiuri and Davis 1992)

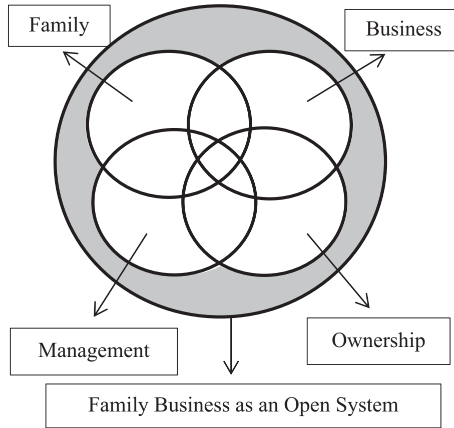

Fig. 14.2 The open systems approach toward understanding family businesses (Pieper and Klein 2007)

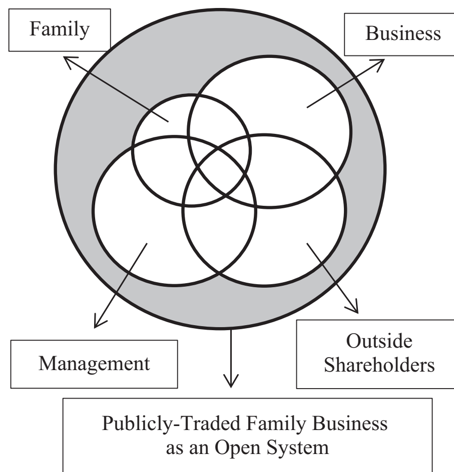

Fig. 14.3 The open systems approach toward understanding family businesses applied to the publicly traded family business (Pieper and Klein 2007)

influence on the business system and goal setting. In a publicly listed business, if maintaining or increasing market value is desired, the owning-family's influence may wane relative to that of other subsystems. This further illustrates increased goal complexity in private family firms relative to listed family firms.

As family business leaders, and in particular founders, have power over both the family and the business and act as strong principals with much control in the family firm (Tagiuri and Davis 1992), they may greatly influence,

to the point of dictating, the goal development process (Schein 1983). Through personality and past experience, like a religious prophet, a founder may shape the firm's culture (Schein 1983), and success in the business can further strengthen the founder's role and influence.

As a family business often provides the setting where a founder's professional aspirations can be achieved, balancing business and family goals may create ideological tension for the founder (Westhead 2003). Consider this example: a founder has a goal of dramatic business growth, which requires raising capital that threatens control; yet, the founder also has a family goal of controlling the business to maintain options for family. In this example, the founder must make an ideological choice, based on goal importance, to pursue accelerated growth or non-diluted ownership. This example shows that a founder's business goals may conflict with family goals, further complicating the relationships among those goals.

Idiosyncratic Nature of Family Business Goals and Heterogeneity

Family values and experiences are unique to each family and resulting in family businesses having idiosyncratic goal configurations (i.e., mixes of goals) (Tapies and Moya 2012; Zellweger et al. 2013). An owning-family's ability to set and control their business goals in a manner consistent with the family's aspirations further expands family business goal idiosyncrasy (Carney 2005; Chrisman and Patel 2012; Mazzi 2011). Given the typical absence of outside shareholders, this enhanced goal idiosyncrasy is especially present in privately held firms. Generally, most businesses evolve in dynamic settings, facing internal and external environmental changes (Anderson and Zeitaml 1984). A family business's dynamic environment is amplified by family life cycles (e.g., the young business family, when children start to enter the business, and intrafamily leadership succession) (Gersick et al. 1997). Findings suggesting the presence of significant differences in pre- and post-succession goals in family firms (Steier and Miller 2010) illustrate the relationship between evolving family life cycles and the fluidity of family business goals.

As illustrated by the phrases "family-centered family business" and "business-centered family business" (Singer and Donahu 1992, p. 41), the emphasis an owning-family places on one element of the family business system further contributes to family business goal idiosyncrasy. For instance, owning-families focused on family outcomes may primarily pursue goals such as intrafamily leadership succession, family member involvement in the business, and a solid

reputation of the family business in the community. Owning-families focused on the business may seek goals such as profit, growth, dividends, and market share. In addition, owning-families may pursue goals reflecting both ends of the family business spectrum. For example, an owning-family may seek family cohesion that facilitates effective management of the firm (Pieper 2007). In such cases, the owning-family is not focused solely on the business or the family, but on the interaction of both. The level of family and business interaction in the forming of goals is unique to each family firm and contributes to family business idiosyncrasy (Chrisman and Patel 2012). Furthermore, the enhanced influence the owning-family has in a private business may result in the owning-family further imposing their particular values and experiences, along with their particular emphasis on family or business, and this may enhance goal idiosyncrasy.

An individual's relational schema is a mental depiction of another person and their relationship with that person. Relational schemas affect goals through the cognitive presence of another person (Fitzsimons and Bargh 2003). For instance, a college student who thinks of his father or mother when studying for a test might have the goal "do your best in school", and thus may study longer and harder for that test. Relational schemas are unique to each individual, and thus contribute to the idiosyncrasy of individual goals (Fitzsimons and Bargh 2003). Relational goals are more likely activated when the other person is physically present (Fitzsimons and Bargh 2003). Consequently, with family members working together, the family firm provides fertile ground for activation of individual relational goals, which further contributes to family business goal idiosyncrasy.

As non-financial goals are idiosyncratic for each family business, those goals augment family business heterogeneity (Chrisman et al. 2012; Chua et al. 2012; García-Álvarez and López-Sintas 2001; Sirmon and Hitt 2003). The heterogeneity of family businesses is a product of each family's response to the affect-rich environment often present in family firms (Zellweger et al. 2013). In a family business setting, owning-families develop preferences for family and firm reputation and identity, behavioral expectations for family members consistent with those identities, and values reflecting what is important related to financial or non-financial goals, or both (Zellweger et al. 2013). Each owning-family responds idiosyncratically to its particular affect-rich environment, and consequently, the resulting preferences, expectations, and value assessments form the basis for non-financial family business goals.

Fit Between Goals and Family Business Strategy

The strategic fit concept focuses on the congruence between a business' strategy and its internal and external environment (Zajac et al. 2000). As goals are an element of a family business environment, goals affect their strategic decisions (Lindow 2013). Furthermore, a family business system may have several components (e.g., employed family members, non-family employees, the community, the owning-family, customers, and suppliers), and goals related to each component of a family firm's subgroups may affect strategy and strategic fit.

Consider the following example of goal and strategy fit: A family firm provides upholstery, carpet, and tile floor cleaning in its community. The owning-family's primary goals include employing family members and sustaining the business for future generations. To accomplish their goals, the owning-family considers multiple strategies: opening cleaning businesses in other communities, engaging in commercial building cleaning, and franchising their business. After much consideration, the family diversifies into the lawn-care business because it provides additional employment opportunities for family members. Through diversification into new business lines, the owning-family believes the firm sustainability will not solely depend on success in the cleaning business. In this example, fit exists between the family business' goals and strategy.

This example illustrates the concept of equifinality: satisfactory performance is possible through various arrangements of business characteristics or strategies (Gresov and Drazin 1997; Lindow 2013). As family business leaders choose from various strategies to achieve their goals, they likely attempt to determine strategies that are useful to realize goals and pursue related tactics. Holding regular family meetings to discuss goals and related strategies may help in achieving this objective (Habbershon and Astrachan 1997). Findings indicate meetings among owning-family members contribute to agreement regarding business matters and may enhance collective family actions; thus, such meetings may augment the fit between goals and strategy. In these meetings, including specific information regarding outcomes may facilitate goal and strategy refinement (DeShon et al. 2004). Furthermore, to achieve strategic fit, owning-families may apply different levels of importance to various goals (Basco and Rodríguez 2011). Consider an owning-family seeking cohesive family relations, family control of the business, and family wealth as their primary goals; achieving of two of these goals would result in the family's satisfaction with their firm's performance. Here, the owning-family may accomplish family cohesion and family control of the business, yet the owning-family might satisfice (accept a satisfactory, yet not optimal, outcome

for this particular goal—discussed later) their goal of family wealth. Consistent with equifinality, owning-families may gain satisfaction through various combinations of achieved goal outcomes (Basco and Rodríguez 2011).

Strategic reference point theory holds that preferred performance outcomes form the basis of goal selection (Fiegenbaum et al. 1996). As owning-families have diverse strategic reference points (Kotlar et al. 2014b), family businesses pursue a mix of non-financial and financial goals, and the mix pursued varies among family firms, further contributing to family business heterogeneity (Berrone et al. 2012; Chrisman and Patel 2012; McKenny et al. 2012; Mahto et al. 2010). The next sections discuss financial and non-financial goals in sequence.

Financial Goals

Financial metrics form the dominant means of measuring business performance, which assumes the supremacy and legitimacy of financial goals in a business goal set (Venkatraman and Ramanujam 1986). The notion that the management's chief responsibility is to create financial value for their firm's owners (Nilsson and Olve 2001) contributes to the perceived sovereignty of financial goals (Fryxell and Wang 1994). Business leaders typically report financial performance to external stakeholders in the shared language of financial measures with extensive codification of how performance should be measured. Consequently, business goals are often communicated in the form of forecasts, budgets, and desired outcomes of selected financial metrics (Fryxell and Wang 1994; Nilsson and Olve 2001). Related to the next section concerning non-financial goals, stakeholders may perceive that a highly profitable firm is performing well regarding non-financial goals (e.g., customer satisfaction, employee motivation) (Fryxell and Wang 1994).

Owning-families may form financial goals from various financial measures, including these ratios: *return on assets*, the ratio between operating profit and total assets; *operating profit margin*, sales less product cost and direct operating expenses; *asset turnover*, the ratio between sales and assets; *return on equity*, the ratio between net profit and owner's equity; and *return on investment*, the ratio between operating profit and the owner's investment in the firm, to name a few (Longenecker et al. 2012; Otley 2002). The connections among various financial goals are illustrated by the relationships among business growth aspirations, desires to make cash distributions to the owners (dividends), return on equity goals, and debt level aspirations (Adams et al. 2004; Donaldson 1985). Funding accelerated growth from operations may limit the business' ability to

pay dividends and vice versa. As findings indicate a negative relationship between cash flow problems and perception of family business success (Olson et al. 2003), adequate cash flow and paying dividends may form important financial goals in family firms. Furthermore, the firm's return on equity determines the firm's ability to pay dividends and fund growth, and a firm's debt ratio (the proportion of the firm's assets financed with debt) affects the firm's ability to produce return on equity (generally, higher debt produces a higher return on equity) and positive cash flow (a higher percentage of debt increases the use of funds for debt service and reduces available cash flow to fund operations). Thus, the financial goals set by a family business, or any business, related to aspired growth, dividends extracted, return on equity, and debt level are interwoven (Adams et al. 2004; Astrachan and Jaskiewicz 2008). As private family business owners typically have more control over financial goals, relationships among financial goals are especially relevant to these individuals.

For owning-families, non-financial returns, such as enhanced family cohesion, may have such import that the owning-family is willing to accept below market return on equity or other financial results (Astrachan 2010). Further, and perhaps counterintuitively, if an owning-family sets relatively low financial return goals, their business may pursue more projects than market-based companies, and because project returns are inherently unpredictable in the long term, they may happen upon superior performing projects foregone by others; this process constitutes a competitive advantage (Astrachan 2010). Relatedly, findings indicate that in general, publicly traded firms tend to invest in fewer new projects than do privately held firms (Asker et al. 2014). Moreover, "managerial myopia" in publicly traded businesses may cause excessive focus on short-term financial results (Asker et al. 2014, p. 5).

Certainly, financial performance is important to sustaining most family businesses, and financial performance also creates personal and family wealth. Therefore, family business literature includes financial goals that differ from typical non-family business financial measures. For example, goals mentioned in the literature related to sustaining the family business include continuity (Chrisman et al. 2009), business financial independence (Basu 2004), viable future business interests (Craig and Moores 2005), and future sale of business at best possible price (Getz and Carlsen 2000). Goals mentioned related to personal wealth include dependable retirement income (Getz and Carlsen 2000) and high wages for the owner (Lee and Rogoff 1996). Goals mentioned related to family wealth include transgenerational value creation (Adams et al. 2004), family financial security (Basu 2004), family wealth creation (Chrisman et al. 2003), and founding generation financial security (Craig and Moores 2005). Non-financial goals are considered in the next section.

Non-financial Goals

Scholars have recently devoted much attention to family business non-financial goals (e.g., Basco 2017; Berrone et al. 2010; Chua et al. 2012; Gagné et al. 2014; McKenny et al. 2012; Zellweger et al. 2013). A small sample of the non-financial goals mentioned in family business literature include creating jobs for family members (Andersson et al. 2002), developing a family legacy (Andersson et al. 2002), providing people in the company with opportunities for personal and social advancement (Basu 2004), connecting the owning-family to the business (Chrisman et al. 2009), perpetuating family's values and legacy (Chrisman and Patel 2012), encouraging total family involvement in decision-making (Craig and Moores 2005, 2010), preserving socioemotional wealth (Berrone et al. 2012; Cruz et al. 2012; Neuhaum et al. 2012), contributing to society (Lee and Rogoff 1996), and transferring leadership through intrafamily succession (Lutz and Schraml 2011; Zellweger et al. 2012b). This discussion of family business non-financial goals starts with the origin and pursuit of family business non-financial goals, which is followed by the effect of non-financial goals on family firm behavior.

The Origin and Pursuit of Family Business Non-financial Goals

Stewardship theory (Davis et al. 1997) proposes that business leaders may act altruistically for the benefit of the entire organization; responsibly stewarding the assets they control. In contrast, agency theory (Jensen and Meckling 1976) proposes that managers (agents) act in their self-interests, sometimes at the expense of shareholders (principles). As stewards representing the owning-family, family firm leaders are seen as likely to pursue non-financial goals for the benefit of family members (Mazzi 2011; Miller and Le Breton-Miller 2006).

Family business non-financial goals may originate from the emotional value (Astrachan and Jaskiewicz 2008) owning-families gain from family businesses that meet the "family's affective needs" (Stockmans et al. 2010, p. 280), which is often referred to as socioemotional wealth (SEW) (Gómez-Mejia et al. 2007). Related to goals, SEW is a primary strategic reference point (Fiegenbaum et al. 1996) for family businesses, and preserving an SEW endowment may form the basis for non-financial goals (Berrone et al. 2010). It is proposed that SEW is comprised of five dimensions (the acronym FIBER): *F*amily control and influence; *I*dentification of family members with the firm; *B*inding social ties; *E*motional attachment of family members; and,

*R*enewal of family bonds to the firm (dynastic succession) (Berrone et al. 2010). Preserving or developing SEW associated with any of the five dimensions may serve as the origin for non-financial family business goals (e.g., Astrachan and Jaskiewicz 2008; Berrone et al. 2010; Berrone et al. 2012; Stockmans et al. 2010; Zellweger et al. 2012a). Indeed, in addition to SEW endowment preservation, each of the five SEW dimensions (FIBER) form non-financial goals in themselves (e.g., family control and influence over the firm, dynamistic succession) (Berrone et al. 2012).

Stakeholder theory (Freeman 1994; Freeman and Reed 1983) portrays a business as "a constellation of cooperative and competitive interests possessing intrinsic value" (Donaldson and Preston 1995, p. 66). Stakeholders have a stake, a share, or an interest in the endeavors of a business. In addition, stakeholders can affect, or are affected by, a business' activities and aims (Freeman and Reed 1983; Russo and Perrini 2010). Stakeholder theory contrasts with the idea that a business' sole obligation is to its shareholders (Freeman and Reed 1983). Relevant to non-financial goals, stakeholder theory brings into consideration individuals or groups who are connected to a business yet are not primarily concerned with business profit or returns. Related tactics include: providing training for employees to enhance their careers, supporting schools, providing customers with safe products, and developing stable relationships with suppliers. These examples may apply to both family and non-family businesses, but family firms may have diverse owning-family stakeholders, such as family members employed at the firm, family members not employed at the firm, spouses of family members engaged the firm, and others. As family business goals may focus on family and non-family stakeholders, stakeholder theory sheds some light on potential origins of non-financial family business goals (Cennamo et al. 2012).

Corporate social responsibility (CSR) is the proposition that businesses have an obligation to society beyond legal requirements (Jones 1980; McWilliams and Siegel 2001). CSR is demonstrated when businesses extend to customers, employees, suppliers, and the community a level of obligation typically reserved for owners (Jones 1980). Examples include recycling disposables, reducing pollution, promoting workplace safety policies, supporting local businesses, and providing workplace amenities such as employee child care (McWilliams and Siegel 2000, 2001). Each of the CSR initiatives previously mentioned may form the basis for non-financial goals. One might assume that family involvement in a firm would result in CSR initiatives (as the family desires to enhance its reputation in the community); yet, perhaps owing to a lack of research on the topic, scant empirical evidence exists supporting a relation between family involvement in a business and CSR (Binz-Astrachan and Ferguson 2014). For further

conceptual insights on the relationship among family and business goals, corporate citizenship behavior (a correlate of CSR), and firm performance, the reader is referred to Binz-Astrachan, Ferguson, Pieper, and Astrachan (2017).

Social capital represents goodwill produced by social relations that can facilitate results such as reciprocity, trust, cooperation, and collective well-being (Adler and Kwon 2002; Russo and Perrini 2010). Companies may seek to convert social capital into financial or competitive advantages, utilizing these possible initiatives: supporting a community environmental effort, seeking an enhanced reputation for the firm's products, developing strong supplier relations to reduce monitoring costs, participating in community charities to interest possible lenders, and supporting an industry association to gain tacit information about competitors (Adler and Kwon 2002). The social capital in each of these examples is a possible basis for a non-financial goal, and all are potentially relevant to family businesses.

Family business non-financial goals may result from family business leader stewardship, developing or preserving SEW, initiatives directed toward a firm's stakeholders, a firm's obligation to do more for society than is expected by law, and a firm's expectation of benefit for its goodwill. This chapter now turns to the effect of non-financial goals on family firm behavior.

The Effect of Non-financial Goals on Family Firm Behavior

Family firm non-financial goals affect family and business behaviors (Chrisman et al. 2012; Zellweger et al. 2013). For instance, findings indicate that relative to non-family firms, family businesses perform better in protecting the environment. It is proposed the motive for better environmental performance is the protection of family firm reputation, a non-financial goal, and a dimension of socioemotional wealth (Berrone et al. 2010). Additionally, non-financial goals could affect hiring decisions and, consequently, the treatment of non-family stakeholders (Kellermanns et al. 2012). For example, in pursuing the non-financial goal of including family members in management positions, family firm leaders may opt to promote a family member who has little or no experience over a qualified non-family employee. In giving precedence to the non-financial goal of including family members over the non-financial goal of treating other stakeholders fairly, the owning-family is using their control to maximize their utility at the expense of others (Andres 2008; Zellweger et al. 2013).

Non-financial goal attainment affects other strategies. As is the case with value maximization, an owning-family's perception of firm worth may consist of two elements: the financial value of the firm, and the emotional value the

owning-family attaches to the firm (Astrachan and Jaskiewicz 2008). Furthermore, owning-families consider emotional value in the form of non-financial returns (e.g., pride of owning a business, family cohesion, and family reputation) or costs (e.g., family tension over the business' mission, rivalry among siblings competing for leadership, or limits on family leisure time caused by business obligations). These returns and costs reflect the satisfaction, or dissatisfaction, with non-financial goal outcomes. An owning-family with emotional returns, related to the satisfaction of non-financial goals, may place a higher financial value on their firm and be less apt to sell than would an owning-family experiencing emotional costs (Astrachan and Jaskiewicz 2008). Therefore, the attainment of non-financial goals related to the family may affect an owning-family's sale of their firm.

Family business non-financial goals may affect owning-family behavior related to maintaining control of their business. Through a study of family-owned olive mills, Gómez-Mejia, Haynes, Nuñez-Nickel, and Moyano-Fuentes (2007) found empirical evidence of family businesses acting to preserve their autonomy and control business decisions, a SEW endowment, at the expense of business financial performance. Gómez-Mejia et al. (2007) proposed families in their study valued autonomy and control over their business-related decisions to the extent they were willing to incur more business risk and diminished financial performance, further illustrating how non-financial goals, such as maintaining autonomy and family control over the business, might affect family business behavior.

The Relationships Between Non-financial and Financial Goals

According to the classical theory of the firm (Fama 1980), business leaders seek to maximize profits and firm value. One challenge with the classical theory of the firm's explicit goals is that no time frame was elucidated and a short time frame was implied. This is certainly at odds with a large percentage of private family businesses, who typically seek multigenerational transition. In addition, the premise that businesses pursue purely non-financial goals contradicts the classical theory of the firm (Chrisman et al. 2012; Westhead and Howorth 2006). The presence of non-financial goals in family firms leads one to expect relationships between financial and non-financial goals. While there may be trade-offs between goals, an effective goal set could have goals that complement one another (e.g., achieving one goal facilitates the achievement

of a complementary goal); thus, the relationships among goals affect the forming of a family business goal set (Astrachan 2010). For example, the goal of growing the firm may complement the goal of involving more family members in the business. On the other hand, the goal of reducing costs through wage cuts, desiring to better compete on price, may counter the goal of providing employed family members a high standard of living. Applying the balanced scorecard (BSC) (Kaplan and Norton 1992) and Zellweger and Nason's (2008) typology of family business performance outcome relationships, this section discusses the relationships between financial and non-financial goals in greater detail.

The BSC illustrates the potential relationships between financial and non-financial goals, the values of both financial and non-financial goals, and the importance of establishing both financial and non-financial goals (Kaplan and Norton 1992). While the BSC assumes the primacy of financial goals and seeks to find non-financial goals that feed financial goal attainment, the approach is nonetheless useful for understanding the relationships among goals in a goal set. At the time of BSC's inception, financial metrics were the primary source of performance measurement; thus, the BSC was revolutionary at the time where it was created (Neely 2005).

In an Australian retail family firm, Craig and Moores (2005) applied the BSC as a method to address the complexity of a second-generation family firm. The authors aligned the four balanced scorecard perspectives with the family business context: (1) from the customer perspective, providing quality reflecting the family brand image; (2) from the internal perspective, implementing professional work practices that attract the best family and non-family employees; (3) from the learning and growth perspectives, creating career paths for family members; and (4) from the financial perspective, preparing to support a retiring generation. Through this BSC application, Craig and Moores (2005) illustrated the relationships among financial and non-financial goals. Furthermore, the authors proposed including BSC non-financial goals reflecting a family dimension contributes to business development, management, and succession planning, and thus enhances financial performance. The authors' suggestion implies that family business non-financial goals may complement family business financial goals, and alignment among family goals and business goals can result in better outcomes.

Zellweger and Nason (2008) proposed a typology including four types of family business performance outcome relationships: *substitutional*, *overlapping*, *causal*, and *synergistic*. Given a goal is a desired/preferred performance outcome (Seijts et al. 2004), Zellweger and Nason's (2008) typology helps frame the relationship among family business goals. *Substitutional* perfor-

mance outcome relationships (trade-offs) are those in which "one performance outcome is only achievable at the expense of the other" (Zellweger and Nason 2008, p. 204). For example, some assume that rational investors always seek to maximize wealth, resulting in trade-offs between financial and non-financial goals (Zellweger and Nason 2008). The premise that without adequate financial performance an organization will not survive, which is not necessarily always the case (see, e.g., DeTienne et al. 2008), supports the proposition of trade-offs between financial and non-financial goals (Zellweger and Nason 2008).

Findings from a study of goals in micro and small enterprises (MSEs) provide a possible example of *substitutional* financial and non-financial goals (Cruz et al. 2012). In their study, the MSE family businesses pursued the non-financial goal of employing family members. However, financial outcomes (profitability and return on assets) were negatively related to family employment, suggesting a possible *substitutional* relationship between financial goals and employing family members; inferring that "warm hearts" may come with the expense of "empty pockets" (Sharma 2004, p. 8).

When multiple stakeholder groups benefit from both financial and non-financial goals, the relationship between those goals is *overlapping*. For instance, consider the non-financial goal of high community respect of the business and the financial goal of increased sales. Community stakeholders benefit from a family firm's initiatives to enhance its reputation (e.g., donating to charity, supporting local schools). The owning-family (whose name may be on the business door) gains a stronger reputation, and the firm experiences higher profits generated by higher sales resulting from the firm's enhanced reputation. The relationship between the non-financial goal of high community respect for the firm and the financial goal of higher sales is *overlapping* in that multiple stakeholder groups benefit from the combination of these goals.

The *causal* goal relationship occurs when one goal triggers another goal. Findings indicate family business managers are more committed to non-financial goals when they perceive a causal link between non-financial and financial outcomes (Webb 2004). For instance, family business leaders may commit to the non-financial goal of superior customer service because of its causal effect on the financial goal of increased profits (i.e., better customer service may allow the firm to increase prices, resulting in higher profits). A *causal* goal relationship may exist between the non-financial goal of family cohesion and financial goal of greater profit (Pieper 2007); family harmony may cause a reduction in agency costs (e.g., management incentives and financial audits) (Jensen and Meckling 1976), resulting in enhanced earnings. Consider a family business in which one of the founder's children serves as

CEO. Family cohesion in this example is such that all family members trust the CEO to consistently act in the best interests of both business and family. In this environment of family harmony and trust, the business does not pay the successor incentives to align his interests with those of the owning-family. Here, due to reduced agency costs, the non-financial goal of family cohesion led to increased profits.

A *synergistic* performance outcome relationship exists when goals jointly affect each other in a common direction. Extant literature provides various scenarios where non-financial goals and financial goals complement one another (e.g., Chrisman and Patel 2012; Zellweger and Nason 2008). For instance, the non-financial goal of transgenerational family control of the business may harmonize with the goal of exploring innovative business possibilities (Chrisman and Patel 2012); the owning-family is willing to incur long-term risk associated with innovation to improve the probability of continuing the business and producing wealth for subsequent generations. Findings indicate that families who pursue the development of enterprising family members complement the financial goal of generating transgenerational wealth (Habbershon et al. 2003). The multiple ways that non-financial and financial goals interact support the proposition that relationships between both goals enhance family business heterogeneity (Chrisman et al. 2013).

Family Business Goal Set Formation

In considering how owning-families form goal sets, this section applies utility and satisficing theories. Utility represents an individual's or group's preferences among various outcomes (Aumann 1962) and is relevant to family business leaders as they consider goals to pursue. A family business goal set includes goals with the highest utility to the owning-family. The probability of success, relative deprivation, expected costs, and process utility are factors related to the overall utility, and these are discussed next in the context of family business goal choice.

Expectation of success (perceived probability of achieving a goal) affects goal utility, and a goal's expectation of success and its utility are proposed to act in a multiplicative manner to determine goal adoption and pursuit (Korpi 1974; Tanaka et al. 2006). Consider the owning-family of a micro-firm who highly values the goal of acquiring a company jet for family trips; yet, the low expectation that a micro-business could finance the purchase and operation of a jet would thwart the owning-family's adoption and pursuit of this goal. In this case, goal utility and expectancy interact to affect the inclusion of a jet in the owning-family's goal set.

Relative deprivation—the difference between the current outcome and the decision-maker's aspiration for that outcome—also affects goal utility and the adoption of goals for a goal set (Korpi 1974; Falk and Knell 2004). It is proposed that greater relative deprivation increases goal utility (Korpi 1974). Consider a family business leader with great desire of both increased social contact among his family members and family member involvement in the business; yet, a large proportion of the leader's family has moved far away. Consequently, few family members are involved in the firm, and there is little social contact among family not employed by the business. Here, high relative deprivation exists between the leader's desires (goals) for increased family social contact and involvement in the firm and the current situation (outcomes). As proposed, the great disparity between the leader's goals and the current outcomes may increase the leader's utility of those goals. In response, the leader may employ more family members by creating unnecessary positions in the company and paying family higher salaries, sacrificing financial goals.

The expected costs, financial or non-financial, of pursuing a goal affect utility, and higher costs reduce utility (Korpi 1974). Consider an owning-family whose members mainly live in close proximity to the business, often gather socially, and enjoy strong bonds. However, only a small proportion of the family is engaged in the business. The family firm's leader would like more family members engaged in the business (a goal), but the leader may consider potential damage to family cohesion as a possible cost of including more of the family in the business. As a product, the utility attached to the goal of involving more family members in the business is lowered by the potential non-financial costs of damaging family cohesion.

Process utility represents the value placed on activities connected to pursuing a goal (Habib and Miller 2008), and this value is redeemed as one works toward the goal and is not delayed until goal achievement (Winston 1987). Consider an owning-family who is pursuing the goal of dramatically increasing their business's revenue. More family members engage in the business, and the family enjoys more daily contact and social interaction, providing process utility while pursuing the goal of business growth. The process utility in this example may contribute to the utility associated with business growth goals. In closing, goal utility, the expectancy of success, relative deprivation, the expected costs of pursuing a goal, and process utility may influence an owning-family's choice of goals included in their goal set.

Satisficing and Combining Goals into a Family Business Goal Set

Satisficing is accepting a solution that is satisfactory, yet not optimal (Harrision and Pelletier 1997; Simon 1957), or "finding a course of action that is 'good enough'" (Simon 1957, p. 205). Satisficing is proposed as a practical counter to maximizing, which represents attaining the best possible outcome, an economic concept (Harrision and Pelletier 1997; Simon 1957). Generally, maximizing includes three constraints: (1) incapability to gather all related information, (2) cost and time constraints, and (3) cognitive limitations (Harrision and Pelletier 1997). To illustrate, consider an owning-family with the goal of selling a business unit for the maximum price possible. Applying the constraints to maximizing, the owning-family faces these limits: (1) the inability of knowing every potential buyer in the market, (2) the cost and time associated with selling the business, and (3) the limits in cognitive ability to process and consider all possible offers. In contrast to maximizing, if the owning-family were to satisfice, they would set a minimum acceptable price and then accept the first offer which met or exceeded that amount (Simon 1955).[1]

In his Nobel Prize acceptance speech, Herbert Simon (1979) provided these prompters for satisficing behavior: First, in satisficing more alternatives meet the lower standard, so more alternatives are deemed worthy of consideration. When an owning-family business chooses to satisfice in goal selection, a greater number of goals may come into play. Second, when maximizing, a leader must attempt to quantify outcomes, seeking the absolute best outcome (Simon 1979). But quantifying intangible outcomes is often difficult and intellectually challenging (Simon 1979). Related to this discussion, when an owning-family satisfices in choosing what goals to pursue, the choice may necessitate less intellectual effort (and cost) than would maximizing. Third, maximizing often requires a leader to organize and evaluate a mass amount of information to assess the optimal outcome (Simon 1979). Therefore, when an owning-family satisfices goal choice, they may experience a more efficient goal setting process than when seeking to maximize. Fourth, in maximizing, a leader often must compare outcomes that are diverse (Simon 1979). When forming a goal set, satisficing may reduce the need for the owning-family to compare unrelated, and thus difficult to compare, outcomes. Last, to seek the absolute best outcome requires investment, including tangible and intangible resources (Simon 1979).

[1] This example was derived from Simon (1955) that illustrates satisficing using the case of a homeowner selling his house.

Satisficing goals may also result in more harmony among stakeholder groups. For example, an owning-family is considering two maximizing goals: to pay family members employed by the firm wages that are highest in the labor market and to distribute dividends that are highest in the firm's industry. Maximizing family members' wages may limit dividends distributed to owners, and vice versa. If these goals were satisficed—*good* wages relative to the market and dividends *among* the industry leaders—less potential for conflict may exist between stakeholder groups. Considering these stakeholder groups as an incorporated group, including both employed family members and family members holding equity in the firm as a whole may result in more satisfaction when the goals are satisficed than if one of the goals was maximized to the detriment of the other.

The satisficing concept may also relate to the framing of motivation (Kaufman 1990). Rather than maximize each level of Maslow's (1943) hierarchy of needs, Kaufman (1990) proposed that individuals satisfice when a goal is accomplished at an acceptable level and then move higher up the hierarchy of needs on to pursue another goal. In relating his approach to business, Kaufman (1990) proposed that once leaders achieve an acceptable level of profit, they satisfice and move up in their hierarchy to pursue other goals. A hypothetical example applying this approach to family business is presented in Fig. 14.4.

If an owning-family's goal hierarchy resembled that illustrated in Fig. 14.4, they would pursue a satisfactory level of financial performance that achieves business sustainability. Once that level of financial performance was reached, the owning-family would satisfice and move to the next goal in the hierarchy, enhanced family income and lifestyle, and this process would continue as the owning-family moved up their hierarchy of goals. Kaufman's (1990) approach may shed light on goal setting in the family business setting, but, as Maslow's theory focuses individual motivation, caution in applying Kaufman's (1990) propositions is warranted.

Discussion

As goals reflect an organization's preferred outcomes, desires (Seijts et al. 2004), and maybe its heart, the discussion of goals is especially relevant to expanding knowledge in the family business research field. This chapter adds to the current literature by examining family business goals: financial and non-financial goals. This chapter's most significant contribution includes a discussion of the relationships between financial and non-financial goals, and

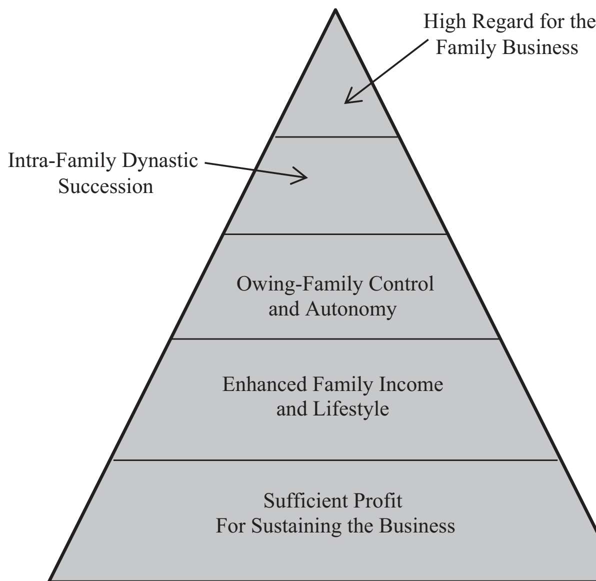

Fig. 14.4 A hypothetical example of a family business's hierarchy of goals based on Kaufman's (1990) satisficing proposition

a discussion of processes applied when forming family business goal sets, a topic absent in the current family business literature, but important to understanding family business goals (Williams Jr. et al. 2018).

Summary

Given an owning-family's influence, varying interests among family members, and the affect-rich environment often present in family firms, relative to non-family firms, family business goals are complex (Tagiuri and Davis 1992; Zellweger et al. 2013). This complexity, along with the idiosyncrasy of family values and experiences, contributes to family business goal heterogeneity (Zellweger et al. 2013). Relative to publicly traded firms, owning-families of private businesses may have more latitude to set goals, enhancing goal heterogeneity among private family firms.

Given business performance is most often assessed utilizing financial metrics, it is assumed financial goals dominate business goal sets (Venkatraman and Ramanujam 1986). Yet, family business researchers devote significant attention to non-financial goals (e.g., Basco 2017; Berrone et al. 2010; Chua et al. 2012; Gagné et al. 2014; Kotlar and De Massis 2013; McKenny et al.

2012; Zellweger et al. 2013). Multiple family business attributes may prompt non-financial goal pursuit. Family firm leaders, acting as stewards, may pursue non-financial goals for the benefit of family members and other stakeholders (Cennamo et al. 2012; Davis et al. 1997; Mazzi 2011; Miller and Le Breton-Miller 2006). Owning-families may desire to preserve SEW, resulting in non-financial goals (Gómez-Mejia et al. 2007). Furthermore, family business non-financial goals can affect multiple firm behaviors (Chrisman et al. 2012; Zellweger et al. 2013), such as hiring family members over non-family candidates (Kellermanns et al. 2012) or avoiding strategic actions that dilute an owning-family's control over the business (Gómez-Mejia et al. 2007).

One would expect relationships between financial and non-financial goals in family businesses, and those relationships are illustrated in Craig and Moores' (2010) application of the BSC in a family business. The authors proposed including non-financial goals reflecting a family dimension in a BSC enhances financial performance. Zellweger and Nason's (2008) typology of family business performance outcome relationships (substitutional, overlapping, causal, and synergistic) also illustrates potential financial and non-financial goal relationships. Of these four goal relational types, only the substitutional provides a situation where financial and non-financial goals are not related. When goals are substitutional, owning-families must make trade-offs between those goals.

Lastly, utility of goals and satisficing may affect the forming of a family business goal set. Utility represents the value, or preference, of outcomes (Aumann 1962) and is affected by probability of success (Korpi 1974; Tanaka et al. 2006), relative deprivation (Korpi 1974; Falk and Knell 2004), expected costs (Korpi 1974), and process utility (Habib and Miller 2008). Satisficing is accepting an outcome that is satisfactory, but not optimal (Harrision and Pelletier 1997; Simon 1957), and is proposed as a practical counter to maximizing, attaining the best possible outcome (Harrision and Pelletier 1997). In satisficing, an owning-family may achieve more harmony and cohesion among stakeholders.

Future Research and Practitioner Implications

This section closes with a brief review of potential research questions and practitioner implications. Certainly, more research investigating the relationships among family business goals is needed, particularly study of the interactions of financial and non-financial goals. For instance, what goals are substitutional, resulting in trade-off decisions? Armed with knowledge of

potential substitutional goals, practitioners may avoid pursuing conflicting goals that would result in wasted resources and might cause emotional conflict among business leaders and family members.

To expand knowledge of how owning-families choose goals, researchers might consider exploring questions such as: How does national or local culture affect goal utility? What factors affect the choice to maximize versus satisfice, such as operating in a competitive or dynamic industry? How does family members' educational level affect goal utility? What impact do the religious or spiritual beliefs of the owning-family have on goal selection and the decision to satisfice? And, do different family business generations (e.g., baby boomers, gen X-ers, and millennials) tend to satisfice or maximize goal outcomes more than other generations? Related to practitioners, those involved in forming family business goals might consider these questions: Why is each of our goals important? What utility (in an economic sense) applies to particular goals being considered? And, is the intention to maximize or satisfice particular goals? Reflecting on these questions likely affects family business goal selection and commitment. It is the authors' sincere hope that this chapter will inspire more goal-related family business research, a topic vital to expanding knowledge of private family firms that shall ultimately help the family businesses, their owning-families, and many stakeholders.

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15

The Distribution of Family Firm Performance Heterogeneity: Understanding Power Law Distributions

Emma Su, Daniel T. Holt, and Jeffrey M. Pollack

Introduction

Family firms represent one of the most prevalent forms of business ownership around the world (Anderson and Reeb 2003; Astrachan and Shanker 2003; Chrisman et al. 2005; Villalonga et al. 2015). Studies show that 33% of large publicly listed firms (Anderson and Reeb 2003; Villalonga and Amit 2006) and 90% of all businesses, including both publicly and privately held firms, are family firms in the U.S. (Astrachan and Shanker 2003; Shanker and Astrachan 1996). The percentage of family firms is even higher in Eastern Asia and Western Europe, with over 66% and 44% said to be family firms in these regions, respectively (Claessens et al. 2000; Faccio and Lang 2002). Not surprisingly, this has led to a dramatic surge in research attention to investigate family businesses in the past two decades (Sharma 2015), with much of this research being devoted to the financial performance of family firms (Carney et al. 2015; Holt et al. 2017; Miller et al. 2007).

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E. Memili, C. Dibrell (eds.), *The Palgrave Handbook of Heterogeneity among Family Firms*,
https://doi.org/10.1007/978-3-319-77676-7_15

The maturity of the research on family firm performance has been reflected by meta-analytic reviews by O'Boyle et al. (2012) and Carney et al. (2015), as well as a systematic review on the family firm outcomes including financial and non-family dimensions by Holt et al. (2017). Early studies on performance differentials between family and non-family firms (Anderson and Reeb 2003; Carney et al. 2015; Chrisman et al. 2004; Miller et al. 2007; O'Boyle et al. 2012) have generated mixed findings. Integrating these findings using meta-analytic techniques, O'Boyle et al. (2012) found that family involvement did not significantly impact firms' financial performance and concluded that there is no relation between family involvement and firms' financial performance. Not surprisingly, the ambiguity around the nature of the family involvement-firm performance relationship is often described as both puzzling and concerning by family business scholars (Chrisman et al. 2005; Dyer 2006).

To address this concern, researchers have started to explore heterogeneous performance among various types of family firms (Holt et al. 2017). This focus is in line with the general recognition that there is considerable heterogeneity among family firms (Melin and Nordqvist 2007; Sharma et al. 1997). Chrisman et al. (2003) model the family firm decision-making process, suggesting that differences likely begin with the family's goals and aspirations. These differing goals and aspirations are not only said to explain differences between family and non-family firms but also differences among family firms (Chua et al. 2012). This has led several researchers to suggest that "the variations in the behavior and performance among family firms may be as large as, if not larger than, the variations between family and nonfamily forms of organization" (Chua et al. 2012: 1103–1104).

Although researchers have discussed the heterogeneity in family firm performance, they have, unfortunately, never addressed how this variation of performance among various family firms should be characterized. Thus, as heterogeneity is becoming an accepted tenet, one basic question is left unanswered: "How does family firm performance actually vary?" There is an implicit assumption in much of the relevant research that family firm performance varies in a normal fashion where it centers on a mean and then varies symmetrically around this mean. Put more simply, family firm performance is assumed, as with the tradition of much of management research (e.g., Crawford et al. 2015; O'Boyle and Aguinis 2012), to follow a normal distribution. When performance data do not conform to the normal distribution, researchers generally conclude that there is error in the sample as opposed to the population (e.g., Rutherford et al. 2008). Then, common adjustments are made (e.g., cases are deemed to be outliers and dropped) to make the sample better reflect the assumed normal curve (e.g., Berent-Braun and Uhlaner

2012; Braun and Sharma 2007). These normal (i.e., Gaussian) distributions contrast dramatically with power law (i.e., Pareto or exponential) distributions, which reflect populations with unstable means, infinite variance, and a greater proportion of extreme events (e.g., Crawford et al. 2015). Moreover, the assumptions regarding the normal distribution of performance, that has been commonly accepted by management researchers, have been questioned in a range of settings to include the variance among individual performers (O'Boyle and Aguinis 2012), small entrepreneurial firms (Crawford et al. 2015), and large, publicly traded firms (Buchanan 2004).

Building on these ideas, this chapter examines the assumption that family firm performance varies in a normal fashion and discusses the implications that this notion has for theory and research as well as methodology and practice in the domain of family business studies. As the domain of family business studies continues to evolve, we feel this line of inquiry will become more important as family business researchers "ask and test more sophisticated, empirically robust questions" (Evert et al. 2016: 2). To fulfill our goals, we first discuss the normal (i.e., Gaussian) and power law (i.e., Paretian) distributions and key differences between them. Second, we describe the origins and document the presence of the norm of normality regarding firm performance in family firms. Specifically, we conducted a comprehensive literature review and analysis of previous studies on family firms' heterogeneous performance. Third, we examine the distribution of several samples of family firms' performance, assessing the extent to which the data fit a normal or power law distribution. Finally, we offer a guiding framework that researchers can use as they analyze family firm performance data.

Normal and Power Law Distributions: An Explanation

Depicted graphically in Fig. 15.1, normal and power law distributions differ in several meaningful ways. Fundamentally, the normal distribution can be characterized easily by its mean and standard deviation (Greene 2002); a power law distribution cannot be as easily characterized by these central tendencies (McKelvey and Andriani 2005: 221). As shown in Fig. 15.1, normal distributions have vanishing tails, thereby allowing researchers to focus on a stable mean and limited variance that can then be used to develop statistical confidence intervals. In contrast, power law distributions are complicated by longer, fatter tails (which decay more slowly than normal distributions) with infinite variance, unstable means, and unstable confidence intervals (Andriani and McKelvey 2009). In addition, the two distributions differ in their assumptions

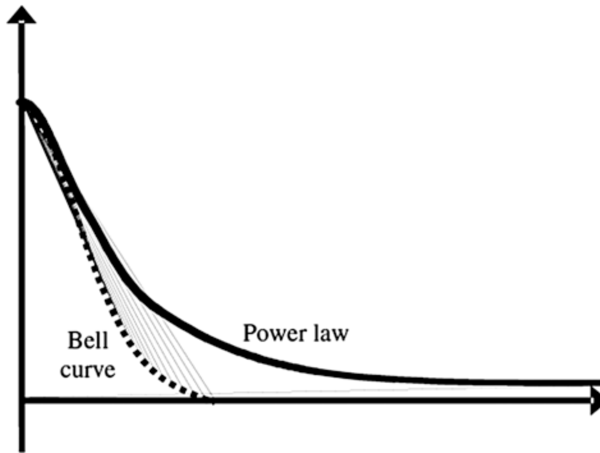

Fig. 15.1 Gaussian vs. Pareto distributions. (Source: This figure is adapted from Andriani and McKelvey 2009)

regarding the correlations among cases (McKelvey and Andriani 2005). With a normal distribution, cases are assumed to be independent and these independent cases follow normal distributions themselves, whereas in power law distributions it is assumed that phenomena are rooted in interdependent, dynamic environments (Andriani and McKelvey 2009; McKelvey and Andriani 2005). Thus, power law distributions account for extreme or what are often viewed as "rare" or "outlying" cases.

Clearly, these differences make normal distributions attractive for researchers. Accordingly, it is a common practice for researchers to assume normality. In some cases, these assumptions are made explicitly, as Wiklund and Shepherd (2011: 927) stated, "In any sample of firms, it can reasonably be assumed that performance will vary normally around a mean." Most frequently, however, these assumptions are made implicitly through the choices in methods that are reported and used to analyze data.[1] Although an assumption of a normal distribution (often termed a Gaussian or bell-shaped distribution) is generally accepted, whether implicit or explicit, there is an increasing recognition that this assumption of normality may not represent phenomena from the natural and social world accurately, with things like genetic properties varying according to power law distributions (Andriani and McKelvey 2009; McKelvey and Andriani 2005).

[1] For instance, many studies draw on regression techniques to analyze data. Regression, as Greene (2002) states, assumes the following: (1) independence among data points; (2) linear relationships among variables; (3) exogenous independent variables; (4) homoscedasticity and nonautocorrelation; and, (5) *normal distribution*.

Similarly, several argue that meaningful organizational phenomena are more accurately characterized by power law distributions and, as this empirical reality is overlooked, incomplete or incorrect conclusions are drawn from our data (Buchanan 2004; Crawford et al. 2015; Johnson et al. 2014; O'Boyle and Aguinis 2012). Considering the performance of large firms and markets, Buchanan (2004), for instance, reported that in a single day, 10% drop in the stock market's value would be observed once every 500 years when this performance is modeled as a normal distribution. In reality, dramatic, one-day drops happen far more frequently than this and could be better predicted if the market's performance was modeled as a power law distribution (Buchanan 2004). The fluctuations in markets extend to individual wealth with Levy and Solomon (1997) empirically finding that individual wealth was most accurately characterized as a power law distribution where a few cases disproportionately account the entire population's output. Thus, power law distributions, it has been argued, may offer a better analytical framework to examine the heterogeneity of much organizational phenomena and we feel this may extend to the heterogeneity of family firm performance. Before examining this, however, we first review the assumptions researchers have made regarding the heterogeneity of family firm performance.

The Normality Assumption Underlying Family Firm Performance

Consistent with the approach used in several reviews of the family business literature (e.g., Daspit et al. 2015; Madison et al. 2015), we used the following four complementary search procedures to identify the articles that we included in our analysis of the assumptions made by researchers as they examine the performance among family firms. First, we narrowed the scope of our search for the years between 2007 and 2017. While the examination of performance in family firms has been frequent and the discussion of the heterogeneous nature of family firms has been understood, Melin and Nordqvist (2007) and Westhead and Howorth (2007) began to shed light on the issue of heterogeneity. Second, we identified performance-related articles in *Family Business Review* and the *Journal of Family Business Strategy*, two leading journals devoted to research on family businesses. To expand our search, we also included *Small Business Economics*, *Journal of Small Business Management*, *Journal of Business Venturing*, *Entrepreneurship Theory and Practice*, and *Entrepreneurship and Regional Development*, because these journals also have a tradition of publishing articles related to family businesses.

We also searched other leading management journals that are in included in the *Financial Times* 50 and publish manuscripts in family business and entrepreneurship. These included *Academy of Management Journal*, *Academy of Management Review*, *Journal of Management*, *Journal of Management Studies*, *Organization Studies*, and *Strategic Management Journal.* In searching these journals, we used the following search terms: "family firms," "family businesses," "family enterprises," and "performance." Searches of titles and abstracts of articles were conducted using Business Source Complete and ScienceDirect databases. Third, once manuscripts were identified, they were further screened to assess the underlying assumptions that were made regarding the distribution of family firm financial performance.

Because of our purpose (cf. Chandler and Lyon 2001), we further limited empirical manuscripts to those that were data-based and tested research questions and proposed theoretical models using statistical methods, excluding those that adopted qualitative approaches such as case studies and interviews. Moreover, we only included articles that treated family firm performance as the dependent variable, excluding those that used performance as a control variable. This process yielded 37 journal articles that were then reviewed and coded. Specifically, each article was assessed in the following areas: the size of the sample used to conduct the study, the country where the sample originated, the method applied to analyze the data, the performance measurements of the study. More to serve our purpose, we also noted whether the normality assumption was tested and whether an outlier analysis was conducted. Consistent with the practices suggested in recent reviews (Evert et al. 2016), each of the 37 articles was read and rated by the first two authors to ensure reliability. The raters individually coded the articles and met to discuss agreements and discrepancies.

The results show a wide range of sample size used in the study of heterogeneity performance among family firms, ranging from a sample of 70 to 2631 family firms. Moreover, studies on this topic have been conducted in different countries including Belgium, China, Germany, Italy, South Korea, Spain, Sweden, and the U.S., with the majority being from the U.S. There have been a wide variety of statistical methods used to analyze the data. Several regression techniques have been used to include hierarchical regression, structural equation modeling, panel regression as well as several data reduction techniques like confirmatory and exploratory factor analysis. All of these methods assume a normal distribution of variables. The literature has also shown various measurements to operationalize performance, including return on assets (ROA), return on equity (ROE), and Tobin's *q*, profits, industry-adjusted market value, productivity growth, as well as subjective measures using survey-based measures. The results of this search were summarized and shown in Table 15.1.

Table 15.1 A summary of the empirical studies on the heterogeneity of family firm performance

Article	Sample size	Country	Analytical method	Performance measures	Normality implicitly assumed	Outlier analysis
Braun et al. (2007)	84	U.S.	Regression analysis	Buy-and-hold market-adjusted returns	Yes	Yes
Naldi et al. (2007)	265	Sweden	Exploratory and confirmatory factor analysis (EFA and CFA)	Profit, sales growth, cash flow, and growth of net worth	Yes	No
Eddleston et al. (2007)	60	U.S.	Structural equation modeling (SEM)	Subjective performance (8 items)	Yes	No
Rutherford et al. (2008)	831	U.S.	Regression analysis	Sales revenue, sales per employee, growth, subjective performance (8 items)	Yes	No
Craig et al. (2008)	218	U.S.	SEM	Subjective performance (4 items)	Yes	No
Sciascia et al. (2008)	620	Italy	Regression analysis	Sales growth, revenue growth, net profit growth	Yes	No
Niehm et al. (2008)	221	U.S.	Regression analysis	Subjective performance (1 item)	Yes	No
Oswald et al. (2009)	2631	U.S.	Regression analysis	Sales growth, revenue, capital structure	Yes	No
Sorenson et al. (2009)	Sample 1: 212 Sample 2: 193	U.S.	SEM	Profit, market share, industry growth	Yes	No
Vallejo et al. (2009)	90	Spain	Regression analysis	Profitability, longevity, group cohesion	Yes	No
O'Boyle et al. (2010)	526	U.S.	SEM	Income (earnings before interest, expense and taxes) as a percentage of sales	Yes	No
Lindow et al. (2010)	225	Germany	Regression analysis	ROE ROA	Yes	No
Molly et al. (2010)	504	Belgium	Fixed-effects approach	Operating return on assets	Yes	Yes
Arosa et al. (2010)	369	Spain	Regression analysis	ROA	Yes	No
Minichilli et al. (2010)	500	Italy	Kolmogorov-Smirnov	ROA	Non-parametric test	Yes
Goel et al. (2011)	170	China	Regression analysis	ROA	Yes	No
Sacristan-Navarro et al. (2011a)	71	Spain	Regression analysis	ROA	Yes	No
Sacristan-Navarro et al. (2011b)	80	Spain	Regression analysis	Industry-adjusted market value	Yes	No
Basco et al. (2011)	732	Spain	Cluster analysisEFA	Subjective performance (14 items)	Yes	No

(*continued*)

Table 15.1 (continued)

Article	Sample size	Country	Analytical method	Performance measures	Normality implicitly assumed	Outlier analysis
Garcia-Ramos (2011)	77	Spain	Generalized method of moments	Tobin's *q*	Yes	No
Zellweger et al. (2012)	179	Sweden	Regression analysis	Subjective performance (5 items)	Yes	No
Spriggs et al. (2012)	193	U.S.	Regression analysis	Industry growth, profitability, and market share	Yes	No
Dyer et al. (2012)	884	U.S.	SEM	Profits	Yes	No
Kellermanns et al. (2012)	70	U.S.	Regression analysis	Sales growth, market share growth	Yes	No
Berent-Braun et al. (2012)	64	18 countries across 4 continents	Regression analysis	Subjective performance (4 items)	Yes	Yes
Miller et al. (2013)	2522	Italy	Panel regression	ROA	Yes	No
DeMassis et al. (2013)	494	Italy	Regression analysis	ROA	Yes	No
Craig et al. (2014)	250	U.S.	CFA	Subjective performance (3 items)	Yes	No
Moss et al. (2014)	92	U.S.	Regression analysis	ROA ROE Tobin's *q*	Yes	No
Schepers et al. (2014)	232	Belgium	Regression analysis	ROA	Yes	No
Yoo et al. (2014)	1776 firm-year observations	Korea	Regression analysis	Tobin's q	Yes	No
Dekker et al. (2015)	523	Belgium	Regression analysis	ROA	Yes	No
Songini et al. (2015)	146	Italy	EFACFA	ROA	Yes	No
Maseda et al. (2015)	369	Spain	Regression analysis	ROA	Yes	No
Blanco-Mazagatos et al. (2016)	207	Spain	Regression analysis	ROA ROE	Yes	No
Vandebeek et al. (2016)	295	Belgium	Regression analysis	Subjective performance (5 items)	Yes	No
Croce et al. (2016)	257	Spain	Generalized method of moments	Productivity growth	Yes	No

The assumption of the normal distribution of variables is not tested in most of the articles. Specifically, only 6 of the 37 articles that we reviewed had explicitly addressed the assumption of normality. O'Boyle et al. (2010), for instance, indicated that they chose a measure based on income as a percentage of sales to operationalize performance. They went on to argue that this measurement presented advantages because it was more accurate and the distribution of this measure was normal with neither kurtosis nor skewness values in excess of 1.0. Furthermore, only 4 of the 37 articles addressed issues related to outliers. When this was addressed, the solution for addressing the issue, as commonly done, was to simply drop the troublesome data to make the sample better reflect a normal distribution. Braun and Sharma (2007: 117) illustrated this convention, reporting that they removed five outlier firms that displayed extreme size or performance values which, they argued skewed their sample.

In sum, our results suggest that the form of variation that performance takes in family firms is largely assumed. And, importantly, this variation is assumed to be normal. Further, this assumption of normality, in the sample of empirical research that we examined, is rarely challenged with few studies testing whether the variation in performance truly follows this distribution. Moreover, testing whether the data follow a normal distribution is overlooked regardless of the size of the sample, sample country, performance measurements, and statistical methods used to analyze the data. When the assumption is tested, commonly accepted steps are taken by researchers where cases are deemed to be outliers and removed from the sample or the data are transformed such that the data can be characterized by a normal distribution (e.g., Braun and Sharma 2007).

Illustrative Example

Samples and Procedures

To assess the extent to which family firm performance should be viewed as a normally distributed phenomenon, we examined the distribution of three samples of family firms. The first two samples included data that were collected using the American Family Business Survey (1998, 2002). This survey captured the sentiments of a broad cross-section of family businesses that were widely dispersed throughout the country. As part of each of these questionnaires, a business executive reported the firm's revenue in millions of dollars. In 1998, with 1642 firms reporting revenue, the mean annual revenues was

US$1.8 million, the median was US$150,500. This suggests that the revenues varied widely. In addition, there were significant extremes; one company, in fact, reported annual sales of US$215 million and nearly 80% of the firms reported sales revenues of less than US$1 million. The skew and kurtosis were 13.3 and 262.49, respectively.

The second sample, also collected through the American Family Business Survey, had been used in a previously published study that examined the relationship between the family firm's performance and "familiness" (Rutherford et al. 2008). Collected in 2002, the revenues reported increased over the 1998 survey with 970 firms reporting revenue. The mean annual revenues in this sample was US$26.5 million, the median was US$8.4 million. Again, this suggests that the revenues varied widely. Like the previous sample, there were extremes; one company, in fact, reported annual sales of US$2.5 billion, while 10% of the firms reported sales revenues of US$1 million or less. The skew and kurtosis were 16.75 and 362.95, respectively.

The third sample was collected from a questionnaire administered to a sample of Small Business Development Center clients with their participation being voluntary. While Small Business Development Centers provide counseling and coaching to a broad range of firms in the nascent stages of development, the questionnaire specifically assessed the extent to which the firm was a family business by asking the firms to report the percent ownership held by a single family. To be conservative, we felt the need to ensure that non-family firms and family-*influenced* firms were distinguished from family-*controlled* firms. Thus, we limited the sample to those firms that reported a family ownership stake of greater than 50%. With 796 firms reporting revenue, it was not surprising that these firms had lesser revenues when compared to the previous sample given that these firms were likely earlier in their development as evidenced by their involvement with the Small Business Development Center. Thus, the mean of annual revenues was US$1.35 million with the median at US$275,000. Despite the smaller values, these results, like the previous samples, suggested that the revenues varied widely. And, like the others, one company, in fact, reported annual sales of US$60 million, while more than 75% of the firms reported sales revenues of less than US$1 million. The skew and kurtosis were 8.57 and 91.5, respectively.

Data Analysis

To our purpose, the data were examined to determine whether the distribution of family firm performance more closely followed a normal distribution or power law distribution. Consistent with O'Boyle and Aguinis (2012), the data

were compared to each distribution and a chi-square statistic was generated. This statistic was used to determine whether the data matched the hypothesized distribution (i.e., a normal vis-à-vis a power law distribution). The chi-square is a "badness of fit" statistic where higher values indicate worse fit (O'Boyle and Aguinis 2012). Thus, the chi-square value will become greater as the data differ more dramatically from the hypothesized distribution. To calculate the chi-square for each distribution, we used Decision Tools Suite @Risk 7.4 (Palisades Corporation 2017) which operates within Microsoft Excel as an add-on that provides fit estimates for a variety of distributions to include normal and power law distributions (i.e., Pareto or exponential distributions).

Given that our primary goal is to challenge the assumption of normality in order to represent the heterogeneity in family firm performance more accurately, we, like Crawford et al. (2015), adopt a general definition of a power law distribution. Thus, power law distributions are those that are heavy-tailed where the sample is being influenced significantly by a small number of observations (i.e., these might be termed "outliers" such as the firm in Sample 2 with a US $2.5 billion in revenues while the median was US$8.5 million) and the majority of the cases fall to the left of the mean. These power law distributions can take very specific forms that include Pareto and exponential distributions (Crawford et al. 2015). Thus, we examined the data, comparing the normal distribution to the relevant power law distribution whether that be a Pareto or an exponential distribution.

Results

Results showed that the power law distributions were better representations of heterogeneity in family firm performance than a normal distribution for each of the three samples. These results, summarized in Table 15.2, show the average fit strongly favored the power law distributions (average chi-square was 2839.17) vis-à-vis the normal distribution that had an average chi-square value of 10,304.10. More specifically, for the first sample, the chi-square value for the power law distribution (e.g., an exponential distribution) was 5850.25, whereas the chi-square of the normal distribution was larger at 15,808.92. For the second sample, the results were similar; however, the specific power law distribution that best fit differed. In this case, the chi-square value for the power law distribution (e.g., a Pareto distribution) was 1434.25, whereas the chi-square of the normal distribution was larger at 5744.36. For the third sample, the power law distribution was again exponential with a chi-square value for this distribution being 2667.26, whereas the chi-square of the normal distribution was larger at 9359.95.

Table 15.2 Summary of the fit statistics for three samples of family firm performance

Sample	N	Mean revenue (US$)	Median revenue (US$)	Skew	Kurtosis	Normal distribution fit (chi-square)	Pareto distribution fit (chi-square)	Exponential distribution fit (chi-square)
Sample 1	1662	1.8 M	150,500	13.3	262.49	15,808.92	–	5850.25
Sample 2	970	26.5 M	8.4 M	16.75	362.95	5744.36	1434.25	–
Sample 3	796	1.35 M	275,000	8.57	91.5	9359.95	–	2667.26

Notes. The lower chi-square value indicates a better fit to the distribution. Power law distributions can take several forms. Two of the most common are the Pareto and the exponential distributions. In Samples 1 and 3, the Pareto distribution did not fit the data but the exponential distribution did and this was a better fit than a normal distribution

Implications and Process of Testing Family Firm Heterogeneity

The examination of performance across three samples of family firms indicates, as has been suggested in the literature, that there is substantial variance in performance across family firms. Our results go further and provide evidence consistent with the inference that a normal distribution, which is often assumed in family business scholarship (see Table 15.1), may not be the most accurate depiction of variance in reality. Instead, a power law distribution (in the form of a Pareto or an exponential distribution) would be a more appropriate way to characterize heterogeneity among family firms' performance. In essence, the heterogeneity in family firm performance is likely influenced significantly by a small number of observations (i.e., Sample 1, as noted, included a firm with US$2.5 billion in revenue while the median was US$8.5 million) and the majority of the cases, rather than being symmetrically centered on a stable mean, would likely fall to the left of that mean.

This finding has critical implications for researchers. While there is a rich literature that reviews how researchers should deal with non-normal distributions (e.g., Crawford et al. 2015), our goal is to distill the extant recommendations and the vast array of resources into a concise and straightforward guide that can aid family business scholars. With this in mind, Table 15.3 presents a framework to guide family business researchers as they consider the use of power law distributions. Three basic considerations are highlighted: (1) theoretical considerations, (2) analytical considerations, and (3) reporting considerations.

Table 15.3 Framework to guide family business researchers in the methods to test samples following power law distributions

Dispersion modeling steps	Description	Key citations for reference
1. Theoretical considerations	Clearly define the population of interest, giving special attention to the likelihood of extreme performers and interdependence among the firms in that population. In the absence of proof of independence or evidence of extreme performers, it would be appropriate to assume a power law distribution	Andriani and McKelvey (2009) and McKelvey and Andriani (2005)
2. Analytical considerations	Identify the distribution that most accurately reflects the data; avoid manipulating the data to improve normality; and adopt a method that is appropriate for analyzing power law distributed data. These include Bayesian methods and agent-based modeling methods	Clauset, Shalizi, and Newman (2009), Crawford et al. (2015), Kruschke, Aguinis, and Joo (2012), and O'Boyle and Aguinis (2012)
3. Reporting considerations	Provide transparent and articulate descriptions of the analytics, balancing the need to be succinct with sufficient explanations of this innovative approach	Evert et al. (2016) and Crook, Shook, Morris, and Madden (2010)

Theoretical Considerations

Crawford et al. (2015) argue that researchers should devote far more attention to understanding the underlying distribution of any focal outcome variable as this understanding becomes the hinge for the internal and external validity of any conclusions that are drawn from the data that are analyzed. As we consider whether a normal or power law distribution is appropriate, for instance, the population being modeled should be examined and clearly specified. Of particular importance, the independence or interdependence among the firms in that population should be considered as a distribution to be selected (Andriani and McKelvey 2009). Typically, if the cases within a population are expected to be interdependent, a power law distribution would be favored over a normal distribution.

Most frequently, our training typically dictates that we consider the data more closely than our underlying assumptions regarding the population of interest. That is, we simply assume independence and normality among the cases within the population (see Table 15.1). Then, we examine the sample and data that we have collected; then, employing an accepted technique, we adjust the sample or transform the data such that the sample and data more

closely conform to a normal distribution. Specifically, data are often examined to identify statistical outliers. When identified, samples are adjusted by eliminating those outlying cases. There are, however, several theoretical concerns with this practice. Despite the assumption, which underlies many of our analytical methods, that cases are independent of one another, firms operating in an economy are often interrelated and interdependent. Thus, the elimination of outlying cases does not reduce the case's influence in reality or practice. In the end, the validity of the conclusions drawn from a sample where outliers are eliminated may be questionable as the sample no longer represents the population of interest.

This point likely will resonate with family business scholars through an example. An understanding of the performance of firms (and the factors that influence this performance) within a community, region, state, or country is an important issue for family business researchers. If conventional research procedures are followed, the distribution of performance is assumed to be normal and outlying cases would be eliminated from a sample to ensure that data are represented by a normal distribution. If, when examining retailers, the region includes a Walmart, the removal of this outlying case, which Walmart would likely be, removes, arguably, one of the most important drivers of the community's economic system and a firm that significantly influences other firms' performance to include family firms in the communities in which they operate. Thus, the assumption of a normal distribution coupled with the traditional treatment of outliers as anomalies (or error) and the assumption of independence that comes with many analytical methods overlooks key factors that may significantly influence outcomes and family firm performance.

Theoretically, family business scholars should understand the fundamental assumption of normality, which underlies much of our empirical work regarding the heterogeneity in family firm performance, may only be applicable in special cases. The data from three samples that we analyzed corroborates this point. While some have been bold enough to suggest that performance should be modeled as a power law distribution unless demonstrated otherwise (Crawford et al. 2015), we argue that the assumed distribution should be given thought and justified. And, in some cases where the goal is to draw inferences about the population of interdependent family firms, which often includes exceptional performers (i.e., outliers), the power law distribution of family firms' performance should be assumed over another distribution, namely, a normal distribution.

Analytical Considerations

While the data from the three samples we analyzed suggested that it may be reasonable to assume a power law distribution when performance of family firms is measured, we would encourage researchers to test this assumption explicitly. There are several ways that are available to determine the extent to which the data are best represented by a normal or power law distribution. As we, and others, have done (O'Boyle and Aguinis 2012), data can be assessed against several alternative distributions using Decision Tools Suite @Risk 7.4 (Palisades Corporation 2017). This software suite operates within Microsoft Excel as an add-on that provides fit estimates for a variety of distributions to include normal and power law distributions (i.e., Pareto or exponential distributions). Others (Crawford et al. 2015) have used MATLAB, following a protocol that is offered by Clauset et al. (2009; software is available at http://tuvalu.santafe.edu/~aaronc/datacode.htm). This method computes Kolmogorov-Smirnov (K-S) goodness of fit statistic which, like the chi-square, indicates a better fit to the hypothesized distribution with smaller values.

When a power law distribution is present, we caution researchers as they make adjustments to their data. Instead, we would encourage researchers to keep influential cases in the data sets that are collected unless there is clear evidence that the data reported are incorrect or the case does not belong to the population to which the researcher does not wish to generalize. As we have noted, dropping influential cases often excludes some of the most exceptional performers from our samples. This leaves a sample and distribution that often does not reflect the population of interest with the sample statistics bearing little resemblance to the population's parameters, however, this is often acknowledged by researchers (and accepted by editors and reviewers).

Instead, we encourage researchers to explore appropriate methods when power law distributions are expected to be present (as our data suggests would be the case as family firm performance is considered). Techniques that are gaining considerable support in the management literature are Bayesian methods (e.g., Carroll et al. 2016). These methods require the researcher to specify the underlying distribution a priori, noting that there is no requirement for that distribution to be normal. Thus, a researcher can test hypotheses without having to assume normality or force it upon the data (Kruschke et al. 2012), choosing, instead, a power law distribution to reflect the heterogeneity in phenomena like family firm performance. Then, through a series of simulations based on the observed data, the assumed distribution is tested with a distribution emerging that can, in turn, be used to obtain meaningful results such as point estimates and confidence bands.

A more qualitative method that has been commonly recommended involves agent-based modeling (e.g., Crawford et al. 2015; O'Boyle and Aguinis 2012). Agent-based modeling is an inductive tool that operates without the theoretical assumptions regarding normality (Macy and Willer 2002). These models involve numerical simulations that examine autonomous agents that interact within an environment (i.e., firms within an economic system), acting independently or in conjunction with others and making decisions based on very simple rules (Macy and Willer 2002). Over an extended period of time, agents' interactions with each other can be modeled and simulated, using empirically validated distributions, such that large-scale consequences of behavior and theoretical assumptions regarding the motivations and consequences of behavior can be tested dynamically. In sum, these methods can help family business scholars understand the empirical and theoretical reality that is most often confronted. That is, dynamic settings with a group of interdependent firms that perform in a non-linear fashion can be examined.

Reporting Considerations

In a review of the methods used by family business scholars, Evert et al. (2016: 14) lamented that "language ambiguity was a problematic issue with the reporting of statistical techniques," making it difficult to understand the exact analyses and procedures researchers used in conducting studies. Thus, basic reporting recommendations should be followed. Given that power law modeling, in particular, is relatively new to the family business research (see Table 15.1 along with the methodological reviews of family business researcher presented by Evert et al. 2016; McKenny et al. 2014), researchers must balance the goal of being clear, theoretically persuasive, and succinct with the need to educate editors, reviewers, and readers to the methods. In addition, regardless of the decisions made with regard to "outliers" or data transformation, the handling of influential cases should always be reported and the limitations of the samples must be considered. Indeed, researchers tend to openly acknowledge the limitations in the data and samples. Dyer et al. 2012 (77), as an example, make an exceptionally clear statement regarding the limitations in their sample that is commonly seen in the literature as they explain, "we only looked at copreneurial firms. Although they do account for about one third of all family firms, it is not clear that we would see similar dynamics in father–son, mother–daughter, or other types of family firm partnerships. Second, the firms in our [Panel Study of Income Dynamics] sample were rather small and we had a relatively small sample size."

While this practice should continue, we feel that researchers could more clearly state the implications these limitations have on the relationships and correlations that are observed. In particular, much of the analysis built on the assumption of normality assumes the importance of the mean and systematic variance around that mean where the largest proportion of cases revolve around this value (i.e., approximately 68% of the cases fall within a standard deviation). Yet, when the mean is not as meaningful as is the case with power law distributions and phenomena that tend to follow these distributions like family firm performance, correlations based on the normal assumption become very biased, applying to a narrow subset of a given population. This limitation should be more clearly conveyed as we convey our explanations and the understanding regarding family firm performance that is garnered from these studies.

Conclusion

In conclusion, this chapter examines a fundamental, almost universally accepted assumption that underlies the heterogeneity of family firm performance—that performance varies in a way that is accurately represented by a normal distribution. In fact, our review of the literature demonstrates this with the majority of previous studies on performance in family firms never assessing the normality assumption. Unfortunately, this assumption may be flawed as the performance among family firms likely varies along a power law distribution. We draw this conclusion based on an examination of three unique samples of family firms. In each case, the samples, which varied widely, were more accurately represented by a power law distribution. Moreover, given the fundamental differences between normal and power law distributions, we highlight the importance of investigating the normality assumption in future family business performance research.

This chapter has important implications for research on family firms. The recognition of the power law may be helpful in explaining the inconsistent findings regarding family influence on a firm performance in the extant literature. In this vein, some questions remain. What if, for instance, only a small handful of family firms pursue higher levels of performance as a primary goal? What if, instead, the majority seek primarily to survive, reducing variation in performance? Answering these questions has substantial impact on the field of family business studies as the variation that is observed may not represent the population of family firms. It also has important implications for the findings regarding socioemotional wealth, as performance variance is treated as a proxy for the pursuit of such wealth (Gomez-Mejia et al. 2007).

In summary, we provided empirical arguments suggesting that the variance in family performance may be more accurately represented as a power law distribution; an important consideration that has thus far been neglected in the extant research. Although the field of power law science and extreme event theory is relatively young, the properties of these distributions are becoming more evident in empirical organizational research. To help family business scholars, we have introduced an approach that can guide them as they examine questions related to the test the extent to which this variance may help understand the nuances of the family firm. We provided a resource guide of theoretical, analytical, and reporting considerations to aid family business scholars in pursuing this approach. In the end, we hope for researchers to follow our own guidelines, modeling family firm heterogeneity as a power law distribution such that we can uncover new insights into family firm dynamics.

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16

Risk Behavior of Family Firms: A Literature Review, Framework, and Research Agenda

Markus Kempers, Max P. Leitterstorf, and Nadine Kammerlander

Introduction

Prior research has highlighted several characteristics of family firms that can potentially affect their risk-taking behavior and has contrasted it with the risk-taking behavior of non-family firms (Anderson and Reeb 2003; La Porta et al. 1999). For example, the wealth of a business-owning family is usually insufficiently diversified, as it is invested in one or only few firms (Boubaker et al. 2016; Shleifer and Vishny 1989). Thus, family firms might behave more risk averse than non-family firms in order to avoid bankruptcy. Similarly, business-owning families often aim to preserve the legacy created by their forefathers (Lim et al. 2010) and are thus unwilling to take "risky" steps that would deviate substantially from the organizational path (König et al. 2013). In contrast, other researchers have argued that family firms are able and willing to take more risk than other types of organizations (Bauguess and Stegemoller 2008; Casillas et al. 2010; Tribo et al. 2007) because of their typical independence from financial markets and their long-term orientation, among other factors (Munoz-Bullon and Sanchez-Bueno 2011; Zahra 2005).

Given these controversial arguments as well as ambiguous empirical findings, we currently do not sufficiently understand the overall risk-taking

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E. Memili, C. Dibrell (eds.), *The Palgrave Handbook of Heterogeneity among Family Firms*,
https://doi.org/10.1007/978-3-319-77676-7_16

behavior of family firms (Jones et al. 2008; Munoz-Bullon and Sanchez-Bueno 2011). Most importantly, we lack an answer to the following research question: How do family firms differ from non-family firms in terms of risk-taking behavior? In addition to this important research gap, researchers increasingly stress the heterogeneity among family firms as well as the need to take a deeper look at relevant contingency variables (Chua et al. 2012; Kammerlander et al. 2015) that might lead to variance in risk-taking among family firms.

To address this research question and to disentangle the currently mixed theoretical arguments and empirical findings, we conduct a literature review and integrate extant knowledge. Specifically, we review papers from the finance, management, and entrepreneurship literature. This is the basis for developing a family firm risk framework that differentiates between different risk types (vulnerability versus variability) as well as different wealth types (economic versus non-economic). Our literature review is also the basis for deriving a future research agenda on risk behavior in family firms.

This chapter offers contributions to several streams of literature. First, we contribute to the family firm literature by analyzing under which circumstances family firms can be considered more or less risk averse than non-family firms. Second, we add to the literature on firm risk by expanding the wealth considerations from economic to non-economic aspects. Third, we contribute to the family firm heterogeneity debate by highlighting firm characteristics that could potentially affect risk-taking behavior within the group of family firms.

Theoretical Background: Risk Behavior of Organizations

Scholars often differentiate between different types of firm risk. This is necessary because the question whether one firm behaves more risk averse than another often depends on the risk type (Miller and Bromiley 1990). Thus, in the following, we briefly define and explain the most prominently discussed risk types, that is, variability risk and vulnerability risk (D'Aveni and Ilinitch 1992; Higgins and Schall 1975; McConaughy et al. 2001).

Variability risk focuses on the deviation between the actual return on an investment and the expected return (McConaughy et al. 2001; Ruefli et al. 1999). Thus, variability risk can, for instance, represent the volatility of the firm's financial performance or the volatility of the firm's share price (Markowitz 1959). Variability risk is particularly important for shareholders because they

have a right to claim excess cash flows of the firm. According to the capital asset pricing model (CAPM), variability risk has two components: (a) market (systematic) risk and (b) firm's specific (unsystematic) risk (Sharpe 1964).

The total variability risk equals the sum of systematic and unsystematic risk, which is typically measured by the standard deviation of return on assets, return on equity, the stock's return, or net income (Ruefli et al. 1999). Variability risk incorporates lower as well as higher results compared to an expected value. Thus, scholars regard it as a two-sided risk construct.

Vulnerability risk is defined as the default probability or bankruptcy risk (Higgins and Schall 1975; March and Shapira 1987). Whereas variability risk is of particular importance for shareholders, vulnerability risk is the main focus of all other stakeholders (Marchisio et al. 2010). For example, a firm's employees are interested in reducing the vulnerability risk because a potential bankruptcy could endanger their jobs. Similarly, lenders want to minimize the risk of defaulted loans in case of a firm's bankruptcy.

There are various ways to measure vulnerability risk. Scholars typically use the Altman Z-score and the Ohlson score index (Altman et al. 2017; D'Aveni and Ilinitch 1992). However, nowadays, the Ohlson score index is used more frequently, as it has a "higher predictive validity compared to Altman Z-score" (Gentry et al. 2016, p. 740). Vulnerability risk only considers a downward movement (i.e., the probability of default) and is consequently a one-sided risk construct.

Finance scholars have traditionally applied the concepts of variability risk and vulnerability risk only to economic wealth, that is, the risk of losing money (Higgins and Schall 1975). However, family firm scholars stress that business-owning families derive not only economic but also non-economic wealth from the respective family firm. Scholars refer to this non-economic wealth as socioemotional wealth or SEW (Gómez-Mejía et al. 2007). Examples of these non-economic aspects include reputation or control (Chrisman and Patel 2012; Gómez-Mejía et al. 2007). Prior research has highlighted that business-owning families even accept an increased risk to their economic wealth if it reduces the risk to their non-economic wealth. Thus, the following review on risk behavior in family firms will incorporate not only the two risk types (vulnerability and variability) but also the two types of wealth (economic and non-economic).

Methodology

When identifying articles published on risk in family firms, we used a systematic approach in order to gain a comprehensive understanding of the existing literature (Tranfield et al. 2003). We primarily used EBSCO Business Source Elite as a database to identify articles with at least one of the following keywords: "risk," "aversion," "bankrupt*," "vulnerability," "variability," "prospect theory," or "loss*" in combination with at least one of the following terms (logical connector 'AND'): "family firm," "family business," "family company," "family enterprise," "family-manag*," "family-controll*," "family-owne*," "founding-family," "privately held firm," "privately held company," "family influence*," "family-govern*," or "family-led*."

First, we applied the following systematic research steps in order to identify relevant peer-reviewed academic journal articles: (a) search of both keyword categories in the title (138 articles identified), (b) search of both keyword categories in the abstract (1386), and (c) search of both keyword categories within the text (74,398). In the second step, based on Harzing's (2016) journal quality list of academic journals, we removed articles published in journals that were not sufficiently highly ranked, which reduced the sample size to 984 (we only included articles with at least a "B" in the ABDC ranking or a "3" in the ABS ranking).[1] Third, we removed papers irrelevant to our endeavor, that is, papers not primarily related to family firms and risk. We identified relevant versus irrelevant studies by closely reading their abstracts. If in doubt about the paper's relevance, we thoroughly read and examined the entire paper. This systematic approach resulted in an initial sample of 67 potentially relevant papers on risk and family firms.

We complemented this systematic approach with the backward citation and forward citation method in order to identify additional significant articles and to cross-check for missing articles. This unsystematic part of the literature review provided us with additional 15 papers. Afterwards, each article identified by either the systematic or unsystematic part of the literature review was

[1] By doing so, articles published in the following journals were included in our literature review: "Academy of Entrepreneurship Journal," "Academy of Management Journal," "Administrative Science Quarterly," "Entrepreneurship & Regional Development," "Entrepreneurship: Theory & Practice," "European Financial Management," "Family Business Review," "International Journal of Entrepreneurial Behavior & Research," "International Review of Financial Analysis," "International Small Business Journal," "Journal of Banking & Finance," "Journal of Business Research," "Journal of Consumer Affairs," "Journal of Corporate Finance," "Journal of Family Business Strategy," "Journal of International Business Studies," "Journal of Management Studies," "Journal of Product Innovation Management," "Journal of Small Business Management," "Small Business Economics," and "Strategic Management Journal." Other highly ranked journals, such as "Academy of Management Review," are not included in this list, as we could not identify any published article on the topic of this manuscript.

subject to a detailed reading and discussion process in order to decide whether the article is relevant. Finally, we considered 52 articles suitable for our literature review. Those 52 articles are listed in Table 16.1.

Overview of Prior Research

In the following section, we will summarize and discuss prior findings on the risk behavior of family firms. Table 16.1 shows general details of the studies, in particular their samples, included in this literature review, whereas Table 16.2 highlights the findings and applied theories of the selected studies.

Empirical and Methodological Aspects

Our literature review shows that 32 out of the 52 studies compare the risk behavior of family firms versus non-family firms, while the remaining studies focus on heterogeneity within the group of family firms. The samples of these studies vary from two companies (Boers et al. 2017) to approximately 22,300 companies (Hamelin 2013), indicating a wide variety of methodological approaches. The first studies on risk behavior in family firms were published as early as 1999, with a peak of studies occurring in 2010. The vast majority (50) of our selected papers were empirical (only two conceptual studies) and were mainly based on quantitative methods. Only 3 out of the 52 papers were qualitative. Half of the studies (26) used archival databases for data collection, 19 were based on surveys, and 2 used both databases and surveys. Of the quantitative-empirical papers, 20 studies used cross-sectional data, whereas 27 studies used panel data. The investigated firms are geographically distributed across several countries. Most investigations were conducted in the USA (17) and in Spain (10). Overall, we observe a niche of conceptual and qualitative studies on the risk behavior of family firms.

Risk Behavior of Family Versus Non-family Firms

In the following, we will elaborate on the focus and findings of extant literature on the risk behavior of family firms. Figure 16.1 provides a framework of the components analyzed within our literature review.

Table 16.1 Overview of reviewed studies

Study	Method	Source	Data type	Sample size	Sample country	FF vs NFF	Research field
Anderson et al. (2012)	Quantitative	Database	Panel	2000	USA	Yes	Finance
Bauguess and Stegemoller (2008)	Quantitative	Database	Panel	498	USA	Yes	Finance
Berrone, Cruz, Gomez-Mejia, and Larraza-Kintana (2010)	Quantitative	Database	Cross-section (averages over time)	194	USA	Yes	Management
Bianco, Bontempi, Golinelli, and Parigi (2013)	Quantitative	Database/ survey	Panel	2959	Italy	No	Management
Boellis, Mariotti, Minichilli, and Piscitello (2016)	Quantitative	Database	Panel	311	Italy	Yes	Management
Boers et al. (2017)	Qualitative	Case study/ interviews	N/A	2	USA	No	Management
Bonilla, Sepulveda, and Carvajal (2010)	Quantitative	Database	Cross-section	Roughly 250 (varying each year)	Chile	Yes	Management
Boubaker et al. (2016)	Quantitative	Database	Panel	Roughly 450 (varying each year)	France	Yes	Finance
Casillas and Moreno (2010)	Quantitative	Survey	Cross-section	449	Spain	No	Entrepreneurship
Casillas et al. (2010)	Quantitative	Survey	Cross-section	317	Spain	No	Entrepreneurship
Casillas, Moreno, and Barbero (2011)	Quantitative	Survey	Cross-section	317	Spain	No	Entrepreneurship
Chrisman and Patel (2012)	Quantitative	Database	Panel	964	USA	Yes	Management
Fletcher (2010)	Qualitative	Case study/ interviews	N/A	26	UK	No	Entrepreneurship

Gallo, Tàpies, and Cappuyns (2004)	Quantitative	Survey	Cross-section	305	Spain	Yes	Management
Gentry et al. (2016)	Quantitative	Database	Cross-section	817	USA	Yes	Management
George et al. (2005)	Quantitative	Survey	Cross-section	889	Sweden	Yes	Entrepreneurship
Gómez-Mejía et al. (2007)	Quantitative	Database	Panel	1237	Spain	No	Management
Gómez-Mejía et al. (2010)	Quantitative	Database	Panel	360	Spain	Yes	Management
Gómez-Mejía et al. (2016)	Quantitative	Database	Panel	692	USA	Yes	Management
González et al. (2013)	Quantitative	Database	Panel	523	Colombia	No	Management
Hamelin (2013)	Quantitative	Database	Panel	22237	France	No	Management
Huybrechts et al. (2013)	Quantitative	Database/ survey	Cross-section	740	Belgium	Yes	Entrepreneurship
Jiang et al. (2015)	Quantitative	Survey	Cross-section	4159	China	No	Finance
Jones et al. (2008)	Quantitative	Database	Panel	403	USA	Yes	Management
Keasey, Martinez, and Pindado (2015)	Quantitative	Database	Panel	105	Europe	Yes	Finance
Kotlar et al. (2014)	Quantitative	Survey	Panel	437	Spain	Yes	Management
Kraiczy, Hack, and Kellermanns (2015)	Quantitative	Survey	Cross-section	114	Germany	No	Management
Landry, Fortin, and Callimaci (2013)	Quantitative	Database	Panel	229	Canada	Yes	Management
Lardon et al. (2017)	Quantitative	Survey	Cross-section	367	Belgium	Yes	Management
Lins, Volpin, and Wagner (2013)	Quantitative	Database	Panel	8854	35 countries	Yes	Finance
Lumpkin, Brigham, and Moss (2010)	Conceptual	N/A	N/A	N/A	N/A	No	Entrepreneurship

(*continued*)

Table 16.1 (continued)

Study	Method	Source	Data type	Sample size	Sample country	FF vs NFF	Research field
Mahto and Khanin (2015)	Quantitative	Survey	Cross-section	Sample 1: 1740 Sample 2: 611	USA	No	Management
McConaughy et al. (2001)	Quantitative	Database	Panel	219	USA	Yes	Finance and management
Memili, Eddleston, Kellermanns, Zellweger, and Barnett (2010)	Quantitative	Survey	Cross-section	163	Switzerland	No	Management
Miller et al. (2009)	Quantitative	Database	Panel	896	USA	Yes	Management
Miralles-Marcelo et al. (2014)	Quantitative	Database	Panel	55 Portuguese and 115 Spanish firms	Spain, Portugal	Yes	Management
Mishra and McConaughy (1999)	Quantitative	Database	Panel	1000	USA	No	Finance
Munoz-Bullon and Sanchez-Bueno (2011)	Quantitative	Database	Panel	736	Canada	Yes	Management
Naldi et al. (2007)	Quantitative	Survey	Panel	696	Sweden	Yes	Entrepreneurship
Pan and Tian (2016)	Quantitative	Database	Panel	612	China	Yes	Finance
Patel and Chrisman (2013)	Quantitative	Database	Panel	847	USA	Yes	Management
Poletti-Hughes and Williams (2017)	Quantitative	Database	Panel	101	Mexico	Yes	Finance
Revilla, Pérez-Luño, and Nieto (2016)	Quantitative	Survey	Panel	369	Spain	Yes	Entrepreneurship
Schulze, Lubatkin, and Dino (2003)	Quantitative	Survey	Cross-section	1464	USA	No	Management
Sciascia et al. (2012)	Quantitative	Survey	Cross-section	1035	USA	No	Entrepreneurship
Stanley (2010)	Conceptual	N/A	N/A	N/A	N/A	Yes	Management
Tribo et al. (2007)	Quantitative	Database	Panel	3638	Spain	Yes	Management

Wang and Poutziouris (2010)	Quantitative	Survey	Cross-section	236	UK	No	Entrepreneurship
Welsh and Zellweger (2010)	Quantitative	Survey	Cross-section	211	Switzerland and the USA	Yes	Entrepreneurship
Xiao, Alhabeeb, Hong, and Haynes (2001)	Quantitative	Survey	Cross-section	2894	USA	No	Management
Zahra (2005)	Quantitative	Survey	Cross-section	209	USA	No	Entrepreneurship
Zellweger and Sieger (2012)	Qualitative	Case study/ interviews	N/A	3	Switzerland	No	Entrepreneurship

Table 16.2 Key findings of reviewed papers

Study	Key findings	Theory
Anderson et al. (2012)	Family firms with diffused ownership spend more money on long-term investments. Such preferences for lower risk affect corporate capital expenditure and R&D intensity	Investment theory
Bauguess and Stegemoller (2008)	An increased number of family members on the board reduces management entrenchment behavior and increases managers' value-maximizing behavior	Agency theory
Berrone et al. (2010)	Legitimacy connected to environmental initiatives tends to be associated with a higher value by family owners, even with economically risky "social worthiness"	Socioemotional wealth
Bianco et al. (2013)	Family firms' investments are significantly more sensitive to uncertainty than those of non-family firms. Greater sensitivity to uncertainty is generally due to the greater opacity of family firms and due to their higher risk aversion	Socioemotional wealth
Boellis et al. (2016)	Family firms are less averse to establishing a new venture rather than acquiring an existing company (compared with their non-family counterparts)	Behavioral agency model
Boers et al. (2017)	Family firm members are willing to sacrifice current socioemotional wealth and accept current financial losses for a prospective increase in socioemotional wealth in the future	Socioemotional wealth
Bonilla et al. (2010)	Family firms not only perform better but also show less volatility in their returns	Agency theory
Boubaker et al. (2016)	Family firm owners are on average less diversified. Thereby, they aim to lower the firm's risk-taking behavior	Agency theory
Casillas and Moreno (2010)	The higher the involvement of the family in the firm, the more averse the firm will be on the risk-taking dimension on growth	Agency theory
Casillas et al. (2010)	Family involvement reduces the risk-taking dimension on growth. However, the growth of the family business is more positively influenced by entrepreneurial orientation for family firms that are in the second or later generation	Entrepreneurial orientation
Casillas et al. (2011)	Environmental hostility exerts a positive influence on risk-taking. The involvement of a non-family manager strengthens the risk-taking behavior	Agency theory

(*continued*)

Table 16.2 (continued)

Study	Key findings	Theory
Chrisman and Patel (2012)	Family firms generally invest less in R&D, which is caused by the family managers' and owners' attempts to preserve their SEW	Behavioral agency model and myopic loss aversion
Fletcher (2010)	Importance of private life increases risk aversion	N/A
Gallo et al. (2004)	Family firms' distinct financial logic partially arises from their personal views on approaches to grow and take risks and their ownership control	N/A
Gentry et al. (2016)	Family-influenced firms show less strategic risk-taking because of their conservative and long-term orientation	Behavioral theory
George et al. (2005)	Family members (CEOs and other senior executives) tend to behave more risk averse and have a lower proclivity to increase the scale and scope of internationalization. External owners (venture capitalists and institutional investors) are less risk averse	Agency theory
Gómez-Mejía et al. (2007)	Family firms are willing to accept a greater performance hazard as long as this affects the socioemotional endowment of the owner family	Behavioral agency model
Gomez-Mejia et al. (2010)	To protect the family's SEW, family firms prefer lower levels of diversification	Behavioral agency model
Gomez-Mejia et al. (2016)	Family business owners are risk averse and strongly discount the uncertain upside tied to a strategic option	Behavioral agency model
González et al. (2013)	The presence of families on the board of directors (but not in the management) is likely to decrease debt levels. This implies the tendency that family directors tend to behave risk averse	Agency theory
Hamelin (2013)	Family firms behave more risk averse in order to pursue their non-financial goals, such as long-term orientation	Agency theory
Huybrechts et al. (2013)	Non-family CEOs, especially in their initial years of their CEO tenure, tend to increase the family firm's level of entrepreneurial risk-taking	Entrenchment
Jiang et al. (2015)	Family firms with religious founders invest less in fixed and intangible assets and have a lower leverage	Socioemotional wealth

(*continued*)

Table 16.2 (continued)

Study	Key findings	Theory
Jones et al. (2008)	Affiliate directors play a more active role in enabling family firms to pursue growth strategies through diversification. The presence of affiliated directors may help firms to reduce the perceived risk associated with diversification	Socioemotional wealth
Keasey et al. (2015)	Family firms are more averse to control risk. Young family firms and those in which the founder is still present are reluctant to dilute family control, given their long-term orientation	Life-cycle stage theory and signaling theory
Kotlar et al. (2014)	The involvement of the controlling family members in the top management will affect the strategic risk-taking negatively	Behavioral theory
Kraiczy et al. (2015)	Higher ownership of family members leads to higher risk aversion and less product portfolio innovativeness	Upper echelon theory and socioemotional wealth
Landry et al. (2013)	Family firms behave more risk averse to preserve their SEW. Family firms tend to lease assets less frequently than non-family firms do	Agency and socioemotional wealth
Lardon et al. (2017)	Inside family CEOs and owners increase the risk-averse behavior of a family firm. Outside CEOs decrease the risk aversion of the family firm	Agency theory and socioemotional wealth
Lins et al. (2013)	Family-controlled firms show idiosyncratic behavior with regard to cutting investments, for example, in times of crisis	Agency theory
Lumpkin et al. (2010)	Long-term thinking is positively correlated with innovativeness, proactiveness, and independence. However, long-term thinking is negatively correlated with risk-taking as well as aggressiveness toward competition	Entrepreneurial orientation
Mahto and Khanin (2015)	Positive past financial performance is associated with positive future performance expectations	Behavioral theory and strategic reference points theory
McConaughy et al. (2001)	Higher family ownership leads to more conservative debt financing	Agency theory
Memili et al. (2010)	Strong family expectations force a family firm CEO to engage in higher levels of risk-taking behavior	Organizational identity theory

(*continued*)

Table 16.2 (continued)

Study	Key findings	Theory
Miller et al. (2009)	Higher levels of family ownership as well as the family's desire to retain control are associated with a lower value and volume of acquisitions	Agency theory
Miralles-Marcelo et al. (2014)	Uncertain investments and their associated risk tend to be avoided if the CEO is a family member, which is motivated by the utility maximization of the family. However, this consequently expropriates the firm's wealth	Agency theory and behavioral agency model
Mishra and McConaughy (1999)	Founding family-controlled firms are more averse to losing control, as family members can extract more from the firm	N/A
Munoz-Bullon and Sanchez-Bueno (2011)	The R&D intensity in family firms is significantly lower than in non-family firms. Family ownership increases the risk aversion due to the family's desire to maintain ownership and control within the family	Agency theory
Naldi et al. (2007)	Family firms show a more risk-averse behavior compared to their non-family firm counterparts	Agency theory
Patel and Chrisman (2013)	Family firms invest less in R&D. They also switch preferences between R&D investments that enhance or increase the reliability of performance	Behavioral agency theory
Poletti-Hughes and Williams (2017)	Family firms accept higher levels of risk, especially performance hazard risk, which captures the desire to preserve their SEW, compared to non-family firms. Family firms take risks to protect patrimony rather than to maximize value	Agency and stewardship perspectives
Revilla et al. (2016)	Family firms with a large share of family members in the management team are, on average, more likely to avoid business failure	Behavioral agency model
Schulze et al. (2003)	A coalition of minority owners or a concentration of ownership causes an increase in risk-taking. A more equal distribution decreases risk-taking. These effects, however, only exist when the market growth is high	Agency theory and behavioral agency model
Sciascia et al. (2012)	A higher level of family ownership causes less internationalization and a more risk-averse behavior within family firms	Stewardship theory

(*continued*)

Table 16.2 (continued)

Study	Key findings	Theory
Stanley (2010)	Family firms are more likely to take risks when a non-family manager is present	N/A
Tribo et al. (2007)	The number of blockholders within the family firm impacts a family firm's R&D investment negatively	N/A
Wang and Poutziouris (2010)	A longer tenure of owner-manager in the specific industry is associated with more risk-taking. The older the owner-manager, the less risk she or he will take. The higher the number of generations, the more risk-taking a business will be	Agency theory
Welsh and Zellweger (2010)	For family firms, losing control is as bad as losing returns. Family owners are considered less "Schumpeterian" because they are more risk averse in terms of control	Prospect theory
Xiao et al. (2001)	Family firms take more risk compared to non-family firms. However, older family business owners are less likely to take risks than younger owners	N/A
Zahra (2005)	Family involvement and ownership foster risk-taking behavior. Longer CEO-founder tenure does the opposite	Agency theory
Zellweger and Sieger (2012)	Increased levels of undiversified wealth in family firms result in high levels of ownership risk. This results in a lower willingness to take up risk in business decisions which is defined as performance hazard risk	Entrepreneurial orientation

Vulnerability Risk and Family Firms In the following paragraphs, we will analyze whether family firms are likely to be more risk averse than non-family firms from a vulnerability perspective. Put differently, do family firms more strongly try to lower the risk of bankruptcy than non-family firms? The articles within the scope of our literature review offer the following arguments.

First, the wealth of a business-owning family is usually insufficiently diversified, being invested in one or only a few firms (Boubaker et al. 2016; Shleifer and Vishny 1989). Consequently, business-owning families worry about losing the majority of their wealth when making investment decisions (Poletti-Hughes and Williams 2017). In contrast, non-family investors ideally diversify their wealth across numerous firms and across several asset categories, such as bonds and real estate. Thus, a potential bankruptcy of the firm is more harmful for a business-owning family than for a non-family minority investor.

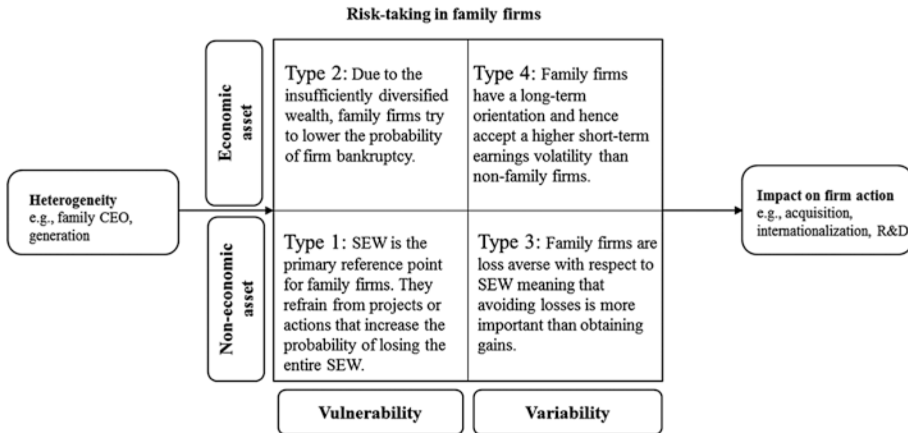

Fig. 16.1 Framework on studies on family firms' risk behavior

Second, a business-owning family's fear of firm bankruptcy might be further increased in case of family involvement in the firm (e.g., Poletti-Hughes and Williams 2017). Specifically, family members working for the firm typically receive salaries or private financial benefits (such as company cars) as long as the firm survives. Moreover, many family members working for the respective firm acquire firm-specific human capital that is typically less valuable outside the firm. Thus, business-owning families are even more interested in lowering the bankruptcy risk than other types of shareholders.

Third, and relatedly, scholars analyze the potential agency conflict between owners and managers. Specifically, agency costs occur due to opportunistic behavior and asymmetric information between agent and principal (Jensen and Meckling 1976). Not surprisingly, ownership structures can influence risk-taking (Fama 1980). Specifically, in a typical non-family firm with dispersed ownership, managers make investment decisions for anonymous minority shareholders (Fama and Jensen 1983). Consequently, some of these managers might accept an increased vulnerability risk if this is required to meet their personal performance targets. In contrast, a business-owning family making an investment decision considers its "own" money and might focus more closely on firm survival (Boubaker et al. 2016).

Fourth, for a business-owning family, both the economic and the non-economic value of the firm are at stake (Naldi et al. 2007). These non-financial aspects include the desire to preserve the family's legacy and to maintain control of the firm (Munoz-Bullon and Sanchez-Bueno 2011). In the case of firm bankruptcy, the business-owning family would lose both the financial wealth invested in the family firm and the non-economic endowments tied to the business.

Overall, most scholars consider family firms more risk averse than non-family firms from a vulnerability perspective. Specifically, a potential bankruptcy of the firm is more harmful for a business-owning family than for a typical non-family shareholder. Thus, we expect that family firms, on average, will try even harder than non-family firms to reduce the probability of bankruptcy.

Variability Risk and Family Firms In the following paragraphs, we will analyze whether family firms are likely to be more risk averse than non-family firms from a variability perspective. Put differently, do family firms more strongly attempt to lower the volatility of firm outcomes such as annual free cash flows or net income? The articles within the scope of our literature review offer the following arguments.

First, family firms are widely known for their long-term orientation (Gentry et al. 2016). In contrast, in firms with dispersed ownership (typically publicly listed), CEOs often aim at optimizing the performance during the years of their tenure (Huybrechts et al. 2013). Thus, a family firm might make an investment decision that is fundamentally attractive in the long term but characterized by volatile cash flows in the short term. In contrast, when the stock ownership is more disperse, CEO discretion increases and "risk-averse managers would allocate resources away from risky projects" (Tribo et al. 2007, p. 839), indicating lower levels of variability risk in non-family firms.

Second, many family firms are independent from financial markets (Gentry et al. 2016) and benefit from the patient capital of the family (Dobrzynski 1993). In contrast, firms with dispersed ownership are pressured by financial markets (e.g., via analyst recommendations) to ideally present both high and relatively stable cash flows (Craig and Dibrell 2006). Thus, consistent with the argument on long-term orientation, family firms are able to invest in projects with more volatile cash flow projections (i.e., they possess both the willingness and the ability to accept a higher variability risk).

Third, many family firms accept a higher variability risk than non-family firms if this is a requirement for SEW preservation. For instance, Spanish oil mills were offered to join a cooperative that would ensure less-volatile financial outcomes but would require ceding firm control to the cooperative (Gómez-Mejía et al. 2007). Many family-owned oil mills refused to join the cooperative, as the research of Gómez-Mejía and colleagues revealed. Based on this observation as well as other consistent empirical evidence, many family firm scholars argue that family firms are willing to make financially risky decisions in order to preserve their SEW (Bauguess and Stegemoller 2008; Boers et al. 2017). More generally, family firm behavior is characterized by the

behavioral agency model (BAM), which focuses on two key concepts (Wiseman and Gómez-Mejia 1998): "problem framing" stresses, where choices are evaluated regarding potential losses and gains compared to current utility (Gómez-Mejía et al. 2010; Kahneman and Tversky 1979), and "loss aversion," which means that avoiding losses is more important than obtaining gains (Chrisman and Patel 2012). Most importantly, family firms are thought to behave loss averse with respect to SEW, meaning that accepting any risk to SEW is hardly acceptable (Gómez-Mejía et al. 2007).

Overall, we find mixed arguments regarding variability risk in family firms. On the one hand, family firms accept more volatile financial outcomes (e.g., cash flows or earnings) than non-family firms due to their long-term orientation (among other factors). On the other hand, family firms behave loss averse with respect to SEW and consequently try to reduce variability risk regarding non-economic aspects such as firm reputation.

Family Firm Heterogeneity and Risk-Taking

The sections above mostly treated family firms as one homogenous group that is compared to the group of non-family firms. However, scholars increasingly stress the heterogeneity of family firms and their preferences and behavior (La Porta et al. 1999; Mahto and Khanin 2015). Thus, in the following, we summarize the current insights regarding variance in risk-taking among family businesses.

First, the generations of the business-owning family involved in the business appear to impact risk-taking. Specifically, there is a positive correlation between the number of involved generations and the risk-taking behavior of a family firm (Zahra 2005). Having multiple generations actively involved within the firm will add new knowledge and experience to the firm and thus increase the options considered by family firm decision-makers (Zahra 2005). Moreover, Wang and Poutziouris (2010) argue that the risk-taking of a family firm is closely affected by the controlling generation. While one might argue that entrepreneurs and thus also family firm founders are particularly risk-taking personalities, Wang and Poutziouris (2010) argue for an opposite effect: Given the mentoring that descendants enjoy from the previous generations and the well-established operational businesses and thus higher levels of efficiency, they are particularly able to evaluate and ultimately decide for risky steps, a finding that is also in line with Duran, Kammerlander, van Essen, and Zellweger's (2016) empirical evidence for higher levels of innovation output in later-generation family firms.

Second, the presence of a family CEO versus a non-family CEO also impacts the respective firm's risk-taking (Lardon et al. 2017; Stanley 2010).

Given their desire to maintain control, their hesitance to issue equity and thereby dilute ownership, and their desire to keep up the status quo, family CEOs have been argued and found to act more conservatively (Gentry et al. 2016; Lardon et al. 2017; Stanley 2010). Miralles-Marcelo, Miralles-Quirós, and Lisboa (2014, p. 167) conclude that family managers tend to take less financial risk in order "to maximize the utility of the family members." Further studies show that even if family members are only active in nonexecutive board positions, their monitoring efforts appear to result in more risk aversion, as indicated by lower debt levels (González et al. 2013).

Consequences of Family Firms' Idiosyncratic Risk-Taking Behavior

Family firm scholars have analyzed the consequences of family firms' idiosyncratic risk-taking behavior in various contexts, including acquisitions, internationalization, and R&D activities. First, Miller, Le Breton-Miller, and Lester (2009) present empirical evidence for a negative relationship between family ownership stake and the volume as well as value of acquisitions. Consistently, Leitterstorf and Wachter (2016) report the risk aversion of family firms in terms of the takeover premiums they are willing to offer for takeover targets. These observations are linked to the fact that major acquisitions can represent a vulnerability risk and in extreme cases endanger the survival of the family firm (Leitterstorf and Wachter 2016).

Second, family firms' risk aversion also affects internationalization (Sciascia et al. 2012). Analyzing 889 Swedish firms, George et al. (2005) report a negative relationship between family ownership and the scope and scale of internationalization. Specifically, scale refers "to the extent to which an SME relies on foreign markets in its operations," whereas scope "denotes the international geographic reach or the number of countries in which an SME conducts its business" (George et al. 2005, p. 211). Family owners' variability risk aversion with regard to socioemotional wealth implies less willingness to increase any foreign investment.

Third, many scholars argue that family firms' risk aversion affects their R&D activities (e.g., Duran et al. 2016; Kotlar et al. 2014). Family firms seem to avoid R&D investments in order to protect the family's wealth (Munoz-Bullon and Sanchez-Bueno 2011). Using a sample of 964 publicly held family and non-family US firms, Chrisman and Patel (2012) show that family firms generally invest less in R&D in order to preserve their SEW, especially in the case of at least satisfactory firm performance and in the case

of a lack of long-term thinking. Similarly, Anderson, Duru, and Reeb (2012) reveal that family firms frequently prefer investments in physical assets compared to R&D expenditures, since the latter are considered more risky.

Discussion and Research Agenda

We conducted this literature review in order to disentangle the mixed theoretical arguments and empirical evidence on the risk behavior of family firms. We were particularly interested in the question of under which circumstances family firms can be considered more or less risk averse than non-family firms. To answer this question, we differentiated between the two traditional risk types (vulnerability and variability) and the two wealth types (economic and non-economic) in order to develop an overall family firm risk framework.

Our framework illustrates why family firms are either considered more or less risk averse when compared to non-family firms. Specifically, the overwhelming majority of family firm scholars agree that family firms avoid risks in terms of their non-economic wealth or SEW (e.g., (Gómez-Mejía et al. 2016). Thus, family firms not only refrain from projects or actions that increase the probability of losing the entire SEW (i.e., the vulnerability perspective; Type 1 in Fig. 16.1), but they also avoid projects or actions with a highly uncertain impact on SEW (i.e., the variability perspective; Type 3 in Fig. 16.1). Given that a bankruptcy would destroy the entire SEW as well as the insufficiently diversified wealth of the family (Leitterstorf and Wachter 2016), family firms aim at lowering the vulnerability risk for the non-economic and economic wealth (see also Type 2 in Fig. 16.1). Thus, family firms often appear more risk averse than non-family firms. Nevertheless, family firms can even be less risk averse (i.e., more risk-seeking) than non-family firms if we consider the variability view on the economic wealth. Specifically, as long as the firm's survival is not at stake, family firms might willingly accept higher earnings volatility (Type 4 in Fig. 16.1) if this is what it takes to preserve SEW (Gómez-Mejía et al. 2007). Many business-owning families are able to accept an increased earnings volatility, given their independence from financial markets and their long-term orientation (Gentry et al. 2016). Given the status of the current literature, we outline in the subsequent section important research gaps as well as fruitful areas for future research.

Research Approach: Qualitative and Conceptual Studies The majority of studies on the risk behavior of family firms are theory-*testing* studies based on

quantitative research methods. Although most studies are empirically based on proxies for either vulnerability or variability risk, a clear theoretical differentiation between the two risk aspects, as well as the economic versus non-economic wealth dimension, is often missing. This indicates that family firm research is still missing a nuanced understanding of the drivers of vulnerability and variability risk in family firms. Particularly, we notice a lack of qualitative and conceptual papers and theory-*building* articles that help us gain a better understanding of the underlying mechanisms of family firms' risk-taking behavior. Thus, we propose the following questions: What are the main drivers of variability and vulnerability risk-taking propensity? How do they differ? What are the underlying mechanisms that explain family firms' risk-taking behavior with regard to economic and non-economic wealth?

Institutional Aspects: Emerging Markets and Cultural Aspects The literature review shows an overrepresentation of studies based on family firms in developed Western countries. Since the risk tolerance of individuals has been found to strongly depend on the institutional context (Jiang et al. 2015), we propose to conduct further studies using different country samples. It would be particularly interesting to compare family firms' risk-taking in developed and emerging countries. Whereas family firms in developed countries might focus on sustaining the status quo, family businesses active in emerging countries might pay more attention to exploiting growth opportunities. Thus, we ask: How do country-specific attributes impact the risk-taking behavior of family firms?

Besides the respective country's level of development, cultural aspects might play a decisive role in family firms' risk-taking behavior. For instance, their risk-taking behavior might depend on the power distance and uncertainty avoidance in the respective culture (Hofstede 2011). Levels of risk-taking might be particularly low in countries in which failure is stigmatized. For family firms that are striving to sustain a positive reputation, such cultural effect might be even stronger. We thus propose the following research question: How do cultural aspects impact the risk-taking propensity of family firms and its members?

Theoretical Diversity Most studies use well-known and established theories to explain the risk behavior of family firms, such as agency theory or behavioral models. Given the complexity of family firms and the need for a more nuanced and fine-grained understanding of family firms, a broader variety of theoretical perspectives might be helpful. For instance, entrenchment (Shleifer and Vishny 1989) might help answer questions on how the tenure of an outside CEO

affects the risk-taking behavior of the family firm. Life-cycle stage theory (Miller and Friesen 1980) might explain how changes over time affect the firms' behavior toward risk. And upper echelon theory (Hambrick and Mason 1984) could be used to predict how managerial background characteristics influence the risk-taking propensity of the family firm. We summarize such research opportunities as follows: To what extent and how do entrenchment, life-cycle theory, or upper echelon theory explain different results in risk-taking behavior?

Heterogeneity Among Family Firms: Firm Characteristics Such as Size and Age Moreover, the risk behavior of business-owning families is likely sensitive to the firms they own. For instance, firm size and firm age might affect risk behavior as well as the level of diversification of the family firm. The more that is "at stake" for the business family—for instance, because of a low level of diversification or a high portion of one's own wealth and income tied to the business—the more risk averse the family likely behaves. Thus, we propose the following research question: How do firm characteristics, such as size and age, affect the risk-taking propensity of the family firm?

Heterogeneity Among Family Firms: Family Involvement and Individual-Level Characteristics Both firm and family attributes likely affect the firm's risk-taking behavior. To truly understand heterogeneity among family businesses, research not only needs to study the percentages of family ownership and involvement, as has been done in prior research, but also needs to take a closer look at the family behind the firm: Which family members are involved in the business? What are the family- and individual-level goals of the family members? What is the relationship among family members? How homogeneous are they in their goals, and how many and what types of conflicts exist? We thus summarize the following question: To what extent and how do family involvement and personal characteristics of family firm members impact the risk-taking propensity of the family firm?

Influence of Financial Instruments The considered studies did not provide many insights into how financial institutions influence the risk-taking behavior of family firms. Independent of their size, financial instruments may offer several opportunities for family firms. For example, leasing assets instead of buying them might result in a lower percentage of family wealth tied to the firm. Thus, leasing agreements might enhance the family firms' risk-taking propensity. Therefore, we propose the following research question: How do financial instruments offered by financial institutions such as leasing affect the risk-taking behavior?

Table 16.3 Research gaps

Topic	Content	Research questions
1	Research approach—need for qualitative and conceptual studies	What are the main drivers of variability and vulnerability risk-taking propensity? How do they differ? What are the underlying mechanisms that explain family firms' risk-taking behavior with regard to economic as well as non-economic wealth?
2	Consideration of institutional aspects—emerging markets and cultural aspects	How do country-specific attributes impact the risk-taking behavior of family firms? How do cultural aspects impact the risk-taking propensity of family firms and its members?
3	Integrating further theoretical perspectives	To what extent and how do different theories, such as entrenchment, life-cycle theory, or upper echelon theory, explain different results in risk-taking behavior? Entrenchment: How does the tenure of an outside CEO affect the risk-taking behavior of the family firm?
4	Heterogeneity among family firms—firm characteristics	How does the firm's age affect the risk-taking propensity of the firm? How does the size of the family firm affect the risk-taking propensity of the firm?
5	Heterogeneity among family firms—family involvement and individual-level characteristics	To what extent and how do family involvement and the personal characteristics of family firm members impact the risk-taking propensity of the family firm? Who among the family is involved in the business? What are the family- and individual-level goals of the family members? What is the relationship among family members? How homogeneous are they in their goals, and how many and what type of conflicts exist?
6	Insights into the influence of financial instruments	How do financial instruments offered by financial institutions, such as leasing, affect the risk-taking behavior? Is there any decline in the risk-averse propensity of the family firm?

Table 16.3 summarizes our main research gaps based on the abovementioned paragraphs. Thereby, we hope to show promising research questions (Table 16.3).

Based on our literature review and our research questions, we can outline a conceptual model, as seen in Fig. 16.2. This conceptual model highlights that the differences between family firms and non-family firms regarding firm actions such as M&A depend on the impact of family firm status on the different risk types.

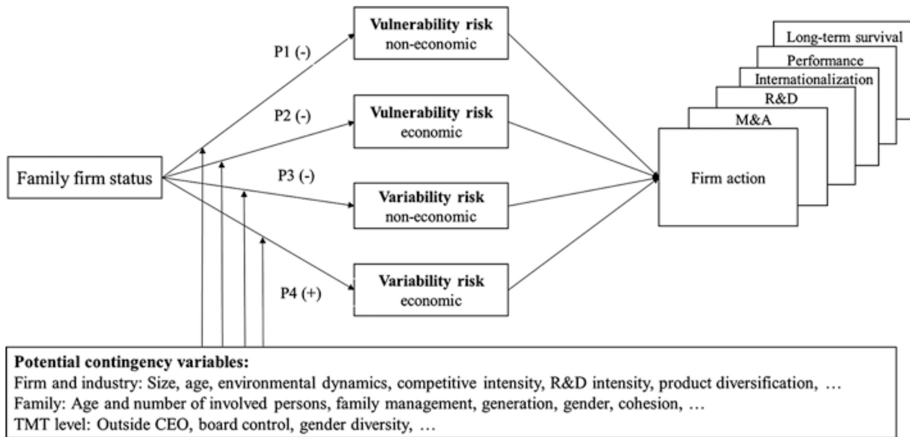

Fig. 16.2 Conceptual model based on research agenda

As indicated in the model, we suggest the following propositions:

P1 Family firm status is associated with a lower vulnerability risk regarding non-economic assets.
P2 Family firm status is associated with a lower vulnerability risk regarding economic assets.
P3 Family firm status is associated with a lower variability risk regarding non-economic assets.
P4 Family firm status is associated with a higher variability risk regarding economic assets.

Future research might also attempt to find potential contingency variables based on family firm heterogeneity aspects such as family/non-family CEO or family generation. Researchers might either consider the impact of the different risk types on specific firm actions (e.g., M&A) or a mediation model that analyzes the indirect impact of family firm status on firm actions via the different risk aspects.

Our literature review offers several contributions to different streams of literature. First, we contribute to the family firm literature by analyzing under which circumstances family firms can be considered more or less risk averse than non-family firms. Specifically, the differentiation between vulnerability and variability risk allows the integration of previously conflicting theoretical arguments and empirical evidence. Our framework highlights that family firms tend to avoid vulnerability risk but accept certain types of variability risk. Second, we add to the literature on firm risk by expanding the wealth considerations from economic to non-economic aspects. Specifically, traditional finance scholars would consider a firm as either risk averse or not with respect

to variability risk. However, our framework highlights that family firms accept this risk for their economic assets but are loss averse with respect to their non-economic assets. Third, we contribute to the family firm heterogeneity debate by highlighting firm characteristics that could potentially affect risk-taking behavior within the group of family firms. Specifically, our literature review indicates that aspects such as family/non-family CEO might impact family firm risk behavior, but this research is still in its infancy. Overall, we review existing arguments and identify various avenues for future research.

This review also offers several implications for practice. First, lenders and investors interested in family firms might benefit from our insights. Specifically, lenders should realize that business-owning families often share their focus on lowering bankruptcy risks. In contrast, equity investors need to incorporate in their assessment the possibility that family firms might accept higher variability risk in order to protect SEW. Second, lenders and investors need to be aware of family firms' heterogeneity. For example, first-generation family firms might not share the general vulnerability risk aversion of most family firms. Third, non-family CEOs of family firms need to understand the complex risk attitudes of the respective business-owning family. Similarly, business-owning families might adjust incentive systems for non-family CEOs. For example, loss aversion with respect to non-economic assets, such as the firm's reputation, needs to be reflected in the CEO's objectives and the incentive system.

Conclusion

Studies on family firms' risk behavior are numerous yet fragmented and inconsistent. Specifically, researchers currently do not even agree on whether family firms take more or less risk than non-family firms. The purpose of this literature review is to outline the status quo of the extant literature by differentiating between different types of risk (variability versus vulnerability) as well as different types of wealth (economic versus non-economic). Based on this differentiation, we conclude that family firms try to lower vulnerability risk (for both the economic and non-economic wealth) and behave loss averse with respect to their non-economic assets. However, they are able (due to their long-term orientation, among other aspects) to accept a higher variability risk for their economic wealth, and they are particularly willing to take this risk if doing so is what it takes to preserve their SEW. In our outlook, we provide insights into promising research avenues in order to deepen our understanding of family firms' risk behavior. We believe that following these research avenues might also advance our understanding of risk-taking behavior in general, thereby returning insights from the field of family firms to the general management and finance fields.

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[2] "*" indicates a paper that was part of the systematic and unsystematic literature review.

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17

Capturing the Heterogeneity of Family Firms: Reviewing Scales to Directly Measure Socioemotional Wealth

Reinhard Prügl

Introduction

The scholarly field of family business research has been enriched enormously over the last few decades. However, the field has often been accused of lacking a sound theoretical and methodical underpinning. Thus, many have made explicit calls for the development of autonomous theories and tested concepts (e.g. Chrisman et al. 2005; Zellweger et al. 2012). By introducing socioemotional wealth (SEW), Gómez-Mejía et al. (2007) provided the field of family business research with a "homegrown" theory (Berrone et al. 2012, p. 258). In fact, we can witness the considerable popularity of SEW as an umbrella concept within scholarly publications since 2007. However, SEW has recently been subject to criticism for a lack of rigor in theoretical development; some scholars have questioned the underlying assumptions of SEW (Chua et al. 2015; Le Breton-Miller and Miller 2013; Miller and Le Breton-Miller 2014; Schulze and Kellermanns 2015). Furthermore, SEW is faced with unresolved methodical challenges (e.g. Berrone et al. 2012; Miller and Le Breton-Miller 2014). In fact, methodical rigor is as important as theoretical rigor and is consequently an extensive and long-term endeavor for the whole family business research community.

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© The Author(s) 2019

E. Memili, C. Dibrell (eds.), *The Palgrave Handbook of Heterogeneity among Family Firms*,
https://doi.org/10.1007/978-3-319-77676-7_17

In this chapter, I focus on the underresearched methodical challenges of the construct stemming from the different alternatives for directly measuring SEW. For comparably new fields of research, construct measurement is one of the most serious challenges (Evert et al. 2016; for a related discussion in the field of strategic management, see, e.g. Boyd et al. 2005). Due to the relatively complex nature of many concepts like SEW in family business research, the quality of measurement is crucial (Godfrey and Hill 1995). Accordingly, family business researchers need to put careful emphasis on research design, construct validation, and sophisticated analytical techniques (Bergh 2001) to jointly advance the field.

Berrone et al. (2012) were among the first to provide the field with an alternative to the predominantly applied proxies of measuring SEW, such as family ownership and/or management. These proxies are indeed easily applicable, yet not appropriate for grasping the SEW's multidimensional reflective nature, as they only reveal prerequisites for potential behaviors. In fact, a widespread use of direct measures such as the FIBER scale (or its short form, the REI scale; see Hauck et al. 2016) can facilitate the cumulative growth of research findings in the field. By reviewing available measurement scales, I do not problematize the paradigmatic and theoretical foundations of SEW (Chua et al. 2015; Miller and Le Breton-Miller 2014; Schulze and Kellermanns 2015). My focus is solely on the methodical elements of SEW (i.e. the sound measurement of central aspects).

In doing so, I attempt to make the following contributions to research on the heterogeneity of family firms and the development of this important field:

1. My first contribution is to provide the field with an overview and reflection of direct measurement approaches to SEW. Since the introduction of the concept (Gómez-Mejía et al. 2007), SEW has resulted in much hype within family business research, and the number of studies making use of the concept—both theoretically and empirically—has grown enormously. Therefore, I aim to keep track of how SEW can be measured (with a special emphasis on directly measuring it). Thus, I contribute to the field by outlining the different available scales.
2. My second contribution is an attempt to discuss the applicability of the different scales in terms of *parsimony*, as various scholars have identified challenges in the use of multi-item instruments (Richins 2004; Stanton et al. 2002), as well as challenges associated with directly measuring SEW.

This chapter is organized as follows. I begin by providing a background on the construct of SEW and the measures applied in existing research. After comparing the scales regarding parsimony and applicability, I introduce two recently published multidimensional *and* parsimonious scales and conclude by discussing implications for the direct measurement of SEW.

The Nature of Socioemotional Wealth and Direct Measurement Options

In the following section, I examine the specific nature of SEW, followed by a short review of existing direct measurement approaches.

Socioemotional Wealth: The Basic Concept

SEW is defined as a firm's noneconomic aspect that meets the family's affective needs (Gómez-Mejía et al. 2007). Berrone et al. (2012) conceptualize the socioemotional endowment "in broad terms to capture the stock of *affect-related value that a family derives from its controlling position in a particular firm*" (p. 259, referring to Gómez-Mejía et al. 2007).

SEW is claimed to reveal the "essence" of what distinguishes a family firm from all other firms (e.g. Berrone et al. 2012). Building on the foundations of family firm studies, SEW is anchored in the behavioral tradition of the management field (e.g. Berrone et al. 2012; Gómez-Mejía et al. 2010). The behavioral agency model, developed by Wiseman and Gómez-Mejía (1998), is based on Kahneman and Tversky's (1979) prospect theory and the behavioral theory of the firm (Cyert and March 1963). In contrast to agency theory, the behavioral agency model proposes that decision-makers' risk preferences can shift depending on the reference point used to compare anticipated outcomes (Wiseman and Gómez-Mejía 1998). In the context of family firms, the loss or gain of SEW is assumed to be the predominant reference point in decision-making (Berrone et al. 2012; Gómez-Mejía et al. 2007, 2010). In sum, due to family firms' loss aversion with respect to SEW, family firm owners might be willing to accept significant business risks to preserve family control and, consequently, SEW. To close the circle, family firms are likely to make equally rational decisions as nonfamily firms. Yet, the criteria for judging whether the choices are positive or negative may vary between the different types of firms (Gómez-Mejía et al. 2011). Consequently, SEW tends to be a concept of great reach and explanatory power, which is reflected in its application to multiple phenomena in the family business field, for example, the uniqueness of family firms (Gómez-Mejía et al. 2011), innovation (Hauck and Prügl 2015), internationalization (Pukall and Calabrò 2014), and governance (Goel et al. 2013).

The Reflective Nature of the Socioemotional Wealth Construct

SEW is an umbrella concept and has thus been diversely applied in the literature: for example, the ability to exercise authority (Schulze et al. 2003), the need for identification (Gómez-Mejía et al. 2007), and the perpetuation of a family dynasty (Casson 1999), values (Handler 1990), and social capital (Arregle et al. 2007). In accordance with their study's focus on the environmental performance of family firms, Berrone, Cruz, Gómez-Mejía, and Larraza-Kintana (2010) add perpetuating a positive family image and reputation (Westhead et al. 2001), as well as receiving recognition and personal prestige for generous actions like altruism (Lubatkin et al. 2007; Schulze et al. 2003; Tagiuri and Davis 1996). These studies underline the importance of noneconomic goals in decision-making (Pieper 2010).

Based on a literature review, Berrone et al. (2012) made the first attempt to structure the generic notion of SEW into certain dimensions, collectively labeled FIBER (for a detailed description of the dimensions and related items, see Table 17.2). The first dimension of FIBER refers to *(F) family control and influence*, and the second relates to *(I) family members' identification with the firm*. The third dimension, *(B) binding social ties*, refers to family firms' social relationships, such as those with vendors or suppliers. The fourth dimension, *(E) emotional attachment*, covers the emotional relationships between family members. The fifth and final dimension is named *(R) renewal of family bonds to the firm through dynastic succession* and concerns handing over the firm to the next generation(s) (Berrone et al. 2012). By introducing the FIBER dimensions, Berrone et al. (2012) recognize the multidimensional and reflective nature of SEW, which implies that the five dimensions are correlated and are measurable indicators of the SEW's latent construct.

The researchers note that SEW's multidimensionality has so far mostly been neglected in measurement. In fact, the vast majority of existing research using SEW involves understanding SEW using proxies, such as family involvement in ownership and management. However, this indirect measurement of SEW is unlikely to capture all relevant aspects of SEW. Moreover, SEW priorities may be very different from one family firm to another, despite similar levels of family involvement in ownership and management (Hoy and Sharma 2010; Miller and Le Breton-Miller 2014; Schulze and Kellermanns 2015). Consequently, measuring SEW in a multidimensional, direct way is highly encouraged based on what we currently know about SEW. The development, testing, and validation of applicable, multidimensional, and direct SEW scales

can therefore be considered a critical research endeavor (e.g. Berrone et al. 2012; Mensching et al. 2014; Miller and Le Breton-Miller 2014).

Researchers have so far chosen different approaches to directly measure the SEW construct. The basic direct measurement approaches can be further differentiated by one-dimensional and multidimensional measures.

Unidimensional Measurement Approaches

Goel et al. (2013) explore the role of family CEOs' empathy in the process of SEW creation and the moderating role of external directors. They applied four items from the strategic orientations of small- and medium-sized enterprises (STRATOS) questionnaire to measure SEW. Their four-item scale has its merits because it is parsimonious and of practical length while still referring to SEW's core aspects (e.g. maintaining family traditions). Nevertheless, it cannot address all relevant aspects of SEW, like family members' identification with the firm. This measurement was chosen in studies exploring the moderating role of SEW in the entrepreneurial orientation-performance relationship in family firms (Schepers et al. 2014a) and in the relation between family firms' organizational characteristics and the appointment of nonfamily managers (Vandekerkhof et al. 2015). A working paper by Schepers, Voordeckers, Steijvers, and Laveren (2014b) builds on Kellermanns, Eddleston, and Zellweger's (2012) reflections on the potential detrimental effects of SEW and focuses on the gap between entrepreneurial intentions and behavior. To show the dark side of SEW, the authors apply six items referring to nepotism, altruism, and the creation of jobs for incompetent family members (Table 17.1).

While these scales are an option to grasp the dimensions (or outcomes) of SEW, by measuring single dimensions, they do not reflect and capture the multidimensional nature of the SEW construct. While these direct one-dimensional scales definitely have merit because of their practical length, they are unable to capture different facets of a family's affective endowments to explain how family firms behave. The need for a multifaceted conceptualization of SEW is constantly emphasized by the family business community (e.g. Kellermanns et al. 2012). Moreover, due to their one-dimensionality, these direct measures still treat SEW as a collective whole and are thus unable to disentangle the complex (e.g. synergetic or conflicting) relationships between SEW dimensions. Thus, the use of unidimensional measures inevitably leads to the treatment of SEW as one "collective whole" (Chua et al. 2015, p. 179). Hence, it is impossible to disentangle how SEW dimensions

Table 17.1 Unidimensional measurements of SEW

Authors	Measurement	Scale	Adopted from	Alpha
Goel et al. (2013) Schepers et al. (2014a) Vandekerkhof et al. (2015)	1. Maintaining family traditions/ family character of the business 2. Creating/saving jobs for the family 3. Independence in ownership 4. Independence in management	5-point Likert scale from 1 = totally unimportant to 5 = very important	Items taken from STRATOS questionnaire (Bamberger 1994; Bamberger and Weir 1990)	0.73 0.70 0.70
Schepers et al. (2014b)	1. In delegating responsibilities and selecting new managers, being a family member is a big advantage 2. Family members deserve different remuneration than nonfamily members 3. Providing jobs for the family is one of the main goals of the firm 4. Successors need to be chosen from the family 5. Creating/saving employment for the family is a main objective 6. Independence in management is an important objective for the firm	7-point Likert scale from 1 = totally disagree to 7 = totally agree	n/a	0.64

may be interrelated and if they are of equal value for a certain outcome (Chua et al. 2015; Miller and Le Breton-Miller 2014).

In fact, some SEW dimensions may conflict with each other (e.g. Vardaman and Gondo 2014). In this regard, a distinction is made between external (e.g. reputation and image) and internal (e.g. maintaining family control in the long term) affective endowments that may be in conflict (e.g. Block 2010). Furthermore, SEW dimensions may have different relationships with the

dependent variable (Hauck and Prügl 2015), creating situations of "mixed gambles," that are, gambles with gain and loss outcomes (Gómez-Mejía et al. 2014). Consequently, unidimensional measures are not able to explain why a relationship exists, as they do not account for the heterogeneity of families' socioemotional endowments derived from the firms.

Multidimensional Measurement Approaches

SEW's conceptual nature as a multidimensional latent construct and the inability of unidimensional measures to fully reflect SEW's theoretical characteristics illustrate the value of a direct multidimensional measure. Indeed, several scholars call for more theoretical and empirical precision to measure SEW in a finer-grained, rigorous, and effective way (Chua et al. 2015; Debicki et al. 2016; Miller and Le Breton-Miller 2014; Schulze and Kellermanns 2015). In fact, the abovementioned limitations may be resolved by applying a direct multidimensional measure.

First, a direct multidimensional scale for SEW can allow an understanding of the affective endowments resulting from an owning family's direct control and thus accounts for the heterogeneity of these endowments. Second, a direct multidimensional scale for SEW allows for both positive and negative valences of diverse socioemotional endowments. Third, a direct multidimensional scale for SEW can help disentangle the complex relationships between SEW dimensions and important outcome variables of managerial processes (Gómez-Mejía et al. 2011). Accordingly, a multidimensional measurement for SEW should help clarify which SEW dimension(s) drive(s) certain relationships. Only recently the possible structures of major dimensions of SEW have been suggested (Berrone et al. 2012; Hauck and Prügl 2015).

As it is to date the most prominent conceptualization of central SEW dimensions, I briefly describe Berrone et al.'s (2012) dimensions:

Family control and influence (F) is one of the key characteristics distinguishing family firms from nonfamily firms. Maintaining current family control and influence over the firm can have higher priority than financial considerations. The exercise of control can be organized either directly (e.g. a family member being CEO) or indirectly (e.g. family members appointing top executives). Moreover, control does not necessarily have to be related to formal ownership but can be exerted informally as well (Berrone et al. 2012).

Identification of family members with the firm (I) is a possible result of the close linkage between family and firm. Family ownership in a firm provides a sense of identity to the family and its members ("I/we know who I am/we

are") and may therefore extend the self. Perceptions of identity are driven not only by the family context but also by a broader social context (Berrone et al. 2012).

Binding social ties (B) refer to the firms' social relationships with various stakeholders, for example, with employees, which frequently are close and can even be family-like. Furthermore, family firms often are deeply embedded in their (local) communities and support associations and community activities (Berrone et al. 2012).

Emotional attachment of family members (E) relates to the role of emotions in the family firm context. The family firm provides the family a place where the affective needs for belonging, cohesion, and security may be satisfied (Berrone et al. 2012).

Renewal of family bonds to the firm through dynastic succession (R) relates to the long-term vision of keeping the firm under the family's control in future generations. This transgenerational vision and sense of dynasty are considered key concerns of family firms (Berrone et al. 2012).

The proposed FIBER scale to measure SEW multidimensionally and directly has, to date and to the best of the author's knowledge, not been entirely empirically applied in a journal publication. Table 17.2 presents Berrone et al.'s (2012) proposed items.

Inspired by Berrone et al. (2012), a recent study conceptualizes and measures SEW directly along three dimensions with 25 items (Hauck and Prügl 2015). The following dimensions are used in this study:

Family influence captures the fact that SEW accounts for the boundaries between the family and the firm being blurred and permeable (Berrone et al. 2012). Thus, the family and its inherent complex interpersonal relationships, goals, and norms of behavior influence the firm (Berrone et al. 2010; Habbershon and Williams 1999). The authors argue that two family-related variables should be considered in the context of their study (which is on innovation in family firms). First, they investigate the family's attitude toward and enjoyment of coping with change, problems, and challenges. Second, they focus on the role of intergenerational authority structures in the family context.

Family-firm relationship addresses the relationship between the family and the firm, as well as the history of family bonds (Berrone et al. 2012). In their study's context (innovation), family members' closeness to the family firm and the history of family bonds were used to grasp this dimension.

Family firm-community relationship was included as the third dimension, as family firms are often deeply embedded in their communities; hence, SEW should include binding social ties with the firm's environment, collaborative behavior, and social commitment (Berrone et al. 2012; 2010).

Table 17.2 Multidimensional measurement of SEW

Authors	Measurement	Scale	Adopted from	Alpha
Berrone et al. (2012)	Proposition of 27 items to measure 5 dimensions of SEW:		Klein et al. (2005)	
	(F) Family influence and control	n/a	Lee and Rogoff (1996)	n/a
	(F1) In my family business, family members exert control over the company's strategic decisions			
	(F2) In my family business, most executive positions are occupied by family members			
	(F3) In my family business, nonfamily managers and directors are named by family members			
	(F4) The board of directors is mainly composed of family members			
	(F5) The majority of the shares in my family business are owned by family members			
	(F6) Preservation of family control and independence are important goals for my family business			
	(I) Identification of family members with the firm	n/a	Allen and Meyer (1990), Carlock and Ward (2001), Klein et al. (2005), and O'Reilly and Chatman (1986)	n/a
	(I1) Family members have a strong sense of belonging to my family business			
	(I2) Family members feel that the family business's success is their own success			
	(I3) My family business has a great deal of personal meaning for family members			
	(I4) Being a member of the family business helps define who we are			
	(I5) Family members are proud to tell others that we are part of the family business			
	(I6) Customers often associate the family name with the family business's products and services			

(*continued*)

Table 17.2 (continued)

Authors	Measurement	Scale	Adopted from	Alpha
	(B) Binding social ties (B1) My family business is very active in promoting social activities at the community level (B2) In my family business, nonfamily employees are treated as part of the family (B3) In my family business, contractual relationships are mainly based on trust and norms of reciprocity (B4) Building strong relationships with other institutions (i.e. other companies, professional associations, government agents, etc.) is important for my family business (B5) Contracts with suppliers are based on enduring long-term relationships in my family business	n/a	Cruz et al. (2010), Miller et al. (2009), and Miller and Le Breton-Miller (2005)	n/a
	(E) Emotional attachment of family members (E1) Emotions and sentiments often affect decision-making processes in my family business (E2) Protecting the welfare of family members is critical to us, apart from personal contributions to the business (E3) In my family business, the emotional bonds between family members are very strong (E4) In my family business, affective considerations are often as important as economic considerations (E5) Strong emotional ties among family members help us maintain a positive self-concept (E6) In my family business, family members feel warmth for each other	n/a	Allen and Meyer (1990), Carlock and Ward (2001), Eddleston and Kellermans (2007), and O'Reilly and Chatman (1986)	n/a

	(R) Renewal of family bonds through dynastic succession (R1) Continuing the family legacy and tradition is an important goal for my family business (R2) Family owners are less likely to evaluate their investment on a short-term basis (R3) Family members would be unlikely to consider selling the family business (R4) Successful business transfer to the next generation is an important goal for family members	n/a	Lee and Rogoff (1996) and Zellweger et al. 2012)	n/a
Hauck and Prügl (2015)	25 items to measure 3 dimensions (with 5 aspects) of SEW: **Family influence** *Family adaptability* In our family… 1. We face challenges very effectively 2. We are flexible and adaptable in how we deal with difficulties 3. We are poor at dealing with the unexpected[a] 4. We are always able to help each other when the need arises 5. In solving problems, we are not often willing to change our routines[a] 6. We approach problems with a positive mindset 7. We know we have the power to solve major problems 8. When we face difficulties, we work together effectively	5-point Likert scale from 1 = I strongly disagree strongly to 5 = I strongly agree	Taken from the Family Climate Scale developed by Björnberg and Nicholson (2007)	0.83

(*continued*)

Table 17.2 (continued)

Authors	Measurement	Scale	Adopted from	Alpha
	Intergenerational authority In our family… 1. The younger generations try to conform with what the older generation would want 2. The wishes of the older generation are obeyed 3. The authority of the older generation is not questioned 4. Family members of the older generation set the rules 5. The word of the older generation is law	See above	Taken from the Family Climate Scale developed by Björnberg and Nicholson (2007)	0.78
	Family-firm relationship *Family member's closeness to the firm* 1. I feel as if I belong to the family business 2. I care about the family business 3. I feel detached from the family business[a] 4. I feel close to the family business 5. The family business is an important part of who I am 6. The fate of the family business is not relevant to me[a] 7. I identify with the family business 8. What happens to the family business matters to me	See above	Birley (2002) and Björnberg and Nicholson (2012)	0.85
	History of family bonds 1. In which year has your family firm been established?		Zellweger et al. (2012)	0.71
	Family firm-community relation *Investment in social ties* How active are you at the community level in the following three areas? 1. Local politics 2. Clubs/associations primarily for the public's benefit 3. Regional working groups	5-point Likert scale from 1 = not active to 5 = very active	Cruz et al. (2014)	

[a]Reverse scaled

Strengths and Weaknesses of the Proposed Measurement Scales

In quantitative empirical research, using primary data often involves a trade-off between theoretical and hands-on practical considerations. On the one hand, in an ideal world, every construct would be measured in the most comprehensive way (assuming that respondents have unlimited time and cognitive capacity). On the other hand, response rates are constantly diminishing in social science and management research surveys, showing that fatigue is a real issue with respondents, thus forcing researchers to use shorter questionnaires.

Put differently, I attempt to discuss the applicability of the different scales in terms of *parsimony*, as various scholars have identified challenges in the use of multi-item instruments (Richins 2004; Stanton et al. 2002) and thus have encouraged the development of short-form scales for key constructs to enhance data collection, data analysis, and cross-national comparisons (e.g. Lee et al. 2008). Although longer scales capture attributes of interest to the researcher, items are likely to appear redundant to respondents. This may cause undesirable effects, like fatigue, nonresponse, demand effects, and the second-guessing of the researchers' underlying hypotheses (Churchill 1979; Diamantopoulos and Winklhofer 2001). Especially if this is not the focal construct but a moderating variable (e.g. Darke et al. 2008), researchers tend to save space and may choose not to directly measure SEW.

Figure 17.1 visualizes the trade-off between theoretical value (i.e. the one-dimensional measurement of SEW as a key problem, as outlined above) and practical value (i.e. the need for parsimony or the length of the scale as a key problem). Figure 17.1 clearly shows that one solution is the development of parsimonious multidimensional scales that can capture family firms' heterogeneity regarding SEW.

Toward that direction and for the sake of parsimony, Vandekerkhof, Steijvers, Hendriks, and Voordeckers (2018) use a direct measure of SEW based on Berrone et al.'s (2012) FIBER model. As the FIBER model distinguishes between five major dimensions of SEW (see above), they use one item per dimension to capture SEW. The following statements were used in their study: (1) "It is essential to preserve family control and independence of the family firm"; (2) "The family members have a strong sense of belonging to the family firm"; (3) "Nonfamily members are treated as part of the family"; (4)

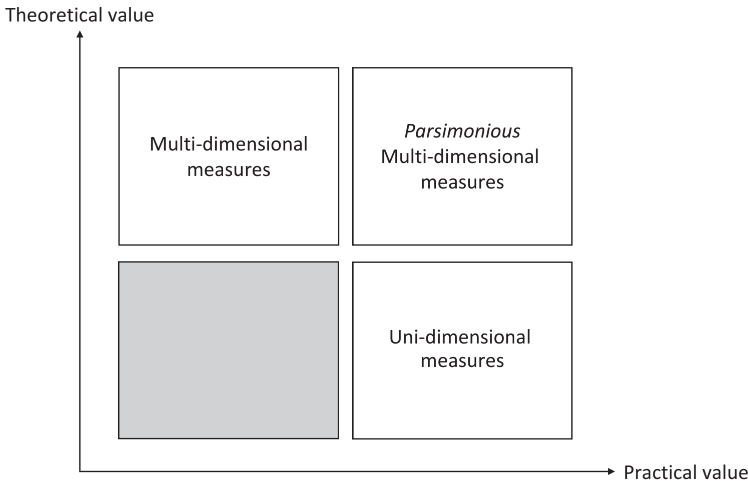

Fig. 17.1 The theoretical/practical value gap

"Emotional bonds between family members are strong"; (5) "Successful business transfer to the next family generation is an important goal of the family firm." A principal component factor analysis reveals a single SEW factor. All factor loadings are higher than 0.607 with an eigenvalue of 2.39 and explain 47.74 percent of the variance among the items. Cronbach's alpha for this five-item scale (1 = low level of SEW to 5 = high level of SEW) is 0.72. While this approach integrates parsimony and multidimensionality, it relies on single-item measures for the separate dimensions, which is critical if object or attribute are abstract (which is definitely the case for the SEW construct, as outlined above). According to Churchill (1979), in such a situation, multiple items are necessary to tap all facets of a construct. Moreover, this direct measure implicitly assumes that SEW is a collective whole (Chua et al. 2015). Hence, it is impossible to disentangle how SEW dimensions may be interrelated and if they are of equal value for a certain outcome (Chua et al. 2015; Miller and Le Breton-Miller 2014).

To overcome these challenges, two empirically validated scales have recently been introduced that try to address the value/practical applicability gap: the SEWi and the REI scales. I introduce these measurement options in the following section.

Parsimonious Multidimensional Measurement of Socioemotional Wealth: The Socioemotional Wealth Importance and the REI Scales

Recently, Debicki et al. (2016) developed a socioemotional wealth importance scale (SEWi) comprising the dimensions of family prominence, family continuity, and family enrichment (nine items; see Table 17.3 for details). The authors provide a measurement scale that allows for the direct measurement of the importance of socioemotional wealth to family owners and managers of family firms. In fact, Debicki et al. (2016) define SEW as "the array of non-financial benefits specifically associated with the well-being and affective needs of family members that are derived from operating a business enterprise" (p. 48). By arguing that the importance attached to these benefits influences decision-making and firm behavior, the authors reconceptualize SEW. This scale was validated in the context of small- and medium-sized family firms, but may well extend to other family firms as well.

Similarly, and in order to overcome the restrictions of single-item measures on a dimensional level, Hauck et al. (2016) developed a validated short form of the FIBER scale (nine items) consisting of three dimensions with three items for each dimension (see Table 17.4 for details). This scale was validated in the context of family-owned and family-managed firms, but may well extend to other family firms as well.

To summarize, the following are important similarities and differences between the SEWi scale and the REI scale:

- Both scales are of practical length (nine items each).
- Both scales capture distinct dimensions of SEW (three dimensions each).
- Both scales capture each distinct dimension with multiple items (three items each).
- The REI scale is based on the proposed FIBER scale, while the SEWi scale is newly developed.
- The content of the dimension "Family enrichment" of the SEWi scale is partly reflected in the "Emotional Attachment of family members" of the REI scale.
- The content of the dimension "Family continuity" of the SEWi scale is partly reflected in the "Renewal of family bonds through dynastic succession" of the REI scale.

Table 17.3 SEWi scale

Dimension	Item[a]	Item description
(FP) Family prominence ($\alpha = 0.824$)	(FP1) Recognition of the family in the domestic community for generous actions of the firm	If it is important that the family gains recognition and appreciation in our community, as a company we will engage in actions that have the greatest potential to benefit the family in this regard
	(FP2) Accumulation and conservation of social capital	How important is it that the family can benefit from the social relationships developed through our business, and vice-versa (that the business benefits from our family's relationships)
	(FP3) Maintenance of family reputation through the business	If family reputation is important, as a family firm we will strive to conduct our business in ways that do not jeopardize the family's reputation (i.e. ethically, honestly, respectfully)
(FC) Family continuity ($\alpha = 0.863$)	(FC1) Maintaining the unity of the family	How important is it that the business gives the members of our family an opportunity to work as a unit, make decisions together, and work toward agreement
	(FC2) Preservation of family dynasty in the business	If it is important that the firm remains in the hands of the family, the business decisions will be directed at developing and motivating future generations toward taking over the control of the firm
	(FC3) Maintaining our family values through the operation of our business	How important is it that the company serves as a vessel through which our family values are maintained and promoted to younger generations of family members
(FE) Family enrichment ($\alpha = 0.830$)	(FE1) Happiness of family members outside the business	How important is it that through operating a business enterprise, we can ensure the enhancement of happiness of our family members not directly involved in the firm
	(FE2) Enhancing family harmony through operating the business	How important is improving the family life and the relationships among family members through operating our business
	(FE3) Consideration of the needs of our family in our business decisions	To what extent do the needs of our family (such as the need for employment, financial stability, belonging, intimacy, etc.) affect our business-related decisions

$N = 208$

[a]Please indicate the IMPORTANCE of the following items pertaining to your firm: measured on a 5-point Likert scale (1, not important; 5, very important)

Table 17.4 REI scale

Dimension	Item[a]	Composite reliability	AVE	Stand. reg. weights[b]	Standard error
(R) Renewal of family bonds through dynastic succession		0.782	0.556		
	(R1) Continuing the family legacy and tradition is an important goal for my family business			0.843***	0.093
	(R2) Family owners are less likely to evaluate their investment on a short-term basis			0.503***	0.063
($\alpha = 0.77$; $\beta = 0.63$[d])	(R4) Successful business transfer to the next generation is an important goal for family members			0.839	c
(E) Emotional attachment of family members		0.853	0.659		
($\alpha = 0.85$;	(E3) In my family business, the emotional bonds between family members are very strong			0.833***	0.078
$\beta = 0.83$[d])	(E5) Strong emotional ties between family members help us maintain a positive self-concept			0.786****	0.079
	(E6) In my family business, family members feel warmth for each other			0.815	c
(I) Identification of family members with the firm		0.720	0.474		
($\alpha = 0.70$;	(I1) Family members have a strong sense of belonging to my family business			0.530***	0.055
$\beta = 0.65$[d])	(I3) My family business has a great deal of personal meaning for family members			0.700***	0.086
	(I5) Family members are proud to tell others that we are part of the family business			0.806***	c

$N = 216$
***$p < 0.001$
[a]Measured on a 5-/7-point Likert scale (from strongly disagree to strongly agree)
[b]As no indirect effects are included in the model, the standardized regression weights equal the standardized total effect and the direct effects
[c]Fixed regression weight
[d]Revelle's beta

- The content of the dimension "Family prominence" of the SEWi scale is partly reflected in the "Identification of family members with the firm" of the REI scale; however, the SEWi scale takes a stronger outside-in perspective and the REI scale a stronger inside-out perspective.
- The major—and theoretically important—difference is that the REI scale captures the stock of affect-related value a family may derive from controlling a firm, while the SEWi scale captures the priorities/importance of SEW considerations, thus addressing different theoretical angles of the SEW concept.

The observed (and partly striking) similarities between these two parsimonious and multidimensional measurement possibilities induce some confidence that similar major dimensions of the SEW construct might be captured, at least in the cultural contexts of the US and Germany, which were used for validation of these scales. This is very encouraging. At the same time, very different theoretical questions can be approached by these two scales: the SEW stock perspective in the case of the REI scale and the SEW priorities perspective in the case of the SEWi scale.

Discussion

In this chapter, I first outlined the different possibilities proposed so far to measure SEW and its dimensions, showing challenges in existing scales related to a trade-off between using multidimensional measures and keeping questionnaires as short as possible (theoretical/practical value gap). Second, I introduced two newly developed scales intended to resolve that gap by providing theoretically sound measures and practical length. In the final section of this chapter, I reflect on some challenges in applying the measures outlined above.

Challenges in Applying Socioemotional Wealth Measures

In conclusion, I pose the following three questions warranting careful thought as well as further discussion when applying SEW measures: (1) Who is/are the respondent/s?, (2) How do we deal with multiple respondents?, and (3) How do the dimensions of SEW "play together"?

Who Is/Are the Respondent/s?

In SEW studies so far, single respondents have been used to capture SEW (most often the family manager or family board member as representatives of the owners of a firm). While we know about the limitations of single respondents (e.g. Bowman and Ambrosini 1997), a potential answer would be to rely on multiple respondents, such as other members of the owning family besides the family CEO (which raises the question where SEW primarily resides: in the enterprising family or in the family enterprise or in both?). While this might solve the problem, it indeed raises a new question outlined in the next section.

How Do We Deal with Multiple Respondents?

Measuring SEW from different perspectives might overcome the single respondents problem—but what to do with the possibility of different levels of SEW stemming from different family or firm members? Is it advisable to build an index based on the mean value of all respondents on different dimensions? How could we interpret this mean value? Another approach—and a very interesting one—was recently presented by Vandekerkhof et al. (2018). These authors look at differences in SEW levels between members of a top management team in Belgian family firms and investigate how these (in)congruences between levels of SEW affect major decision-making variables, like the quality of the decisions made.

How Do the Dimensions of Socioemotional Wealth "Play Together"?

Past research suggests that SEW can be a mixed gamble (e.g. Hauck and Prügl 2015). Hence, future research could investigate whether these dimensions are additive, compensatory, or disjunctive (see, e.g. Kellermanns et al. 2012). Multidimensional measurement offers the possibility to further our understanding of how these dimensions are linked together. For example, consider the following questions: When are strong/weak family bonds related to strong/weak transgenerational intentions? When are strong/weak family bonds related to a strong/weak family firm identity? When is a strong/weak family firm identity related to strong/weak transgenerational intentions? This calls for a better understanding of contextual variables. The analysis of contextual

factors stemming from the family sphere, the firm, and its economic and social environment might shed light on these important issues. Another important contextual factor might be time, as SEW dimensions might vary over time (Le Breton-Miller and Miller 2013). Furthermore, the spatial context could play an important role in, for example, a region with a strong tradition of many long-lived family firms (such as the German Black Forest). SEW dimensions might play together differently in an urban area where only a few family firms can be found. Finally, the cultural context supposedly will also play an important role due to the different definitions and perceptions of "family," potentially leading to differences in family bonds, family firm identity, and transgeneration intentions.

Furthermore, it would be interesting to investigate if the various dimensions drive behavior differently. For example, in terms of innovation behavior, strong family bonds could be conducive for innovation activities if they allow for low intergenerational authority and high levels of adaptability (Hauck and Prügl 2015), while, at the same time, a strong family firm identity could lead to resistance against innovation and change (depending on how this identity is actually constructed, it could be the other way round as well). As such, utilizing direct measures may aid in understanding differences in family firm behavior and the heterogeneity of family firms (Chua et al. 2012; Westhead and Howorth 2007), which cannot be captured by proxies, such as family ownership or management.

Conclusion

In summary, this chapter builds on the growing interest in SEW in the field of family firm research (for recent comments, see Chua et al. 2015; Miller and Le Breton-Miller 2014; Schulze and Kellermanns 2015). Specifically, this chapter describes the heterogeneity of measurement instruments for directly assessing SEW in family firms and related challenges.

Acknowledgments This chapter was inspired by and partly covers ongoing discussions and recent papers written together with great colleagues - thank you so much Susanne Beck, Hermann Frank, Jana Hauck, and Julia Suess-Reyes.

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18

Do We Really Want to Cut Out the Deadwood? Family-Centered Noneconomic Goals, Restructuring Aversion, and Escalation of Commitment

Claudia Pongelli, Salvatore Sciascia, and Tommaso Minola

Introduction

Drawing inspiration and motivation from the last several years of the global financial and economic crisis, family business scholars have recently debated about how family firms react during an economic downturn. Family firms—compared to nonfamily firms—tend to show greater resilience in hard times (Villalonga and Amit 2010; Minichilli et al. 2015). The capability of family firms to react during a crisis has been related to the distinctiveness of such firms, particularly to the presence of family-centered noneconomic (FCNE) goals (Chrisman et al. 2011). This distinctive set of family owners' goals sub-

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E. Memili, C. Dibrell (eds.), *The Palgrave Handbook of Heterogeneity among Family Firms*,
https://doi.org/10.1007/978-3-319-77676-7_18

stantially drives the firm behavior and main corporate decisions (Chrisman et al. 2012; De Massis et al. 2016). The weight that these goals have in influencing corporate behavior and key strategic decisions can be indicated by the loss aversion that family firms have with respect to their socioemotional wealth endowment (Gomez-Mejia et al. 2011). While the socioemotional wealth loss aversion makes family firms especially risk averse in steady-state situations (Gomez-Mejia et al. 2010), family firms appear to enter "survival mode", which leads them to promote risk-taking initiatives with the ultimate aim of safeguarding the continuity of the business during a crisis (Minichilli et al. 2015). Indeed, family firms—compared to nonfamily firms—exhibit a bundle of distinguishing traits that makes their long-term survival more likely (Chrisman et al. 2011). The greater affective devotion and emotional attachment of family members to the business, as well as the intention for transgenerational succession and the strong focus on social capital (including nurturing relationships with employees and external stakeholders), lead them to make decisions committed to long-term survival and success more markedly than nonfamily firms (Chrisman et al. 2011; Minichilli et al. 2015; Patel and Fiet 2011).

As a way of maintaining competitive advantage and improving their odds of survival during an economic downturn, firms are often faced with the option to restructure, which includes a wide array of company actions, such as—among others—selling business units, divestiture, and downsizing the workforce. Recent studies shed light on the potential aversion of family owners toward restructuring (Block 2010; Feldman et al. 2016; Sharma and Manikutty 2005; Stavrou et al. 2007). In fact, although these decisions are usually not welcome for all types of firms, family firms have been found to be especially reluctant.

In this chapter, first, we intend to highlight the role of FCNE goals in driving restructuring decisions. Family owners may set FCNE goals that can influence corporate behavior (Chrisman et al. 2012) and potentially conflict with restructuring decisions. Specifically, we argue that the presence of FCNE goals in family firms generates a potential restructuring aversion, but such a potential aversion does not turn into actual behavior (i.e., lower likelihood of restructuring) unless family members have both the ability and the willingness to pursue FCNE goals. Building on Chrisman et al. (2012, 2015) and De Massis et al. (2014), we suggest that family involvement itself does not fully explain the reluctance that family members may have toward restructuring decisions. Therefore, research on this topic may be enriched by the attempt to theoretically disentangle the family ability to pursue FCNE goals from its willingness to act in that direction.

Second, drawing on strategic management literature and extending our concept of firm response to downturn, we suggest that the combination of ability and willingness to pursue FCNE goals makes family firms especially vulnerable to another type of particularistic behavior stemming from a troubled course of action: escalation of commitment (Staw 1976; Staw and Hoang 1995). Our contention is that the presence of FCNE goals and their key role in driving decisions may cause family owners to not only be reluctant to restructure but also to increase commitment to the troubled path. By introducing this second type of particularistic behavior in our argumentation, we aim to offer a wider description of how family owners tend to turn the tide when their firm is following a failing course of action.

Third and last, we expand our arguments by considering the role of family firm heterogeneity and the fact that family firms may differ from one another even more pronouncedly than from generic nonfamily firms (Chrisman and Patel 2012), depending on a number of family- and business-related contingencies that could affect their ability and willingness to pursue FCNE goals (Chrisman et al. 2007). More precisely, while the ability flows directly from family involvement (Chrisman et al. 2012, 2015; Klein et al. 2005), the antecedents of willingness remain somewhat unexplored. Thus, to increase the understanding of the antecedents of willingness to pursue FCNE goals—which indirectly influence restructuring and the escalation of commitment—we focus on the geographical context (when the family firm operates in a foreign country) and the generational stage of the enterprising family. Our proposed model is represented in Fig. 18.1.

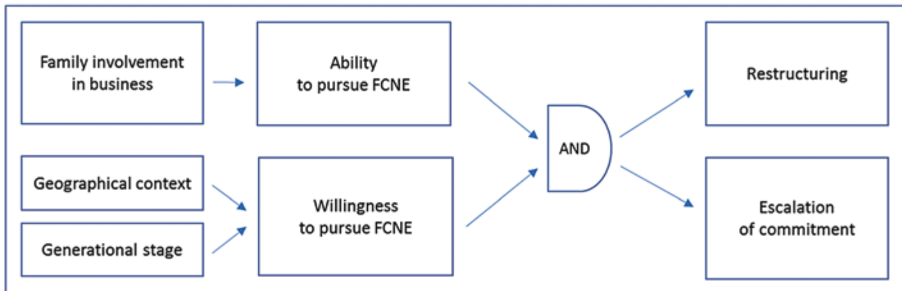

Fig. 18.1 Conceptual model

Pruning the Business: Restructuring and the Role of FCNE Goals

Timely restructuring may be fundamental to supporting the competitive advantage and longevity of family firms (Sharma and Manikutty 2005). Restructuring decisions include a wide set of activities traditionally divided into three main categories (Bowman et al. 1999; Brauer 2006): organizational restructuring (e.g., change of organizational structure, downsizing of workforce), asset or financial restructuring (e.g., management buyouts, asset sales), and portfolio restructuring (e.g., divestitures, mergers, and acquisitions). All these activities may lead to a wide set of advantages for the firm. More specifically, organizational restructuring may produce greater employee satisfaction, enhanced efficiency, and better communication; financial restructuring may generate a greater emphasis on cash flows and changes in managerial incentives; portfolio restructuring may lead to increased business focus, economies of scope, and better control of multiple business units. However, either directly or indirectly, restructuring decisions imply a reduction of the firm's operations or the abandonment of prior courses of action and, for this reason, are generally seen by firms as less attractive and costly.

In our view, restructuring decisions may be especially challenging in family firms due to the key role of FCNE goals in the decision-making process. The presence of FCNE goals—such as authority, identity, reputation, and dynasty—is crucial to both distinguish family firms from their nonfamily counterparts and to explain heterogeneous behaviors across family firms (Chrisman et al. 2012; Kammerlander and Ganter 2015). Because of the strong ties between the family and the business and the desire of the enterprising family to safeguard the identity of both entities, family firms' behaviors are substantially shaped by noneconomic goals (Zellweger and Nason 2008; Zellweger et al. 2013). Family decision-makers thus have an additional reference point in making their decisions, which is the attainment of a distinctive set of goals with the ultimate aim of preserving what has been labeled "socio-emotional wealth" (SEW)—that is, the affective endowment a family derives from its controlling position (Gomez-Mejía et al. 2007; Gomez-Mejia et al. 2011; Chua et al. 2015; Schulze and Kellermanns 2015). In other words, family members are committed to managing their business to primarily preserve or increase SEW instead of simply maximizing financial returns.

In the context of restructuring decisions, this idea has been recently explored by Feldman et al. (2016) in their study on divestitures in family firms: expanding upon the contribution of Sharma and Manikutty (2005), these scholars suggest that noneconomic goals influence the proclivity to divest and the rela-

tionship between divestitures and firm value. Through divestitures, firms can reorganize resources within their corporate portfolio and dismiss obsolete or misaligned business units. Despite these advantages, maintaining rather than divesting business units in family firms represents a means to retain family-related identity, culture, or traditional practices such as generating job opportunities for future generations and consequently bequeathing the family business as a dynastic perpetuation (Feldman et al. 2016).

Analogous logic is used by Block (2010) to demonstrate, in a sample of large publicly traded US firms, that family managers are unlikely to engage in short-term, cost-saving workforce reduction. Among other reasons, cuts to the workforce would conflict with the noneconomic desire to pass the firm to the next generation with all its wealth, including employees' knowledge. Similarly, Stavrou et al. (2007, p. 150) propose that family ownership is negatively associated with workforce downsizing because family owners "treat employees more like family and go to greater lengths than nonfamily firms to cater to employee needs". They also argue that the long-term orientation of family business reduces the proclivity to give up human capital for short-term cost-saving considerations.

Another explanation for family firms' aversion to restructuring activities may be related to the distinctive propensity of controlling families to support their troubled companies with temporary financial help, which enables family firms to pursue investments and not to downsize the workforce during an economic downturn (Minichilli et al. 2015; Villalonga and Amit 2010).

Applying the lens of FCNE goals (Chrisman et al. 2012; Gomez-Mejia et al. 2011; Zellweger and Nason 2008), when facing an economic downturn, family members may be reluctant—ceteris paribus—to engage in restructuring due to their noneconomic priorities and concerns. In other words, family decision-makers may consider restructuring as a potential threat for the long-term trajectory of the family business and as a deviance from its conservative pathway, thereby perceiving this choice to be in conflict with their FCNE set of goals.

Disentangling the Ability from the Willingness to Pursue FCNE Goals

A recent stream of studies has introduced the idea that particularistic behaviors are determined by a combination of ability and willingness to pursue FCNE goals (Chrisman et al. 2015; De Massis et al. 2014). *Ability* is defined as the enterprising family's discretion to direct, allocate, add, or dispose of a firm's resources (De Massis et al. 2014). Through involvement in ownership, management, and governance, the family has the legitimacy, power, and therefore

the ability to pursue FCNE goals. However, the ability stemming from family involvement is a necessary condition to pursue FCNE goals but is individually insufficient, that is, the family will not develop particularistic behaviors unless it is willing to act in that direction. In other words, FCNE goals and SEW preservation behaviors will be pursued by family members only if they possess both the ability and the willingness to act in that direction.

Willingness is made up of attitudes, intentions, and motivations pushing the involved family members to shape the firm's behavior in directions that are different from those adopted by firms without family involvement (Chrisman et al. 2015; De Massis et al. 2014). De Massis et al. (2014) described the willingness in terms of family commitment to the business or intention toward transgenerational succession. Another useful classification of variables expressing the willingness to pursue FCNE is provided by Berrone, Cruz and Gomez-Mejia (2012). In an attempt to introduce a multidimensional concept of SEW, they pinpoint four dimensions that can be useful for defining willingness variables. Along with family control and influence, which is a fifth dimension related to the ability, the dimensions are family members' identification with the firm, importance of binding social ties, emotional attachment of family members to the business, and intention of renewal of family bonds to the firm through dynastic succession.

Surprisingly, much of the aforementioned concepts have been repeatedly used by prior studies to theoretically justify the relationship between family involvement and different types of restructuring decisions without properly distinguishing between what gives family members the ability to act idiosyncratically and what drives the willingness to do that.

Specifically, all of the variables referred to different types of family involvement taken into consideration by prior studies on restructuring decisions in family firms (e.g., Block 2010; Feldman et al. 2016) generally express the ability of the enterprising family to behave idiosyncratically—that is, avoiding restructuring—and overlook the willingness. Hence, there is a need to further investigate the sources of family firms' willingness and how they integrate ability-related arguments in determining ultimate firm's behavior. We thus suggest that the ability and willingness approach can result in a more complete investigation on restructuring decisions in family firms: the ability to avoid restructuring should be coupled with the actual willingness to behave in that way.

Thus, we argue the following:

Proposition 1: The combination of the ability and the willingness to pursue FCNE goals affects restructuring in family firms so that when both ability and willingness are high, the likelihood of restructuring is low.

Keeping on Fertilizing: FCNE Goals and Escalation of Commitment

The above argumentation proposes that family firms, compared to nonfamily firms, are less likely to engage in restructuring activities due to the considerable role of FCNE goals. Moreover, it suggests that such behavior is driven by the combination of the ability and the willingness to pursue FCNE goals. Extending the above argument, we propose that, given current or prospective business troubles, the combination of ability and willingness to pursue FCNE not only reduces the likelihood of restructuring but may also increase the potential for escalation of commitment behaviors.

Escalation of commitment refers to situations in which decision-makers become stuck in troubled courses of action (Sleesman et al. 2012; Staw 1976; Staw and Hoang 1995). The prevailing underlying logic of such escalation situations—called the sunk cost effects—is that people decide to keep on working on failing projects in which costs have already been incurred, throwing "good money after bad" due to an unwillingness to admit that the prior allocation of resources was in vain (Brockner 1992; Garland 1990).

Research on this topic has recognized the noneconomic root of escalation of commitment, which goes beyond miscalculation arguments and implies self-justification and behavioral commitment explanation (Staw and Hoang 1995). Along these lines, the topic has recently begun to attract the attention of family business scholars (Woods et al. 2012; Chirico et al. 2017). Family decision-makers appear naturally inclined toward escalating commitment toward troubled course of actions due to FCNE goals, such as their strong sense of identity and overlap with the organization.

The central idea of the escalation of commitment is that sunk costs are losses that must be accepted and individuals are not disposed to withdraw from a course of action because they are not keen to accept those losses (Staw and Hoang 1995). Prior research on family firms widely shows how family decision-makers are driven by loss aversion (Wiseman and Gomez-Mejia 1998). Family decision-makers are found to be reluctant to undertake decisions that could somehow provoke SEW losses, despite their positive effect on performance or business risk reduction (e.g., Gomez-Mejia et al. 2010; Leitterstorf and Rau 2014; Patel and Chrisman 2014; Strike et al. 2015). We suggest that sunk costs do not necessarily generate SEW losses for the enterprising family because they could be perceived as financial losses only. However, accepting those losses implies the idea of denying a certain course of action, and, we claim, it is just this denial that may conflict with FCNE

and be perceived as a threat for SEW preservation. Therefore, the ability, along with the willingness to pursue FCNE goals, may trigger an escalation of commitment behaviors.

More precisely, one of the pillars of escalation of commitment studies is that individuals responsible for a failing course of action do invest further compared to those not responsible for prior losses (Staw 1976). Family members are especially committed and emotionally attached to the family business (Berrone et al. 2012). As the loss of the firm represents a highly emotional event for family owners (Sharma and Manikutty 2005; Shepherd 2009, 2016), the idea to abandon a course of action may have strong emotional content in family firms regardless of economic considerations. It can be especially visible in the context of divestiture, where rationale is to remove obsolete or misaligned business units (Capron et al. 2001). Due to the strong intermeshed relationship between the family and the business, business units are developed and nurtured with an especially long-lasting perspective in family firms. Like parents often do with a troubled son, family decision-makers may be willing to continue investing in a losing course of action, moved by the hope that the situation will be quickly resolved, or simply because their emotional entrenchment impedes them from objectively seeing the actual negative scenario. This path dependency may be especially strong when family members attach additional emotional value to prior actions, such as in the case of a business created by prior generations (Chirico et al. 2017; Miller et al. 2003).

Furthermore, Miller et al. (2010) suggested that family owners tend to be path-dependent not only because they are reluctant to change the status quo and divert the family business from a continuous and long-term strategic path but also for social reasons related to the preservation of cohesive relationships with stakeholders. Indeed, the strong interlink between the family identity and the firm identity makes family owners especially sensitive to building a favorable corporate reputation and enjoying positive relationships with non-family stakeholders (Zellweger et al. 2013). When a SEW reward is generated by socially responsible behaviors (Berrone et al. 2010; Miller and Le Breton-Miller 2014), instead of downsizing the workforce and gaining short-term cost reduction advantages, family firms may escalate the commitment to human resources and keep investing in the company's workforce.

Therefore, we suggest:

Proposition 2: The combination of the ability and the willingness to pursue FCNE affects the escalation of commitment in family firms so that when both ability and willingness are high, the likelihood of escalation of commitment is high.

Terrains Are Not All the Same: Restructuring, Escalation of Commitment, and Heterogeneity of Family Firms

The logic that we applied to develop our arguments builds on family firms' distinctive goals compared to nonfamily firms (i.e., FCNE goals) and considers sources of family firms' distinctive behaviors (ability and willingness to pursue FCNE goals) with respect to restructuring aversion and escalation of commitment. In this last section, we expand our conceptual investigation by considering how these attitudes change moving across contexts and across the spectrum of family firms' heterogeneity. On the one hand, the literature has emphasized the heterogeneous nature of family firms and the importance of recognizing this for the theoretical advancement of the family business field (Chrisman et al. 2007). On the other hand, the sources of family firm heterogeneity may deploy their effect as sources of distinctive behavioral propensities, such as willingness and ability (Chrisman et al. 2016). Specifically, we propose that these dimensions act as antecedents of the willingness to pursue FCNE, which—jointly with the ability to act in that way—determines firms' behavior.

Family Firms in Foreign Contexts

First, it is important to understand the role of context in influencing how family firms react to a troubled course of action. Indeed, the importance of family firms in developed and emerging markets as well as among top multinational enterprises is progressively growing (Birley 2001; Carr and Bateman 2009). Accordingly, the international behavior of family businesses is receiving increasing attention by scholars and is developing into a significant research area (Pukall and Calabrò 2014).

More precisely, to highlight whether and how restructuring aversion and escalation of commitment is affected by having an international scope (i.e., operating in a foreign context), we suggest that the geographical context shapes the willingness to pursue FCNE goals. Specifically, we focus on the extended dimension of SEW (Miller and Le Breton-Miller 2014) as an important driver of the willingness to pursue FCNE goals to shed light on how it can vary in a foreign country compared to a domestic context, indirectly affecting the particularistic behaviors under investigation. Miller and Le Breton-Miller (2014) recently proposed two different types of noneconomic

utilities stemming from a controlling position of the family: affective and social. In this idea, they introduced the distinction between *restricted* and *extended* SEW. Whereas the first category includes family focused priorities, the second category instead encompasses benefits based on family preferences but that go beyond the family. These benefits are related to a social dimension of the family firm: family owners can derive a socioemotional reward from the firm's social status in the community where the company grew and positive relationships with all its stakeholders.

For family firms, the relationship with the community is especially relevant. Binding social ties is one of the FIBER (i.e. Family control and influence, Identification of familymembers with the firm, Binding social ties, Emotional attachment of family members, and Renewal of family bonds tothe firm through dynastic succession) dimensions identified by Berrone et al. (2012) as key issues for the SEW preservation. "Family businesses tend to show more concern for their local communities than do firms whose managers may have little or no connection to local issue concerns" (Bingham et al. 2011, p. 569). Due to the inextricably intermeshing between the family and the firm (Berrone et al. 2010), family businesses are known to pay significant attention to diffusing a positive family image and reputation (Westhead et al. 2001; Sharma and Manikutty 2005). The social status stemming from a positive relationship with stakeholders, particularly with the local community, is a source of both performance benefits (Memili et al. 2010) and noneconomic rewards (Berrone et al. 2010). In this line, Miller et al. (2008) have noted that family firms, differently from nonfamily firms, carefully nurture the community of employees and strive for closer connections with stakeholders as a way to sustain the business.

Nevertheless, we argue that it is controversial whether family firms replicate this attitude toward local stakeholders moving from the domestic to a foreign context. Prior studies suggest that the nurturing of these relationships abroad may be especially demanding for a family business, since local actors are culturally different and geographically distant (Kontinen and Ojala 2010). For example, with respect to networking, family SMEs are believed to be less likely to engage in networking with other businesses compared to nonfamily SMEs (Thomas and Graves 2005). With respect to strategic partnership, Tsang (2001) found that a long period of time was required to build a trusting relationship with a nonfamily member involved in business operations.

Moreover, family owners usually live near the local domestic community and become well-known to individuals in that context. They are likely to also perceive institutional pressures from a personal point of view (Berrone et al. 2010), resulting in discouragement from behaviors that could be disapproved of by the community and therefore could reduce their SEW. In contrast, the

family firm, its tradition, and its family system are mostly unknown in a foreign country, especially if it is culturally and geographically distant. Accordingly, we suggest that family firms might be less inclined to gain social legitimacy from local stakeholders and less sensitive to social pressures in a foreign country.

In other words, our argument is that the *extended* dimension of SEW (Miller and Le Breton-Miller 2014), an important aspect of the willingness to pursue FCNE goals, plays a weaker role in a foreign country. Because of the reduced willingness to pursue FCNE goals, we expect that the likelihood of restructuring as well as escalation of commitment will vary accordingly. The social concerns related to the generation and preservation of trustful relationships with stakeholders as well as the strong focus on corporate reputation and social legitimacy have been considered key drivers of the negative relationship with restructuring and the positive relationship with escalation of commitment (e.g., Miller et al. 2010; Stavrou et al. 2007). However, they may not be salient when the family firm operates in a foreign context. For example, when divestitures of obsolete/misaligned assets or a workforce downsizing pertain to a foreign subsidiary that is formally and substantially separated from the headquarters in the domestic context, short-term advantages related to restructuring activities might be unexpectedly welcome by family members.

In summary, we propose:

Proposition 3: The geographical context influences the willingness to pursue FCNE goals: family members are more willing to pursue FCNE goals in the domestic context and less willing to pursue FCNE goals in foreign contexts.

Generational Stages of Enterprising Family

Second, family firms are known to develop and change over time as a consequence of the structural and functional evolution of the enterprising family (Hoy 2006). Such dynamics are a source of behavioral heterogeneity and distinctive preferences among family firms. For this reason, developmental patterns have been indicated as responsible for much of the diversity of family firms as opposed to nonfamily firms, as well as among family firms (Gagné et al. 2014).

The family business developmental model (Gersick et al. 1997) describes the family business system as the complex interaction of three developmental components: the family, the business, and the ownership structure. Each follows somewhat regular developmental patterns that coevolve, interact, and jointly determine the ultimate developmental pattern of the firm (Hoy 2006).

Recent implementations of the model have offered theoretical advancement in the field of entrepreneurship in family firms (Minola et al. 2016; Brumana et al. 2017; Pongelli et al. 2016). In particular, among the three axes, the development of the enterprising family (i.e., the "intergenerational social group organized and governed by social norms regarding descent and affinity, reproduction, and the nurturant socialization of the young", cf. White 1991: 7) can be seen as an important predictor of family firm willingness to pursue FCNE goals. In fact, the change of the family structure (with aging parents, increasing number of children, subsequent involvement of children in the enterprising family with in-laws and siblings, and final passage of the "baton" with seniors retiring from the business) is supposed to change family-centered norms and preferences (Rodgers 1964). These translate into firm behavior, ceteris paribus (Minola et al. 2016), because firm performance helps or prevents family members from nurturing, managing, and growing the family; with family members cognizant of this, strategic changes and entrepreneurial behaviors will be guided by major family-related concerns and expected behaviors. Whether such concerns appear to be "family first" or "business first" (Paul et al. 2003) as a means to sustain the family depends on the developmental stage of the enterprising family.

At an early family stage, parents are concentrated on their growing family, attempt to develop a workable marriage enterprise, and balance a family-work interface. The transition to parenthood puts high pressure on the norm of "nurturing the family" in terms of physical maintenance, reproduction, and socialization of new members (Mattessich and Hill 1987). At this stage, family-related concerns are high on the family members' agenda, hence the willingness to pursue FCNE goals. When the family evolves, children grow and seek higher autonomy, aiming to design their own career path (inside or outside the family firm), and parents look for marital relationship readjustment (McCubbin Joy et al. 1980). The problems of working together begin emerging, and the growth orientation of the firm, especially through professionalization and new members' entrance into the business (be they siblings, in-laws, and outsiders), tends to weaken family-centered concerns. The "business first" climate therefore prevails and reduces the willingness to focus on FCNE goals. At a later stage of the family development, the family is large, structured in branches that seek their own role and engage in possible cross-branch and intergenerational conflicts. New leaders (have to) emerge, but at the same time, the family members aim to derive the highest possible utility from belonging to the enterprising family and preserving their socioemotional endowment. "Family first" considerations tend to prevail, and family mem-

bers see identity, reputation, and family unity as high on their agenda (Gersick et al. 1997). The willingness to pursue FCNE will hence be high at this stage.

Although it might be argued that abilities also vary in a family firm over time, it can be argued that—as long as the evolution of the family as a social institution is observed—the normative, motivational, and attitudinal development is the first and direct consequence of the enterprising family development; change in the ability might be, in this case, a logical strategic consequence of this; therefore, we limit our arguments to directly relate developmental patterns to the willingness to pursue FCNE. Drawing on these arguments, we hold the following:

Proposition 4: The generational stage of the enterprising family influences the willingness to pursue FCNE goals: family members are more willing to pursue FCNE goals at initial and final stages of family development and less willing in the middle stages.

Family Involvement in Business

Third and last, scholars have long built on the idea that family involvement determines firms' strategic behavior (Sharma and Manikutty 2005), organizational processes (Chrisman et al. 2008), and firm performance (Memili et al. 2015). Recently, however, the "sufficiency condition argument" (De Massis et al. 2014) has highlighted that to drive distinctive behavior, a family exerts its influence through behavioral propensities, such as the willingness and ability to pursue FCNE goals (Chrisman et al. 2012). In particular, Chrisman et al. (2016) suggest a logical chain that sequentially relates family involvement to behavioral propensities and, in turn, strategic driver and management processes. Additionally, and most relevant here, they indicate that ability as discretion flows directly from family involvement, while willingness is not necessarily a function of the level of family involvement; this suggests considering family involvement to be a direct antecedent of family members' ability to pursue FCNE. In fact, in line with Klein et al. (2005), it can be assumed that power (through ownership, management, and governance), experience (number of generations involved), and culture (through values and commitment) determine the nature of family involvement by influencing family members' discretion or power to allocate and dispose of firm's resources. The greater the family influence is, the greater their ability to pursue FCNE goals (Chrisman et al. 2012). Hence, we suggest the following:

Proposition 5: Family involvement influences the ability to pursue FCNE goals: at a higher level of family involvement in ownership, governance, and management, family members are more able to pursue FCNE goals.

Discussion

Strategy is fundamentally concerned with how a firm creates value as a whole beyond the value that each individual business unit is able to create alone. In this respect, to capture the positioning of a firm, it becomes crucial to understand and monitor its boundaries over time. Such activities as mergers and acquisitions or diversification assume strategic content of which managers and owners are well aware. Additionally, the reduction of firm scope—for example, by removing obsolete or non-fitting business units—can be strategically valuable, encompassing both costs and benefits (Feldman et al. 2016). The balance between them can be different in family firms as opposed to nonfamily firms since they will display differences in both costs and benefits (Feldman et al. 2016; Stavrou et al. 2007). The literature tends to converge on the fact that family firms divest businesses less frequently than their counterparts.

However, not all family firms are alike; in particular, they have been found to vary in their divestment and restructuring inertia, for example, because of family and external contingencies (Sharma and Manikutty 2005). Unfortunately, this issue has not received significant scholarly attention, generating a severe gap in the understanding of whether and why family firms show different restructuring attitudes.

The present work sheds light on two focal strategic behaviors: restructuring and escalation of commitment. Our model captures family firms' distinctiveness by taking advantage of the joint effect of willingness and ability to pursue FCNE as a *sufficiency condition* for their engagement in particularistic behavior (Chrisman et al. 2012, 2015; De Massis et al. 2014). Our contribution to the existing research is twofold. First, we substantiate the importance of looking at differences across family firms by providing nuanced descriptions of how willingness and ability vary in family firms. Our work suggests how—to the extent that these noneconomic goals permeate the firm (e.g., through ownership and governance)—the ability and willingness to pursue such goals will ultimately and effectively influence the strategic behavior of the firm. Specifically, we illustrate two strategic behaviors of family firms that usually arise in a downturn and show how they are related to the sources of behavioral

distinctiveness (Chrisman et al. 2016). Second, we add to the ability and willingness approach by taking a step further in understanding the group of antecedents that shape willingness. Indeed, our work theoretically pinpoints two firm-level antecedents, describing how willingness varies according to the geographical context and the generational stage.

Our study also provides interesting insights for family business owners and managers. We suggest that they carefully consider the emphasis they place on FCNE goals because these goals can blindly drive the family firm's behavior, hampering restructuring activities as well as leading to an escalation of commitment, with negative consequences for firm performance. Nevertheless, our argumentation on the role of the geographical context also indicates that family firms could benefit from operating in foreign contexts. In foreign contexts, the willingness to pursue FCNE goals is supposed to play a weaker role compared to the case of a domestic context, with the consequence that the decision to engage in restructuring activities is supposed to be less shaped by noneconomic and family-related logics and more influenced by performance drivers. Similarly, operating in foreign countries could indirectly prevent the family firm from unfruitful escalation of commitment behaviors.

Future research could empirically expand our contribution by employing longitudinal data to test and validate our model; in particular, mediation or structural modeling could be advantageous in this respect. Moreover, multi-level contingencies, especially those affecting the relationship between willingness/ability and restructuring, could be further explored: a moderation analysis may reveal significant effects of family-level, firm-level, and context-level variables. Nevertheless, qualitative work could also be helpful in exploring the hardly measurable mechanisms in detail, through which willingness/ability emerges, and how they result from the interaction of voices of different actors within the firm. We also encourage future studies to further theoretically investigate the contingencies that influence the willingness to pursue FCNE goals. The geographical context and the generational stage are only two of the wide array of firm-level predicting factors. We suggest that the scholarly debate on this topic could benefit from digging, both theoretically and empirically, into each dimension of the FIBER model (Berrone et al. 2012). In fact, whereas the first dimension, "family control and influence", has been widely related to the ability, it is still not clear how and to what extent the other four dimensions account for the overall level of willingness. Finally, in our view, an interesting avenue of research is represented by a deeper investigation of the escalation of commitment in family firms and especially its outcomes. While this work focuses on the antecedents of this

behavior and adopts the widely accepted assumption that it can jeopardize the firm performance, for example, “throwing good money after bad”, we suggest that the escalation of commitment could also assume a different nuance in family firms. We strongly encourage the development of studies coupling this topic with some family firm’s distinctive aspects (e.g., resilience and patient capital) to explore whether and how the escalation of commitment could represent an advantage rather than a drawback.

Conclusions

Prior research on restructuring in family firms indicated that family members who face a troubled course of action tend to avoid short-term and cost-oriented solutions as a way to resist the negative scenario and go against the tide. However, to grasp this phenomenon, most prior studies relied on variables and measures related to family involvement only. Building on the ability and willingness approach (Chrisman et al. 2015; De Massis et al. 2014), we suggest that family involvement is a fundamental but individually insufficient element to fully explain restructuring in family firms. In fact, to better understand this phenomenon, a key issue is to distinguish between the ability to pursue FCNE goals and the willingness to act in that direction: only a combination of these two factors turns a potential aversion toward restructuring into an actual particularistic behavior. Next, we explain how the family’s willingness and ability to pursue FCNE goals also lead to an escalation of commitment as a family firm’s reaction to a troubled course of action. Finally, in an attempt to clarify which factors determine willingness, we introduce the role of the geographical context and the generational stage.

By deepening the aspects of family firms’ strategic behavior that has been marginally investigated to date and by linking it to the behavioral propensities that make such firms distinctive, we believe that we have offered a novel and nuanced contribution to family business literature and a starting point for future research endeavors.

Acknowledgments The authors kindly acknowledge the comments and suggestions they received at the “Theories of Family Enterprise” 2016 conference and the support of the “Excellence Initiative” Program—University of Bergamo.

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19

Family Values: Influencers in the Development of Financial and Non-financial Dynamics in Family Firms

Claire Seaman, Richard Bent, and Mauricio Silva

Introduction

Family values are a sometimes contentious topic, even within families themselves, and diverse views are often linked to concepts of tradition and behavioural expectations. In this chapter, we have chosen to pull together the opinions and contextualise them as being defined here as principles or standards of behaviour (Oxford English Dictionary 2016). Where the family runs a business, family values take on much clearer dimensions and indeed have developed into an area of some considerable study, focussed around the manner in which the values of the family influence business behaviour. Indeed, a recent report by PWC (2017) highlighted the common perception that the two defining, and distinguishing, characteristics of a family business are stewardship and heritage, often associated with a sense of duty towards the business. By managing the business assets and heritage, it is argued, values that may underpin business sustainability are distributed inter-generationally.

In parallel with this, family businesses are important, forming a cornerstone of economies in most developed countries and contributing socially and economically across countries, continents, and geo-political divides in terms

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E. Memili, C. Dibrell (eds.), *The Palgrave Handbook of Heterogeneity among Family Firms*,
https://doi.org/10.1007/978-3-319-77676-7_19

of innovation, job creation, and economic cohesion (Poutziouris 2006; Kets de Vries et al. 2007: xiii; IFB 2008; Seaman et al. 2015, 2016). This consensus has been achieved despite the acknowledged lack of clear definitional clarity around family business; indeed Sharma et al. (1997) and Chua et al. (1999) identified 34 operating definitions of a family business in the extant literature (Getz et al. 2004), and there is little reason to suppose that this number has diminished (Sharma 2004; Collins and O'Regan 2011). Different authors within the definitional debate do, however, share some common concepts and themes. Most agree that a business is an organisation that is profit making *at least in intent* (Alcorn 1982; Getz et al. 2004; Seaman et al. 2016). Similarly, most agree that in a family business one family has a predominant level of ownership and may also work within the business (Getz et al. 2004; Seaman et al. 2016) and that the presence of the family within the business influences that business to a greater or lesser extent (Seaman et al. 2015). Whilst a related debate has developed around levels of family engagement (Astrachan et al. 2004) and extended to include concepts as familiness and familiarity, this chapter focusses less on the definitional debates and takes as a starting point the conclusion by Phan and Butler (2011) that where one family has a predominant level of control within a business, the values of that family contribute to common understandings of acceptable behaviour and integrity within the business. It is important to note here that there is no assumption within the literature or indeed this chapter that the family values will always exert a positive influence; rather, the precept here is that close family members are likely to share some common values and that where they run a business the presence of shared values may influence the decision-making process. Whether that influence represents a positive or negative influence on, for example, business integrity is a separate question that this chapter does not seek to address and indeed empirical research in this area is sparse. Whilst further empirical research would be valuable, the methodological challenges involved in overcoming self-reporting bias in the description of personal values and indeed the links between self-reported goals and needs (Schwartz et al. 1997) are likely to extend to self-reporting of family values and complicate potential research in this field.

Finally, we bring together within this chapter a third and substantive area of academic study that considers how financial decisions are made. Financial decision-making by individuals and indeed groups has been frequently examined through the orthodoxy of standard financial models constrained by assumptions of rationality. Although the reality of family behaviour is difficult to square off with theoretical models, the financial requirements of family businesses (like any other small- or medium-sized firm) require them to adapt to the expectations of financial services institutions.

This chapter contributes to the discussion on how the decision-making process of small family businesses differs from that of financial institutions. This is of growing importance since small family businesses tend to have limited access to banks and short-term sources of funding and are particularly vulnerable to solvency risks. The research proposes a conceptual framework to allow for further development of risk assessment models to help financial institutions to make decisions on credit and services to small family businesses.

Family, Family Values, Financial, and Non-financial Dynamics

Definitions of family vary and the historical context is an important area that presents some challenges for researchers. Social historians, anthropologists, and psychologists have described a wide variety of forms and norms for that entity described as 'family', over a wide variety of historical time periods and social settings (Bloch and Harrari 1996; Seaman et al. 2015). Indeed, the word family is derived from the Latin 'familia' meaning 'household servants, family' and closely linked to famulus (servant). In more recent times, there is some evidence that the word 'family' was used to mean a group of slaves (Coontz 1993), but more recent commentary has reached general agreement that a family is:

> a group of individuals linked by blood, living arrangements, marriage or civil partnership who consider themselves to be family, who often choose to spend time together and may live together. (Adapted from: Family: Business Dictionary 2016)

Whilst the historical perspective is interesting, there are also a variety of different contexts where the word family is used in the twenty-first century, including the familial analogy in business (Seaman et al. 2014) and indeed varying social structures in countries where religion or tribal affiliation form a core societal unit. This definitional debate is critical, however, because it provides a backdrop to the understanding that family norms and values can only be fairly considered in the context of the time and place in which they are formulated (Bloch and Harrari 1996) and lends weight to ongoing discussion in the family business literature about the importance of context in family (Seaman et al. 2015). Family values, in turn, are defined here as:

> the principles and standards of behaviour, one's judgement of what is important in life. (Oxford English Dictionary 2016)

The importance of family firms and the impact of family values on decision-making are important in a general sense. This chapter focusses on financial decision-making as it relates to family dynamics and considers the complexity of the small firm context.

The Case of Financial Decision-Making in Family Businesses

'Standard' Financial Decision-Making

There are an almost infinite number of financial decisions made every day by governments, firms, households, and individuals.[1] In the UK, when it comes to individuals and households, most of these decisions are concerned with the consumption of goods and services to satisfy basic needs, the payments of bills and invoices, and occasionally major investments that require financing or selling major assets (ONS 2017). Governments and firms on the other hand focus on working capital, managing financial risks, long-term investments, profitability and sustainability, and maintaining a healthy balance sheet amongst others, all of which require the use the techniques and processes generally accepted by all participants in financial markets (Brennan and Solomon 2008). Family businesses, in particular those that are under management and control of their founders, by definition will be more likely to be constantly straddling both household and business considerations when making financial decisions (Haynes et al. 1999).

The issue is of course that these financial decisions are not made following the same rationale, methodologies, and techniques, or even considering the same type of assumptions and/or variables (Koropp et al. 2013; Steijvers and Voordeckers 2009). For the purpose of simplicity, the discussion could be limited to two types of economic actors: firms and households. From an institutional perspective (the financial intermediaries and institutions whose ultimately set the price of assets and liabilities in financial markets), firms are assumed to be economic actors who behave rationally: this means that all their decisions can potentially be modelled within the confines of a theoretical framework that permits evaluating future risks and forecasting net returns to investment (Barton and Gordon 1987; Modigliani and Miller 1963).

[1] According to the Bank for International Settlements, in the reporting countries alone, there were approximately 374,780 million payment transactions by non-banks in 2015. Bank for International Settlements, CPMI-Red Book Statistical update, December 2016, pp. 445–547.

The 'rationality' of this type of firms is embedded in financial models through a framework of economic theory and determined by standardised assumptions on behaviour (Blume and Easley 2008). These models enable financial institutions to make assessments of the decisions made by firms against the expected behaviour implied by the assumptions or, in some cases, offer alternatives or expand on the assumptions if needed. The outcome of financial decisions is difficult to predict as the markets for goods and services are changing constantly along the conditions under which they operate. Therefore, in order to forecast the financial impact of management decisions, the development of models requires limiting the number of variables through assumptions about behaviour (Bauer and Hammerschmidt 2005; Thomas 2000). This reductionist approach allows participants to simplify the appraisal of potential financial impact and make long-term commitments that are essential to economic growth and stability by basing decisions upon expected rather than observed assumptions on behaviour (Fig. 19.1).

In financial markets the relationship between the assumptions used in decision models and the expectation of market participants is symbiotic: if an economic actor behaves in a manner inconsistent with the expected assumptions, the markets will react in such a way that the impact of the unforeseen behaviours is eliminated (Berg and Lein 2005). For example, if a firm's management decides to grow by acquiring more debt and this is perceived by the market as 'too risky', then all lenders will increase their cost of funds to the firm and 'communicate' to the market the risk level associated with the firm. If the management of a publicly traded firm makes business decisions that are

Fig. 19.1 Rational decision-making assumptions

incompatible with the market's assessment of the firm's value, the price of its share (and therefore its overall value) will be checked through market operations (buying and selling of shares) in organised exchanges.

In order to be able to operate efficiently, governments and firms need to manage their funds as efficiently as possible, and this requires constant access to financial markets in order to borrow and invest short- and long-term funds (Allen and Santomero 1998). This means they need to stay integrated and follow the rules, that is, behave 'rationally' within the parameters of generally accepted models, whether it is pricing, valuation, or risk assessment. They are idiosyncratically 'rational': their strategies and operations are all designed to work within the confines of an accepted standard economic model (Arrow 1989). This approach is universally accepted and has allowed firms and financial institutions to interact within an agreed framework of concepts and techniques leading to common expectations and understanding about markets, without which the exchange of goods, services, and financial assets would be too onerous and costly (Cabantous and Gond 2011). Firms that operate within the parameters of rational models will therefore follow a series of steps to inform a decision and in turn serve as justification for the funds provider (Fig. 19.2).

In contrast, even after the financial crisis of 2007–2009, small- and medium-sized firms (SMEs) do not have the scale to participate directly in financial markets and need to do so through intermediaries: banks, investment firms, insurance companies, pension and other funds, and sometimes government agencies (de la Torre et al. 2010). Their financial needs are relatively small and too infrequent to justify the costly infrastructure required to have a direct presence in financial markets, but the intermediaries will evaluate their prospects as they are assessed themselves.

As the financial behaviour of SMEs is not shaped by the markets' expectations (like the intermediaries assessing them) when assessed through traditional models, they will be found to have a greater deal of complexity and unpredictability (Ekanem 2010). This is of course only a problem when small- or medium-sized firms need funding or other financial products: their risk will be assessed against a model based on a market-reinforced behavioural assumption, and everything else will be ignored, including the full spectrum of influences driving their financial expectations (Pederzoli et al. 2012), but the conditions under which SMEs operate are clearly different from those of larger firms (Fig. 19.3).

These behavioural assumptions are critical because they will determine whether a small- or medium-sized firm will be able to access funds from financial markets. They are, like traditional financial decision-making models, derived from the standard economic model or SEM. The key assumption of

Fig. 19.2 Financial decision-making cycle

the SEM is the requirement for individuals and firms to be rational decision-makers (Blaug 1978; Stigler 1987). This means that individuals and firms are driven by an individual motive: to maximise utility (individuals) and profit (firms) and are not assumed to consider the impact of their decisions on others. It is also assumed that individuals and firms have access to all the relevant information, the ability to understand and manipulate it, and the prescience to adjust the risk assessment about situations whenever there is new data that may affect their prospects (Bayesian probability operators). The assumptions also include consistency in terms of preferences: if an outcome A is always preferred over an outcome B, and this one in turn is preferred over C, then A will also be better than C. If market participants align their behaviour and expectations to these assumptions, the market itself becomes 'rational', and therefore the models are a closer reflection of reality (Jehle and Reny 2010).

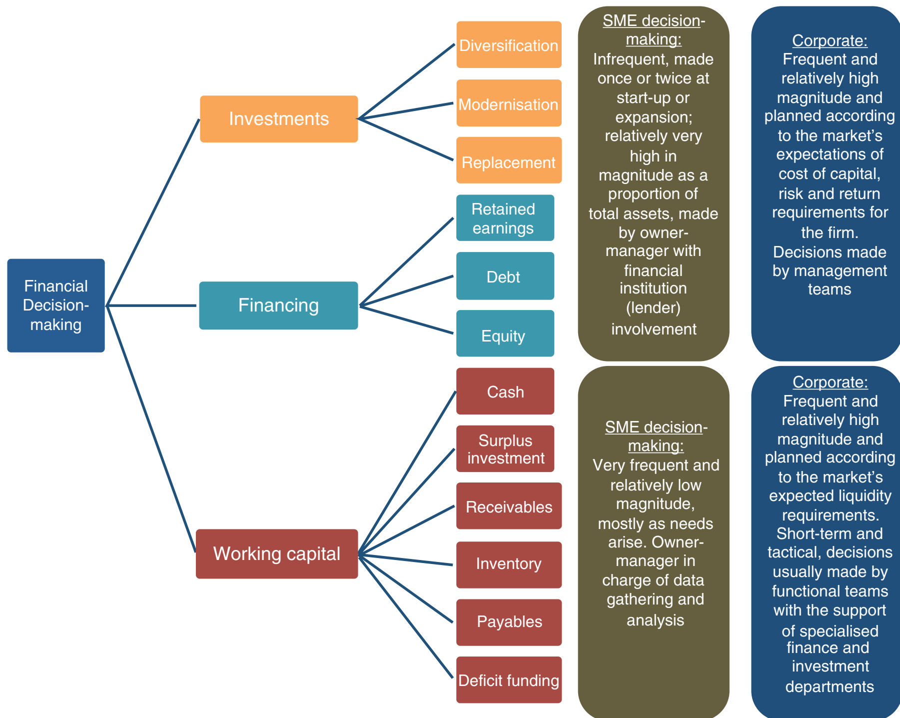

Fig. 19.3 Corporate vs. SME rational financial decision-making

However useful and accepted these models have been as prescriptive and predictive tools, their underlying assumptions are not a true reflection of how the 'real' world behaves (Kahneman and Tversky 1979). A simplified view of economic agents and their interactions require that the way in which they assess risks, their preferences and choices are limited to a manageable number of options, preferably one. This is not necessarily a 'bad' thing to institutional decision-makers who can accept these provisos and manage expectations on model outcomes since they have the necessary expertise and capabilities in data analysis, and deal with others with the same understanding of the requirements, strengths, and weaknesses of the models. Firms with dedicated departments dealing with the complexities of working capital management, long-term funding, investments and risk exposure benefit from this common knowledge that allows them to replicate (however imperfectly) the behaviours in the assumption of financial models.

The use of decision-making models based on SEM assumptions becomes rather problematic for smaller firms that do not operate in such an environment and do not have the necessary resources or capabilities to make an

'objective' analysis of the variables of a financial problem are making the decisions. These small firm owners will only come in contact with major financial institutions when applying for loans for capital investment or when being assessed as potential suppliers by major corporations. Without the pressure of other market participants, regulatory requirements, and separate planning and control systems, it is difficult for family businesses (and any other small firm) to behave as the rational decision-makers assumed by financial models. Studies on family businesses have found alternative goals that are usually not considered by traditional financial analysis, including but not limited to social and personal long-term achievements (Astrachanm and Jaskiewicz 2008).

In their day-to-day operations, family businesses will not be expected to have access to complete information with regard to the markets for their products and services, the human capital necessary to analyse risk within a timely and cost-effective manner, or a consistent set of strategies for the purchase and management of productive assets. During the process of start-up or when in need of external sources of finance, the need may rise to operate within the realms of rational models, but in daily operations as owner-managers, the majority of decisions they will make are similar to those of households and include money management, daily expenditures, surplus funds, asset maintenance, and short-term contingency planning. These are the type of decisions that do not require extensive planning, agreement of intermediaries nor meet the minimum requirements calculated through financial models. Family businesses are not expected to make decisions frequently in an environment where financial assets and liabilities are exchanged in high volumes for amounts that require them to adjust their behaviour to fit the demands of a model.

Financial Decision-Making in Small Businesses

The financial decisions made by small businesses may be simpler than those of corporations but not with less risk to the firm, and can be broadly classified in terms of their magnitude and frequency (although some are driven by social or cultural needs). With regard to magnitude and frequency, financial decisions in small businesses (and medium-sized businesses to that effect) tend to fall within three types: cash expenditures in relatively small amounts of money (usually not more than 100) on a frequent basis (daily); scheduled payments of weekly, biweekly, monthly, or quarterly current obligations made from the current account and with values in the hundreds or low thousands; and occasional high-value purchases (investments in major assets). The latter are very

infrequent and happen during start-up or expansion phases and usually require financing from a financial institution; therefore family business owner-operators need to follow a standard set of established procedures in order to assess the decision (business plan with financial projections) in order to obtain the funds. The decision-making process is less orthodox when it comes to both daily spending and scheduled payment of obligations, as they are clearly not made according to the assumptions of the standard economic model, highlighting that autonomous decisions of habitual and exceptional items will be dependent on the availability of funds only. Power relations will determine the levels of negotiation required in case there is more than one decision-maker (Fig. 19.4).

The small and frequent transactions (habitual and exceptional purchases) are particularly outside of the scope of the SEM behavioural assumptions since these do not require business owners to have full information on alternatives, the impact of the expenditure on their financial objectives, and to make adjustments to their spending patterns depending on changes in external circumstances. Instead, this type of decision tends to be made through an instinctive almost primal process that follows cognitive scripts (defined here as semi-automatic decisions made routinely) formed through time by the influence of social forces and cultural experiences. The automaticity of these

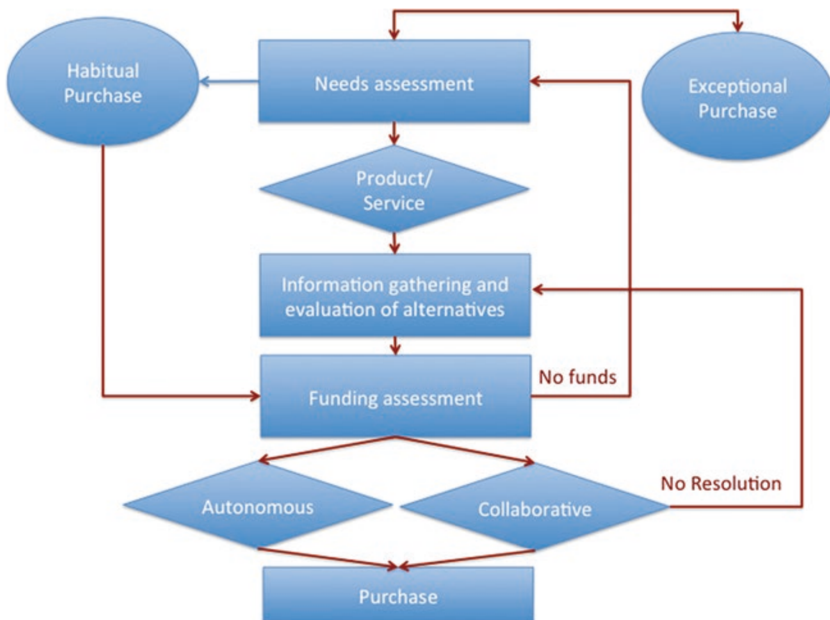

Fig. 19.4 SME financial decision-making process

decisions means that these choices are made with little consultation amongst the owner-managed firm even when its members have equal participation in the control of the business' affairs.

A characteristic of small businesses that clearly does not adapt to the framework of institutional financial decision-making models based on the SEM is the assumption of egoistic or individual utility or profit maximisation. Small businesses must account for actions that may have an impact on 'kin obligations' (employing family members), social standing in the community, long-term human capital goals (children's education), and/or cultural obligations (events, charitable contributions, etc.). These types of expenditures not only affect the income statement and cash flows of the firm but also divert economic resources from immediate investments (a preoccupation of SEM frameworks). These non-economic decisions have a financial impact as their desired outcome may represent some sort of future financial or social remuneration; however this is beyond the realm of traditional financial models. In general, these decisions within small businesses tend to be made with a 'collective mind' and based on a common appraisal of desired economic, social, and cultural outcomes that will have an impact on the owner-manager.

Dispute Resolution

The influence of the standard economic model extends beyond the investment and funding decisions of firms that operate within the parameters of financial markets. Corporate governance and dispute resolution also tend to be confined within its space since any action considered using an alternative methodology or data may be challenged using the generally accepted model. The market will pass judgement on those decisions, and in many cases the risk it will give to unusual transactions will become a foregone conclusion, as economic actors will behave as if the perception was real. Shareholders and boards will also judge the effectiveness of management according to these rules, so the model will become arbiter of their actions, as this is the standard by which they assess their ability. Notably, also, in SMEs the process of conflict resolution goes beyond the presentation of alternative sets of data analysis. Decision-makers will need to resolve differences in their values and priorities, both personal and business related, as well as their expectations of how the decision will affect the benefits or influence in the firm's management. These negotiations are in the middle of two forces: power relations and the desire for harmony. If agreement is reached and the decision is made, there is a second phase of reflection with regard to the outcome and its impact on the dynamics of the relationship (Fig. 19.5).

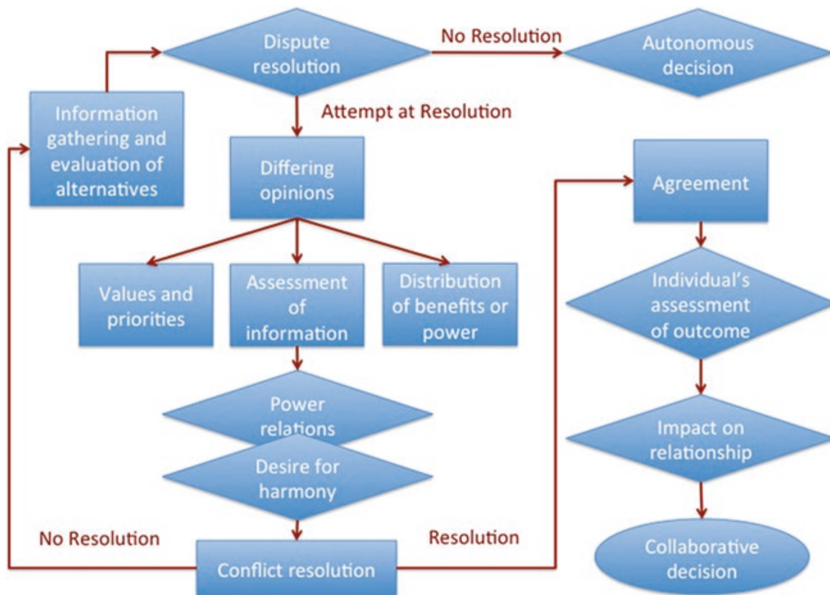

Fig. 19.5 SME decision-making conflict resolution

In small firms there is of course the possibility of differing opinions and conflict on the best course of action, but rather than using a standard model to resolve conflict, any disagreement tends to be related to individual hierarchies of values, subjective assessments of risk and return, and/or the personal aspirations and benefits of each decision-maker. The goals of financial decisions in small businesses tend to be subject to some level of collective agreement; however, these are usually influenced by dominance and the dynamic mutual interactions, in particular when ownership is split and the different parties (partners, spouses, family members) attempt to impose on the others their perceptions of the overall gains (economic, social, or cultural) and risks of any decision. This also applies to reaching agreement amongst members with differing financial capabilities and assigned (or assumed) roles within the firm who may have a different understanding of the potential risks and returns of financial decisions.

Daily Expenditure and Financial Decision-Making in Households

The power dynamics in autonomous decisions of importance and instinctual spending on minor purchases is a characteristic that is found in household financial decision-making. Studies on the decision-making process are useful

in building an understanding of family business dynamics as they can also be classified in terms of their magnitude and frequency, and as in the case of small firms, for the most part, their 'heads' tend to make frequent (daily) and relatively small amount cash decisions determined by their need to satisfy basic needs (food, transportation, health, well-being, etc.), entertainment and social interactions (presents, invitations, etc.), and following culturally prescribed or expected behaviours (charity, contributions, tips, etc.).

As in the previous discussion, their decision-making process is very different from the orthodox normative models that describe a sequence of logical steps under assumptions of rationality. Like small firms, households do not have access (nor seek) to all relevant information or have the capability to evaluate and select the best alternative based on pre-determined economic objectives. On the contrary, households tend to make decisions as the need arises: not in any logical sequence but concurrently and as they appear, without assigning time or resources in proportion to its complexity. Financial decisions in households are not insulated and analysed separately from daily events, and this is probably a key element in understanding its similarities to that of Family Businesses. The key question is whether the latter tend to make their decisions more like households than firms, in which case decision-making models with a behavioural finance set of variables and assumptions would be more suitable.

In order to attempt an answer to this question, it is necessary to identify some of the characteristics of household decision-making by looking and adapting some of the models used to understand their economic behaviour. A conceptual model developed by Kirchler (1989) is a useful starting point as this was used to analyse the structural characteristics of the household in terms of dominance and mutual interactions. The interactions amongst the main decision-makers in the household can be classified within a scale that ranges from altruism to self-interest, with the former leading to 'harmonious' relationships. Financial decisions made when the interactions are driven by altruistic motives tend to result in more optimal outcomes (not necessarily in a financial sense but in terms of their objectives) because the key members of the household will share the information and methods used to analyse it, be equally accountable for the outcome, share responsibility in terms of the effort or resources needed, and make a common effort in order to implement the decision taken.

When the interactions within the household are less 'harmonious', financial decision-makers will approach their choices with a greater degree of self-interest. The process of making decisions and all interactions have elements of 'credit' (an expectation of a similar response in the future), 'barter' (a 'like-for-

like' transaction), and of course 'selfishness', when the objective is to maximise one of the decision-makers' wants or needs. This is when power and dominance come into play: as the relationship moves down the scale from altruism to egoism, the household member who has the greatest influence will be able to manipulate the decision-making process to his/her advantage. The greater the power differences within the household, the more decisions will be limited to views informed by a single set of information, analysis, and objectives. Importantly, too, the nature of the household's relationship will determine whether decisions are made autonomously or in cooperation. When there are unresolved issues in terms of power, values, and/or goals, decisions will be pulled towards the 'egoism' end of the spectrum, and although they could require a cooperative approach, they will be made autonomously by only a single dominant member or sub-group within the household (Fig. 19.6).

As discussed previously in terms of small firms, the financial decisions made by households include disbursements such as cash distribution (allowances), periodic daily spending, as well as allocating money for savings as well as regular payments such as bills and insurance to protect existing assets. In terms of frequency and magnitude, the number of decisions a household makes about cash 'outflows' tend to be substantially larger than those with regard to 'inflows' as the latter relate to income-generating activities that are significant

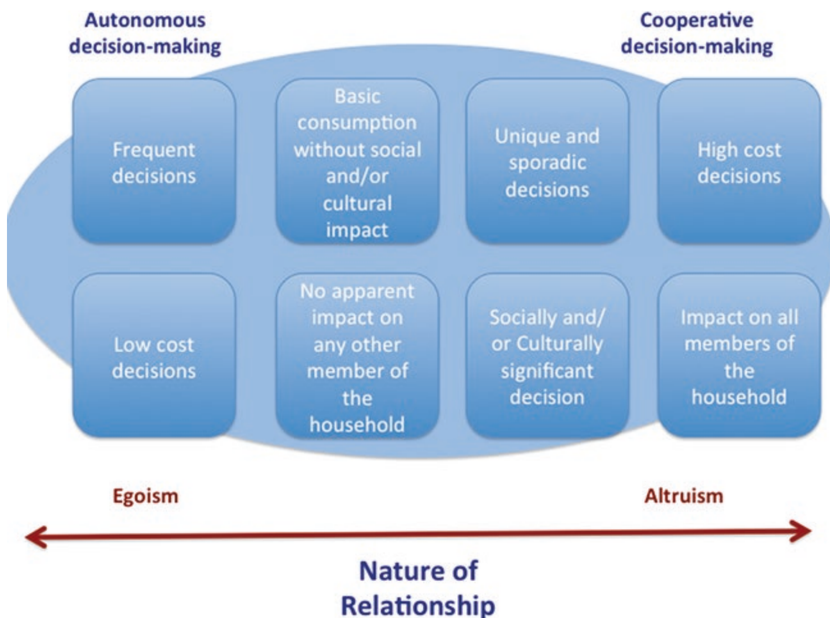

Fig. 19.6 Household decision-making

but largely infrequent. Frequent transactions tend to be of relative low magnitude in relation to the household's income and are usually made almost automatically without much of a decision-making process involved. These financial transactions include paying for services used on a daily basis (public transport, tolls, etc.), purchasing inexpensive products of familiar brands with known quality (newspaper, coffee, etc.), and other types of payments that have become part of a regular routine.

Also as in the case of family businesses, frequent and repetitive decisions do not require any type of evaluation and analysis since their individual impact on the household budget seems insignificant, and they tend not to be thought of in the aggregate. This type of decisions will not be open to discussion with other household members unless at any point they call for a commitment of a significant part of the household's income. As the magnitude of the disbursement increases, there will be a greater requirement for consensus amongst household decision-makers: in addition to its impact on the cash availability, there may be social or cultural repercussions for all household members. The same holds for cash inflows, as changes in employment or income-generating assets may have an impact on the household's economic security.

This is when disagreement may rise given both the power and nature of the interactions and depending on the differences amongst household decision-makers, there may be various types of conflicts. One of these can be the product of fundamental differences in the goals of the partners. There can be also problems related to the assessments of the information, methods, and options involved in the decision-making process. These arise when the household agrees on the value and the importance of an alternative but arrives at different preferences because they have either received different information or evaluated it in different ways. Finally there may be conflicts related to the distribution of profits and/or costs related to a decision. In this case there may be a general agreement on the purpose and the type of decision being made, but not on how to distribute the costs or benefits of the decision.

At this point of the discussion, we bring together household and small firm financial behaviour. These seem to be mostly in terms of frequent decisions that although may not seem to have a major impact on the firm's income, on aggregate they may have serious effects on their cash flow management. This type of decision-making process has been studied through the lens of behavioural finance and offers an insight to how individuals either in the context of a family business or household make financial decisions.

A Conceptual Model of Family Business Decision-Making

The proposed conceptual model is based on the idea that financial decision-making in family businesses will be influenced by rational decision-making models (based on the standard economic model) for significant investments, and a heuristic-based approach characteristic of frequent purchases in small businesses and households with influences such as power struggles, emotions, and relationships. Those decisions that are frequent and of relatively low magnitude tend to be mainly 'non-rational' and their analysis can be carried out within the framework of behavioural economics. This field has identified cognitive processes such as heuristics and biases that provide information processing and analysis shortcuts to quickly provide 'acceptable' answers to financial problems. In the aggregate this simplification process tends to result in systematic errors in high-frequency and low-magnitude transactions, which in the case of family businesses are related to working capital management. The reason why this is important is because all these small and frequent transactions are related to cash flow management and liquidity and solvency problems are main culprits of small business failure. The various factors that differentiate how family businesses approach financial decision-making will have greater influence in the process in smaller firms that do not depend heavily on financial institutions (banks, exchanges, etc.) for loans or investment channels. Although these 'non-rational' forces may influence traditional corporations, these may have a bearing in other aspects of decision-making (Fig. 19.7).

The heuristics analysed in behavioural finance research are simple and efficient rules that have been learned through socialisation or become part of evolutionary processes and behaviours. Research has identified many heuris-

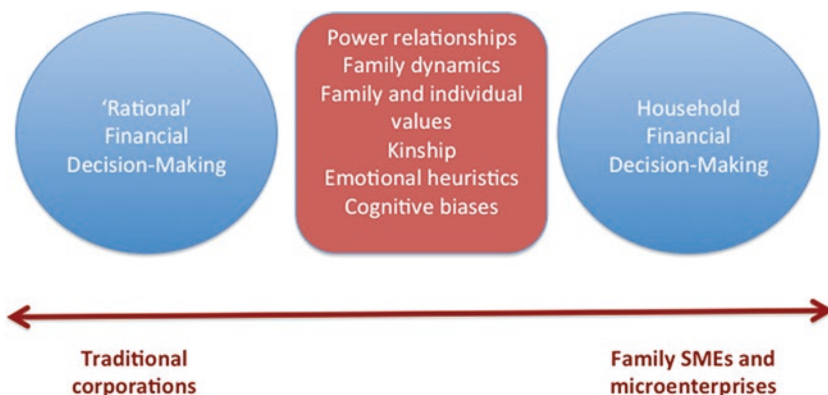

Fig. 19.7 Family business decision-making model

tics and biases in the process of financial decision-making, in particular the formulation of judgements about the risk to the outcome of a decision, and also finding solutions to complex tasks when there is not enough time or resources to find answers. These heuristics and biases are developed individually and communally, through experience and knowledge or acquired through socialisation and evolution, so they work well under most circumstances. However, these automated systems may be used for the wrong task and this can lead to systematic errors or cognitive biases.

It is important to note that the decision-maker is aware that he/she is using a shortcut to find a quick solution to a complex problem. The risk of making a mistake through a loss in accuracy is sometimes outweighed by savings finding the appropriate data and securing the necessary capabilities and resources to analyse it (Payne et al. 1993; Shah and Oppenheimer 2008). The heuristics and biases research carried by Daniel Kahneman, Amos Tversky, and others has generated two main results that are worth considering when trying to understand how family businesses make financial decisions under risk: a list of biases, fallacies, or errors in probabilistic reasoning, and explanations of these biases in terms of cognitive heuristics. Kahneman and Tversky reasoned that when making predictions and judgements under uncertainty, people do not appear to follow probabilistic calculations or predictive statistics, and instead, they rely on a limited number of heuristics that sometimes yield reasonable judgements and sometimes lead to severe and systematic errors. The presence of an error of judgement was demonstrated in experimental settings by comparing people's responses to questionnaires either with established facts or with an accepted rule of arithmetic, logic, or statistics.

The distinctions identified by Kahneman and Tversky with regard to judgements under uncertainty have been further analysed by social and evolutionary psychologists. Kahneman and Tversky originally identified three general-purpose heuristics: availability, representativeness, and anchoring and adjustment. This opens the question of how these main heuristics and biases could potentially influence the decision-making process of family businesses. A conceptual model for carrying out this research would look as follows.

Modelling the Impact of Family Values on Business

At the risk of stating the obvious, family businesses tend to have family members in key positions of ownership, leadership, or management. This chapter takes the view that the inclusion of a number of different individuals from one family tends to lead to a concentration of values from that family, which may

in turn influence decision-making. We also acknowledge here that the term 'family values' does not represent one value set, nor are family values always positive. Rather, we argue very simply that where a number of key figures within a business share a degree of family background and history, a concentration of similar values is likely, albeit with the proviso that one or more strong leaders may be in a position of considerable influence. Similarly, whilst family values are one core influencer of decision-making, there are many others including the views of advisors, non-executive board members, investors, current markets, and indeed family members who may not be directly involved with the business but who still exert some influence over the 'value pool'. History may also play a role, and the importance of formalised governance structures as a mediating factor on decision-making should not be underestimated, but the role of family values in decision-making represents an area where further research would be appropriate. The model presented in the figure below represents an initial and literature-based attempt to consider the spectrum of businesses within the term 'family business' and to encapsulate the factors that may influence financial decision-making. This conceptual model provides the key variables for further research on the factors and variables that drive financial decision-making in family businesses.

Key to an understanding of the model presented in Fig. 19.8 is an understanding that the space on the spectrum occupied by a firm will vary according to the size, stage of development, and ambitions for the firm. By modelling the influencing factors explicitly, however, we create a basis for future and

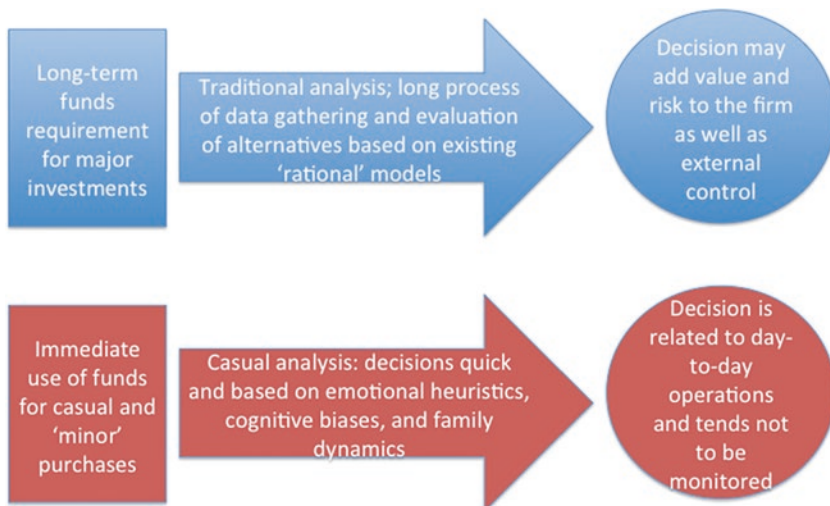

Fig. 19.8 Family business decision-making model

empirical research that allows the stage of development of family firms to be encapsulated as the basis for discussion within the context of consultancy or education.

Discussion

The influence of family values on business decision-making is not easy to define or measure as values are shaped by social and cultural expectations as well as personal traits and attitudes towards relationships and entrepreneurship. The idea of this chapter was to start the discussion on the foundations for a theoretical framework of analysis, informed by psychology and behavioural finance, with which to isolate specific value-based observable behaviour and relate it to the impact of family decision-making.

In essence we started from the hypothesis that a family-run business (in particular small- or medium-sized owner-managed) will have different priorities and ultimate goals than those of a non-family business, and this will have an impact on how they approach their financial decisions. The discussion was confined to the financial dimension because (1) the impact of the decisions is measureable (to an extent) and (2) there has been ample research in terms of behavioural variables in financial decision-making (albeit in the realm of trading in equities and other types of financial products).

In the first part of the analysis, we focussed on how 'traditional' financial decision-making takes place in businesses that interact with financial institutions and markets. We highlighted how firms follow prescribed models with generally accepted assumptions that help estimate predictable outcomes and risk (therefore allowing for external investors to make assessments of risk and return and price appropriately). Businesses that need funding (start-up, investment in growth, etc.) or any type of financial product will at some point be required to use these models (either directly through business plans or indirectly through loan and mortgage applications). As there are secondary markets for most of these financial products, valuation models based on commonly accepted assumptions, data, and procedures make these transactions more efficient and widen participation. To a certain extent, the same applies to the day-to-day running of their cash and working capital management operations that can be evaluated by market participants and permit a risk assessment of the firms' performance.

The discussion then moved into how financial decisions are made in small businesses. These tend to be simpler than those of market-influenced firms but not with less risk, and we broadly classified them in terms of their magnitude

and frequency. We argued that most financial decisions in small businesses tend to be related to cash expenditures in relatively small amounts of money (usually not more than 100) and on a frequent basis (daily). Owner-managers agree to scheduled payments of weekly, biweekly, monthly, or quarterly current obligations made from the current account with values in the hundreds or low thousands, but these are hardly ever revised. The decision-making process is less orthodox when it comes to both daily spending and scheduled payment of obligations, as they are not made according to the assumptions of the standard economic model. Instead, this type of decision tends to be made through an instinctive almost primal process that follows cognitive scripts (defined here as semi-automatic decisions made routinely) formed through time by the influence of social forces and cultural experiences. The automaticity of these decisions means that these choices are made with little consultation amongst the owner-managed firm even when its members have equal participation in the control of the business' affairs, and this may lead to conflict.

In small firms conflict related to financial decision-making is not resolved using governance rules (based on standard models) because disagreements are related to individual hierarchies of values, subjective assessments of risk and return, and/or the personal aspirations and benefits of each decision-maker. Although the goals of small business financial decisions tend to be subject to some level of agreement, there is usually the imposition of some type of dominance in interactions, in particular when ownership is split and the different parties attempt to influence others with their perceptions of the overall gains (economic, social, or cultural) and risks of any decision. This also applies to reaching agreement amongst members with differing financial capabilities and assigned (or assumed) roles within the firm who may have a different understanding of the potential risks and returns of financial decisions.

We move in our discussion into the realm of family matters and how decisions are made within a scale between altruism and egoism. We argue that the nature of the household's relationship will determine whether decisions are made autonomously or in cooperation. When there are unresolved issues in terms of power, values, and/or goals, decisions will be pulled towards the 'egoism' end of the spectrum, and although they could require a cooperative approach, they will be made autonomously by only a single dominant member or sub-group within the household. There may also be fundamental differences in the goals of the partners related to the assessments of the information, methods, and options involved in the decision-making process. These arise when the household agrees on the value and the importance of an alternative but arrives at different preferences because they have either received

different information or evaluated it in different ways. Finally there may be conflicts related to the distribution of profits and/or costs related to a decision. In this case there may be a general agreement on the purpose and the type of decision being made, but not on how to distribute the costs or benefits of the decision.

Finally we built a conceptual model (based on a behavioural finance framework) taking the view that the inclusion of a number of different individuals from one family tends to lead to a concentration of values from that family, which may in turn influence decision-making because of the potential conflict inherent in decision-making. The idea is that 'family values' does not represent one value set, nor are family values always positive. We argued very simply that where a number of key figures within a business share a degree of family background and history, a concentration of similar values is likely, albeit with the proviso that one or more strong leaders may be in a position of considerable influence. Similarly, whilst family values are one core influencer of decision-making, there are many others including the views of advisors, non-executive board members, investors, current markets, and indeed family members who may not be directly involved with the business but who still exert some influence over the 'value pool'. The role of family values in decision-making represents an area where further research would be appropriate.

Future Research Directions

Research in family businesses would greatly benefit from a deeper understanding of the financial decision-making process. The cultural, social, and behavioural factors unique to family-run businesses and the relationship with finance need to be understood in more detail.

Implications for Practice

Financial decisions will determine the viability of firms in particular their relationship with funds providers. Financial institutions need to have an understanding of how these firms differ from mainstream businesses and how to meet their financial requirements.

Conclusions

Underpinning this chapter lies one, relatively simple premise: the financial dynamic within family business differs from the dynamic observed in traditional, corporate-model businesses. This circumstance exists, in part, because of the different power dynamics that exist between both individual and institution and indeed between different members of the family. In setting out some of the factors that influence financial decision-making in family business, this chapter seeks to provide the basis for future and empirical research However, it is acknowledged that a myriad factors influence financial decision-making and some—such as culture and/or religion—would merit more detailed consideration.

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20

The Strategic Use of Historical Narratives in the Family Business

Rania Labaki, Fabian Bernhard, and Ludovic Cailluet

Introduction

Family stories are the grist of social description and the symbolic coinage of exchange between generations (Thompson 2005). Historical narratives about managers and organizations connect the past, present, and future of an organization. These narratives are constructed to make sense of what was done in the past and its relation to the present, in a way they can be appropriated, mobilized, and used by different audiences to achieve different goals. The success of an organization seems therefore dependent on the ability of its managers to skillfully develop historical narratives that create a strategic advantage (Foster et al. 2017).

Questioning the relevance of this statement in family businesses entails accounting for an additional level of complexity. These businesses represent a unique organizational form where family and business systems interact and influence each other. The construction, transfer, influence, and target of narratives all relate, to a certain degree, to the distinctive family system. Depending on the extent to which the family overlaps with the business, business narratives will be intertwined with or inseparable from family narratives. These narratives aim to achieve not only business-oriented goals but also family-oriented goals. As such, they are intended for an extended circle of stakeholders, embracing both business and family systems.

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E. Memili, C. Dibrell (eds.), *The Palgrave Handbook of Heterogeneity among Family Firms*,
https://doi.org/10.1007/978-3-319-77676-7_20

Given that historical narratives are "verbal fictions, the contents of which are as much invented as found" (White 1978), the way in which they are constructed and told, the parts of reality which are chosen, left, invented, or reinvented, inform us immensely about the cognitive and affective map of the family in business. The related stories are not only remembered fragments of a real past, neither only clues to collective consciousness and personal identity, but also a form of the past still alive in the present (Thompson 2005).

Over the last decade, narratives have been of growing interest to both business historians and strategic management scholars, even if traditional business history has only reluctantly and recently come to reflect on the concept (Mordhorst and Schwarzkopf 2017). Business historians argued that family businesses are a fascinating subject of study and called for the use of research methodologies including longitudinal and comparative historical perspectives (Colli 2011). In organizational studies, scholars recognized the family business as a natural and special empirical ground to investigate the role of history in organizational life (Hjorth and Dawson 2016).

To date, little is known about the nature of family business narratives, their characteristics and process of development, or transmission across generations. Existing studies are scarce and remain at the embryonic stage of understanding how and when stories are told in family businesses (e.g., Johansson et al. 2014; Thompson 2005). In addition, while business historians seem to agree on the strategic impact of historical narratives as a competitive advantage in organizations, there is a lack of conceptual and empirical studies on the strategic usefulness of family business narratives for family and organizational outcomes.

We contribute to this literature by taking a closer look at "family myths"—a fundamental part of narratives in family businesses. Although historical narratives mention the same event, the reality is scattered across a multilayered structure and presented through different lenses, as Lévi-Strauss (1966) puts it in his arguments for the mythical nature of history. Historical narratives do not reproduce the events they describe; rather, they guide our thoughts about the events in a certain direction and charge our thinking with emotional valences (White 2002). This allows us to consider the historical narrative as an extended part of the myth. Myths are transmitted within a family system by framing the context in which strategic life choices of family members must be made (Thompson 2005), just as organizational myths delineate strategic choices of the business (Gabriel 2004).

This chapter is an attempt to open the black box of family business historical narratives in order to unlock their characteristics, process of production, and impact on the family business over the life cycle. It offers a conceptual framework based mainly on literature from business history, family business,

and family psychotherapy. While we borrow from these fields, we also give back and contribute to ongoing discussions by bridging diverse perspectives. While the family psychotherapy literature focuses primarily on the family level of analysis, the business history and management studies emphasize narratives related to business development and managers' contributions over time. In this chapter, these perspectives amalgamate to appear in myths, with this overarching view being an attempt to reconcile fields with different theories, research traditions, and vocabulary. By doing so, it lays the foundation to stimulate future complementary and interdisciplinary research efforts. This is true in the case of business history, where the established paradigm has left little space for cross-fertilization with other social sciences, except for economics. In particular, myths have not been a traditional object of study for business historians, since they tend to be traditionally less interested by the history of mentalities or representations than culture and political historians, apart from a few exceptions (Holt and Popp 2013; Lyna and Van Damme 2009; Popp 2015; Varje et al. 2013). Although the connection to family business studies has been currently more active (Colli 2011; Colli et al. 2013), it still remains a recently opened avenue for collaboration.

The chapter is structured as follows. First, we articulate the nature of historical narratives in business history and management literature. We then transpose it to the family business context while emphasizing different typologies. Second, we focus on the "myth" type of narrative and present its characteristics using a systems view of family business by borrowing from organizational, anthropological, and psychotherapy perspectives. We then present an account of the impact it exerts along with its dynamics of construction, deconstruction, and transmission over time. Finally, we conclude with chapter implications, methodological considerations, and future research directions.

The Nature of Historical Narrative

Historical Narrative as an Input or Output

Given the acknowledged strategic dimension of historical narratives, we start by presenting this terminology from the perspective of history and management studies.

For historians, narratives are both an input and an output. When researchers collect personal accounts from those involved in past family and/or business events, narratives arise as a source. The same is true when historians

collect stories told within the family circle about a central and critical past event (or set of events), including the associated psychological and physical action responses.

Historical narratives are also the final product of most historical research, presented in the form of a structured description plotting the "history" of an organization. Historical writing practices are grounded in narratives and the most used literary genre which (historians and business historians) present their work in (Mordhorst and Schwarzkopf 2017). This is problematic as it sometimes blurs the limits between stories and rigorous historical research.

The narrative as an input needs to be distinguished from the narrative as an output as both have very strong potential effects on reality and need to be considered critically. This is especially the case for families where narratives also convey a political role (Ochs and Taylor 1992).

Toward a Typology of Narratives in Family Business

From the perspectives of family business and management literature, Smith (2017) offers a distinction between story and narrative: A story is a narration of events containing basic features such as setting, plot, characters, and a sequence of events in a logical manner with a beginning, a middle, and an end. A narrative is an overarching organizational structure designed to facilitate the recounting of sequential events and experiences. The author considers that although all stories are narratives, not all narratives are stories.

Narrative as a tale, story, or memory is not history. The telling of temporarily ordered past events (Ricœur 1984) is not "the past" either. In his challenging reflection on memory and forgetting, Augé (2004) shows that memory is made of traces of past events, characters, and spaces that have escaped forgetting. People or events are not forgotten but the memory of them is.

Historians have recognized for a very long time that they have to work with the limitations of the material (Evans 1997). People in the past consciously lived a story they believed in, and historians cannot satisfy themselves just by reproducing it. Therefore, any rigorous and scientific historical endeavor has to deconstruct narratives by looking at hidden meanings, flaws and contradictions as much as putting them into contemporary context.

A key element here is the understanding that there is no such thing as unmediated narratives. Narrative represents the past in the present—in our case, stories and tales told in families and/or business communities. While they are parceled, they connect to issues that are contemporary for the tellers of narratives. A significant contribution of recent research in oral history is

that collected narratives are impacted by the general and specific contexts in which they are told or recalled (Abrams 2016). Stories are "things to think with" that are used by individuals or groups for various purposes including to build "business romance" (Smith 2017).

Summerfield (2004) warns us not to take oral testimonies and narratives as disconnected from surrounding discourse: The cultural approach to oral history suggests that narrators draw on public discourses in constructing accounts of their pasts for their audiences. In addition to endeavoring to compose memory stories, they seek composure, or personal equanimity, from the practice of narration. Translating this approach to the context of families and family business, narrators tend to construct a discourse according to genres available and adapt it to their target audience. For instance, a tale of past business failure by family members could be narrated in different ways. It could be told through a "cold" analysis of factors that led to the problems, with a distant stance toward individual responsibility through "objective" measurement and contextualization. Alternatively, it could be narrated and plotted with more drama and moral judgment, in order to serve as a lesson for next generations, including warnings of errors not to be repeated.

In the context of family business, research seems to focus on narratives related to the family's major events in relation to the business. As such, researchers referred to narratives while coining different labels. Thompson (2005) calls it the "cultural transmission", whereas Jaskiewicz, Combs, and Rau (2015) consider the easily recalled narratives as part of the "family's entrepreneurial legacy". These authors identify two forms of narratives often expressed by family members in their study: (1) The narratives about past entrepreneurial achievements shared in detail and with pride, such as how a family member engaged in entrepreneurship to start or reinvent the firm, and (2) the narratives about the family's resilience in the face of challenging and threatening situations. Narratives appear to be particularly relevant as vehicles for the transmission process to the next generation to ensure family business continuity.

Whether part of the legacy or as cultural transmission, elements of narratives include, although not restricted to, myths, tales, and rituals relative to certain characters (heroes, fools, clowns, and so forth) or situations with plot elements (conflicts, deceptions, accidents, crises, and so forth). As Gabriel (2004) puts it, myths are useful in analyzing contemporary social and organizational realities. Feinstein and Krippner (1989) even consider that family myths are as much intrinsic to contemporary organizations as they are to archaic ones. Family myths are therefore of contemporary relevance to family businesses as they evolve in a world characterized by increasing globalization, terrorism, crises, digitalization, and social problems. As such, this chapter

focuses on the myth aspect of narratives, presenting a first but fine analysis of its characteristics and process of construction or destruction over time.

Family Business Myth as a Dynamic Process: Toward Its Conceptualization for Favorable Outcomes

Understanding and delineating myths in family business requires accounting for the myths at the intersection of the subsystems comprising it.

Theoretical Framework: A Systems View

Family business is an open and structurally complex system comprising three interacting subsystems—family, business, and ownership (Gersick et al. 1997). The success of any family business depends on the way these subsystems interact and relate to one another over time (McClendon and Kadis 2004).

The family subsystem consists of an emotional and multigenerational unit where the functioning of different members is interdependent (Bowen 1978). Actions of one family member affect and influence the actions of all other members and the system as an entity. In addition to providing traditional security and economic needs, the family subsystem has the objectives of meeting emotional needs, maintaining integrity and cohesiveness, and family commitment toward satisfying the needs of the family (Hess and Handel 1994; Kantor and Lehr 1975; Kepner 1983).

In contrast to the family, a business is mostly considered as a rational subsystem, characterized by the interdependence of people whose membership is generally determined by competence. The goals of the business subsystem are largely objective, seeking environmental adaptation and control, and effective functioning of the business, by generation of goods and services through organizational task behavior (Kepner 1983; Rosenblatt et al. 1985). The ownership subsystem is intended to meet the needs of the shareholders who can be more or less attached to the business, pursuing financial and non-financial objectives to different extents.

Adding to these subsystems, the individual and the environment appear as key parts of the family business "bull's-eye system" as well (Pieper and Klein 2007).

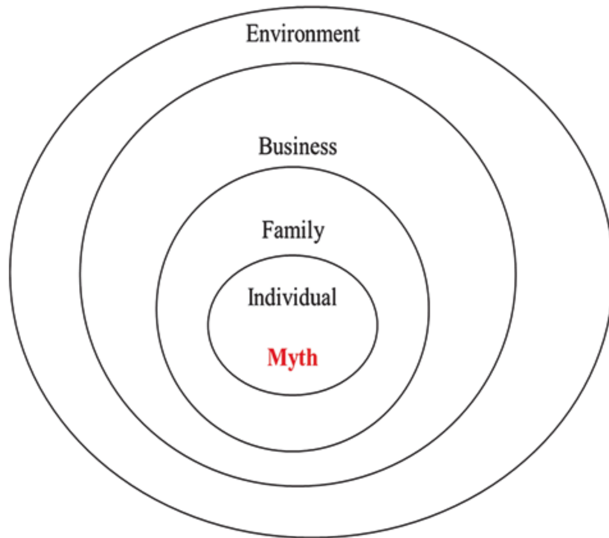

Fig. 20.1 A systems view of family business myths

Therefore, a myth might gravitate around the individual, family, business, and wider socio-cultural environment. Figure 20.1 presents a systems view of family business myths with these different levels of interdependence.

Characteristics and Composition of Myths

Etymologically, myth comes from the Greek "mythos", referring to a speech, thought, or story. While it is difficult to find a single and commonly agreed-upon definition of myth among scholars, two general predominant perspectives of myths seem to exist (Eliade 1963; Ellwood 1999). Archaic societies view myth as a true story that is precious, sacred, exemplary, and significant. Modern societies see myth more as fiction or illusion. Referencing the works of Joseph Campbell (1968), myths throughout the world give an identical message (Ellwood 1999) although their morphology changes.

The core issue to be considered when studying myth is whether the myth is "alive" or not. A myth is alive if it delivers true stories with supernatural characters or archetypal categories of individuals, which supply models for human behavior and as such give meaning and value to life. As Ellwood (1999) puts it, myth is universal and has transcendent cultural settings to provide general models of the human predicament and ways out of it.

Myths have been studied from many angles primarily psychological, philosophical, anthropological, historical, and organizational. For the understanding of family business myths, it is important to refer to relevant perspectives informing different dimensions. These dimensions are not exclusive but interact with and build upon each other: Socio-cultural myths, business (organizational) myths, individual (personal) myths, and family myths.

Socio-cultural myths allow us to tackle transmission questions inspired by Bourdieu (1986) around what aspects of a family's material and cultural capital can be transmitted and how this is to be achieved (Thompson 2005). Cultural capital is an important part of family transmission, beyond the ownership and social networks capital (Bourdieu 1986) found in family business.

Organizational myths revolve around the myth of creation as the essence of organizational existence. Existential psychology (Becker 1962, 1973) argues that organizations exist to provide a framework of myth which makes action possible. Organizations are created and sustained for the purpose of providing meaning to their members, which in turn builds their identities. The myth concept emerges under the assumption that organizations are potentially immortal (Schwartz 1985).

Myth in organizations refers to a symbolic approach of organizations (Alvesson and Berg 1992; Strati 1998). Representation is the fundamental form of narrative knowledge. It does not convey factual knowledge as much as it transmits a "forma mentis", which is a cognitive grid used to interpret experience and the way people perceive internal and external reality. Such stories express powerful emotions of anger, guilt, pride, and/or anxiety, capturing the diverse experiences of organizational members. Once captured, members can make sense of and endure these experiences, stimulating their desire for success or survival (Schwartz 1985).

Despite their relevance, organizational stories went largely unnoticed in mainstream organizational theory and social research (except ethnography research on workplace relations) until 20 years ago. Scholars noted an increasing academic interest in organizational storytelling causing a re-awakened attention to myth, tales, and fables for analyzing power and politics, strategy, emotions, fantasies, rationality, ethics and morality, identity, communication, culture, management, learning, and practices in organizations (Gabriel 2004).

Through the medium of myth, the code allowing knowledge to be derived from observation and interpretation of reality is transmitted. Official organizational narratives are reproduced in organizational rituals, advertisements, websites, or official publications that reflect the qualities managers would hope to embody. Examples include narratives of great achievements,

missions successfully accomplished, dedicated employees, heroic leaders, or crises successfully overcome (Gabriel 2004).

In family business, the individual founders and entrepreneurs are commonly referred to as myths. Their personal business journeys are told as journeys of discoveries and survival (Gabriel 2004). Some go so far as to mythologize their skills by telling their family business story in terms of inherited instinct from mythical ancestors (Thompson 2005).

While socio-cultural, organizational (business), and individual (personal) myths are all relevant, compared to non-family business myths, focus is needed on the family subsystem as the distinctive dimension. Family is driven by transgenerational heritage and legacy that are consciously or unconsciously intended and are passed on as a burden or as a blessing (Böszörményi-Nagy and Spark 1984). Family myths become well-integrated beliefs shared by all family members, with symbolic contents and personal emotional experience attached to them. They also contain pseudo-secrets (real or imagined), often related to the family's past and its ancestors (Seltzer 1989).

In his study on business families, Thompson (2005) observes how family stories include examples of family struggles, disasters, or breaches such as desertion or divorce. These stories become family legends mainly because of the mystery surrounding them. This mystery is often linked to negative emotions such as anger or bitterness, following a separation, for example, even though the descendants know nothing about these ancestors. If mystery—a catalyst of myth—is repeated from generation to generation, it can become a particularly powerful family script.

The original formulations of family myths date back to Ferreira (1963) and were mainly developed in the family psychotherapy field. Those myths are considered "a series of fairly well-integrated beliefs shared by all family members, concerning each other and their mutual position in family life, beliefs that go unchallenged by everyone in spite of the distortions which they may conspicuously imply" (Ferreira 1963, p. 457). Following Van der Hart, Witztum, and de Voogt (1989, p. 60) anthropological accounts of family myths, it is possible to limit the concept of family myth here to "shared traditional oral tales told by the family and its members about the family and its members".

Family myths can be irrational with their own logic (Seltzer 1989). Lévi-Strauss (1966, 1968) used the metaphor "orchestra score" to refer to a mythical corpus. Elders are the bearers of culture through collective institutionalized practices. They subconsciously transmit basic messages to the younger generation. It is the transmission of this "score" originating in the past or tied to past events that has the power to direct familial pathways in the present.

Similar to the “family score” of Lévi-Strauss, Ancelin Schützenberger (1998) refers to the “family code” as a representation of learned reactions grounded in family history and the family’s genetic and historic relatedness. The “family myth becomes clear when you understand the system, that is the sum of mutually interdependent units” (Ancelin Schützenberger 1998, p. 20). It manifests itself through an operational pattern in the form of rites of functioning, which can be either functional or dysfunctional.

Family myths are therefore an enmeshed and integrated set of all family members’ personal myths, conjugal myths, and parental myths (Anderson and Bagarozzi 1989; Andolfi et al. 1989a) in addition to cultural myths (Feinstein 1997). Family myths are related to cultural myths since they can be based on or contribute to refining them. Family myths rest on “emotional factors based on the attribution of meanings and use of contents which have particular relevance in the social and religious context to which they belong and which are found in the construction of popular mythologies” (Andolfi et al. 1989a, b, pp. 96–97).

Family businesses do not represent a homogeneous group of organizations since they differ depending on the level of interaction between their constituents, mainly between the family and the business (Labaki et al. 2013). Family business myth composition is therefore dependent upon these interactions. These considerations lead to our first proposition on the conceptualization of family business myths.

Proposition 1: *Family business myths are multidimensional to different extents, depending on the level of interaction between the family, the business, the individual, and the environment.*

Myth Purposes: From Formation to Transformation

The preceding discussion sketched the characteristics of myths in family businesses. The main aspects leading to the creation and transmission of myths inform us about their use or outcomes on the family and business levels.

A historical narrative is more than just the story a manager wants to tell (Foster et al. 2017). The way historical narratives are structured serves a purpose that can differ depending on the target audience. In particular, myths are to be transmitted across generations and are intended for a family business stakeholder audience. Depending on the level of interaction between business and family systems, the outcomes of myths can more predominantly be geared toward the family or the business.

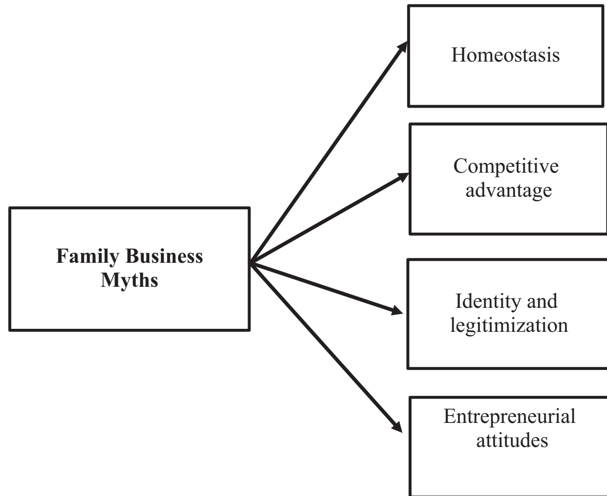

Fig. 20.2 Purposes of family business myths

Common purpose of using narratives in research includes insights into topics such as collective identities, sense-making, legacy, and the dark side of families in business (Hamilton et al. 2017). Different disciplines have emphasized different purposes of myths. We present those that seem particularly relevant to family business, mainly the strategic management and psychotherapy perspectives (Fig 20.2).

Leading the Family Business Strategic Path

As a source of change or continuity with a given state of affairs, the past provides grounds for different strategic orientations (Foster et al. 2017). Organization and strategic management studies have emphasized the potential contribution of history as a strategic resource for both managers and researchers (Foster et al. 2011; Kahl et al. 2012; Kipping and Üsdiken 2009; Lipartito 2014; Suddaby et al. 2010; Wadhwani and Bucheli 2013).

These authors do not consider history as a fixed contextual variable but as a resource. As such, history is not a mere assemblage of facts from the past but bears the capacity to be managed. It does integrate objective and subjective aspects as clearly analyzed in Hobsbawm and Ranger (1983). "Citizens, advertising agencies, antique dealers and politicians, they all construct historical narratives, find value in employing them while modifying them as the years pass by" (Scranton and Fridenson 2013, p. 2). Family and family businesses are of course not immune to such a process.

For most organizations and families, history is a de facto asset, even when not recognized or accounted for in the company's books. It expresses itself in the form of tangibles—long-standing product or property—and intangibles such as brands, rituals, or shared stories of past events. It integrates real as well as potential liabilities, failures, and villains.

In order to gain commitment from external audiences, history is also used to address perceived expectations and demands placed on the organization by its environment. Scholars argue that it may create inward commitment of employees as well (Zundel et al. 2016). For organization members and executives, there is a strong urge to manage history as much as they manage people, financials, physical assets, patents, or brands to achieve superior performance. Suddaby et al. (2010) framework reveals history as a source of competitive advantage, establishing a link between strategic management and organization theory.

By defining history as a "social and rhetorical construction that can be shaped and manipulated to motivate, persuade and frame action both within and outside an organization", Suddaby, Foster, and Trank (2010, p. 147) offer a strong foundation to build on. History is not an exogenous variable beyond the control of leaders or members of families, as could be the case of "the past". History is also not immutable. Its intrinsic plasticity makes it a highly sensitive material in the family context while being a strategic resource. As part of historical narratives, the myths embody the base upon which the family business chooses to engage in certain strategic directions. Given these insights, the following proposition is suggested**.**

Proposition 2: *Over the life cycle, myths inform the strategic orientation of the family business and contribute to building its competitive advantage.*

Creating and Maintaining Homeostasis of the System

From an anthropological perspective, myths serve to develop and maintain social solidarity and group cohesion (Van der Hart et al. 1989). From a family psychotherapy view, the purpose of family myths is rooted in the family purpose of maintaining homeostasis. They provide a prescription of roles family members are required to play vis-à-vis other family members, as well as ritual formulas for action at times of crisis during its life cycle (Ferreira 1963). Family myths give meaning to the past, define the present, and provide direction for the future (Feinstein 1979). As such, they shape the life paths of individual family members and allow them to take action in critical situations for survival. Whether we move from socio-cultural to organizational, family, or individual myths, they all tend to keep in balance a group of opinions and

ideas that are necessary for the survival of the system in which they develop (Andolfi et al. 1989a).

Given these reflections, our next proposition is as follows.

Proposition 3: *Family business myths contribute to creating and maintaining system homeostasis throughout the life cycle's critical stages.*

Identity Construction and Legitimization

Narrative from the perspective of historians is very central to identity formation. It is a key component of the process of organizational identity construction (Foster et al. 2017; Ravasi and Schultz 2006). The philosopher Paul Ricoeur emphasized the fact that the history of an individual or a community appears as an identity formation when it is told through a narrative (Dowling 2011; Wood 1991). In short, to know oneself (or one's own history) is to interpret the past. This interpretation could lend to drama or fiction through a narrative in the form of myth. Myths are clues about collective consciousness and personal identity (Thompson 2005).

Vaara and Lamberg (2016) provide an exhaustive summary of the different types and limitations of historical methods used in strategic management. The authors insist on the social construction of history and the use of its narratives as a tool. Several works have looked at narratives to reinforce identity (Zundel et al. 2016) in addition to being legitimization tools within organizations (Landau et al. 2014). In a family business context, the legitimization of succession is one crucial stage. In their study of an Italian family business, Dalpiaz, Tracey, and Phillips (2014) show how next-generation members have strategically used narratives when legitimizing their role as successors. Given these findings, our proposition is as follows.

Proposition 4: *Family business myths contribute to the construction of the family members' identity and the legitimization of successors in the family business.*

Motivation for Entrepreneurship: Risk-Taking, Resilience, and Innovativeness

Myth is one example of narratives that may influence the entrepreneurial and resiliency behavior of the next generation in family businesses over time. As Jaskiewicz et al. (2015) observe in their empirical study, family narratives motivate and give meaning to entrepreneurship by linking family members to

a rich history that defines who they are as a firm and as a family. They also allow the family to view current risks in perspective as compared to relatively more substantial challenges from the past.

Smith (2014) explains how second-generation entrepreneurs create their own identity by means of storytelling. The author suggests that different generations can strategically vary in the focus of their narratives. For example, "second-generation entrepreneur stories are less about overcoming disadvantage than they are about overcoming advantage" (p. 167). By doing so, the next generation can lay ground for their independence and build their own entrepreneurial identity.

Research by Kammerlander et al. (2015) suggests that the focus of stories told in family businesses can impact its innovativeness. Narratives that revolve around the founder and create a heroic myth around a single person are negatively related to innovativeness according to this research. In contrast, stories that focus on the family as a collective are positively associated with innovation.

Given these arguments, our proposition is as follows.

Proposition 5: *Family business myths motivate family entrepreneurship attitudes in terms of risk-taking, resilience, and innovativeness.*

Beyond Family Business Myth "Involution": A Deconstruction or Reconstruction of Myths and Identity

From an anthropological point of view, cultural involution refers to paralyzed cultural conditions, leading to fluidity loss within the system and blockage from further adaptation (Seltzer 1989). Narratives are not static (Suddaby et al. 2010). Rather, they are reconstructions and interpretations that evolve (Barry and Elmes 1997). Despite its characteristics of being resistant over time and often unchallenged by family members, the myth emphasis remains on forward movement (Ahsen 1984).

In particular, family myths are both homeostatic and morphogenic. They contain the necessary components for change (Roberts 1989). When changes occur in social institutions and practices, and the myths which legitimize the previous state of affairs no longer fit, the myths will not disappear because they are flexible (Van Baaren 1984). They will rather be changed, even subtly, in a way that allows them to be maintained. This requires the myth to be adapted to the new situation, armed to deal with a new challenge (Van der Hart et al. 1989).

For the family business to survive in the face of change, it becomes important to overcome the part of rigidity related to the family, individual, organizational, and socio-cultural myths. A much needed, although difficult, endeavor for the family business is to stop being stuck in a certain frame, which could be linked to the identity of its founder, for example. Transforming a myth means to go beyond the existing identity or identities by the affirmation of differences (Perrot 1976).

The case of the family Lego group illustrates how historical narratives are used to promote or facilitate change in organizational identity. The managers' reinterpretation of the company's history produced a new, encompassing historical narrative that oriented the company's strategy with a reconstructed organizational identity (Foster et al. 2017; Schultz and Hernes 2013). This shows the importance of leveraging existing myths to articulate a future view of the family business identity.

Going beyond the stalemated status of cultural involution requires intervention by outsiders, often initiated by revitalization movements or reforms (Turnbull 1987; Wallace 2013). Translating this concept to a family business context leads us to point out the importance of external interventions. The latter could help family businesses in explaining how the identities around the myth were constructed, in order to revise or renegotiate them if needed. As long as the main cultural narrative of the organization remains unchallenged by external pressures, the organization's culture should remain a strong, integrated ideological unit and, thus, a resource for the organization. However, as soon as external parties start questioning the historical narratives of the organization, its culture can become differentiated or fragmented among internal stakeholders. This leads to a cultural shock that requires the emergence of new narratives about the past. This happens through disintegrating and fragmenting past narratives and reworking on re-signifying and repurposing the existing cultural heritage (Foster et al. 2017). Given these insights, our proposition is as follows.

Proposition 6: *Over the life cycle, family business myths need to be transformed to different extents to ensure the family business continuity.*

Discussion

"The myth is timeless in terms of the power it has in influencing human cultures" (Seltzer 1989, p. 23). According to Ferreira (1963) who was the first to link the concept of myth to family processes, the family myth is the focal

point that all family processes revolve around (Ferreira 1963). This assertion is of particular relevance for family businesses where the family is the distinctive system as compared to other types of organizations.

This chapter has made initial conceptualization efforts, bridging different fields of study to offer a conceptual framework on narratives with a special focus on myths. It outlined the role of myth in shaping the strategic orientation of the business, the identity construction, reconstruction and legitimization, the entrepreneurial attitudes development, as well as the homeostasis of the system in critical stages. This chapter contrasted and integrated literatures and insights from different fields such as business history, management studies, anthropology, and family psychotherapy. By doing so, it offered a unique combination of different perspectives. As the various fields use different theoretical ideas and vocabulary, this overarching outlook provides a basis for discussion to researchers. It therefore can be viewed as a step to more interdisciplinary research between scholars from diverging academic traditions and backgrounds. Furthermore, through our analysis of myths, their roots and consequences, the chapter allows opening up future directions for research that are meant to refine the conceptualization of family business myths toward an empirical development.

Methodological Considerations and Future Research Directions

Stories passed on from generation to generation offer a wealth of information. However, research in management has been largely reluctant to use these stories to a large extent.

Family business scholars suggested that diversity in applied approaches and methods for research can be beneficial to the family business field. Dawson and Hjorth (2012) point toward the possibility of using analytic methods to explore narrative accounts when exploring unique phenomena of family businesses. Relying on stories can offer new insights when it comes to qualitative methods that analyze the way people experience and interpret their life and work situations (Fletcher et al. 2016). Recently, autobiographic works have also been a subject of study (Mathias and Smith 2016). Interviews about stories enable researchers to look beyond the curtain of often emotionally charged and intimate topics that usually remain hidden in other research approaches. Applying such research strategies can therefore enlighten the "why" questions, allowing an intimate connection to empirical realities (Dawson and Hjorth 2012).

Yet, a major shortcoming of using such methods is the abundance of biases in narrative accounts on all levels. First, the situations are usually seen through the lens of the writer or narrator. It is therefore questionable whether the narrative appropriately and accurately represents the situation or whether it is highly biased, even if not linked to a hidden agenda. Second, stories usually capture the narrator's "sense-making" of the situation. This sense-making is naturally entangled in subjectivity and can be very different from the past situation. It thus falls short due to various individual cognitions such as rationalization processes, motivated reasoning, and hindsight biases.

From the business history perspective, taking myths and stories as a legitimate object of study would certainly open new avenues for research. Historians of mentalities have integrated historical artifacts that do not belong to the material realm for a very long time. Myths told in business families could be a rich source of information about family businesses. In order to achieve this, however, one needs to work on proper historicizing that allows the contextualization not only of the myths' formation but also their transformation over time. Myths are told for good reasons, and historians might be able to reconnect myths with the context of their formation, transformation, and evolving purposes. They can add their methods of investigation to the conversation using multi-level analysis from a variety of material. Through hermeneutic analysis, historians allow for an iterative process between the data and the historical context in which it was produced. Hermeneutic analysis therefore facilitates an interpretation that is close to the stories' specificities and environment, and highlights the differences and similarities between meanings conveyed by successive or various versions.

Tackling family business narratives from the angle of myths allows us to focus the object of study by borrowing from methods and evaluation techniques used in family psychotherapy. This would offer an additional understanding of family business narratives.

It is important to bear in mind that, although the past is a rich source of knowledge and experience that can be appropriated and recycled, it can also have a dark side and be a liability (Booth et al. 2007). This is particularly true when we refer to the family's past several generations back (Böszörményi-Nagy and Spark 1984). It is therefore important for family businesses not to get stuck in their myths but to adapt them to lifecycle changes in a way that addresses the risk of family business cultural involution.

Empirical studies may therefore further explore our propositions by accounting for the heterogeneity of family business archetypes (Labaki et al. 2013) in relation to "healthy" or "unhealthy" myth formation and evolution processes over time. In multigenerational family businesses where a cluster of

businesses operate in connection with the family (Michael-Tsabari et al. 2014), it would be interesting to investigate in which type of business (core or peripheral) the myth is mostly prevalent and influential. Furthermore, a lens into the antecedents and outcomes of these myth components across the life cycle would inform us about the resiliency and performance of family businesses in times of crises.

Practical Implications

This chapter points to the importance of family members disrupting longstanding and taken-for-granted myths. It suggests practical implications for the next-generation family members. Understanding one's own family and business history has been linked to increased self-awareness, practical reflexivity, and self-authorship, all factors that are beneficial for leadership development, complexity management of the family business environment, and the succession process (Barbera et al. 2015).

Exploring myths and contributing to change can be done through educational or pedagogical tools used by family business educators and advisors. These tools could use interpretation or experiential exercises around the origin and role of myths at different levels of the family business. As such, they can identify different ways to revise, reconsider, or build new myths if needed for family business survival and continuity.

Conclusion

We conclude this chapter inspired by Cecil Maurice Bowra's quote, "Myths bring the unknown into relation with the known". Whether we are scholars, practitioners, or family business members, "myths represent for us the mechanism by which we construct reality" (Feinstein and Krippner 1989, p. 111), at least to a certain extent. Business history, family psychotherapy, and management studies are increasingly acknowledging the importance of myths in understanding organizations. Yet, theoretical and empirical works in the family business field are clearly underdeveloped. While we brought together different views in an initial conceptualization effort, our chapter's research and methodological directions are a clear call to uncover the unknown about family business myths. Implications of future works on family business myths would help business families move through life crises with a renewed and "healthy" mythic perspective.

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Part IV

Organizational Behavior and Human Resources Management

21

All the Same but Different: Understanding Family Enterprise Heterogeneity

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Introduction

The community of family business scholars has been pursuing what is considered normal science (Kuhn 1970) for decades now. Initially, family business scholars focused on the difference between family firms and nonfamily firms. In so doing, they tended to assume homogeneity among family firms to generate generalizable findings. However, it did not take long for this assumption to be questioned. Researchers began to identify distinct types of family firms; one of the earliest to question homogeneity was Ward (1987),

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E. Memili, C. Dibrell (eds.), *The Palgrave Handbook of Heterogeneity among Family Firms*,
https://doi.org/10.1007/978-3-319-77676-7_21

who identified *business first*, *family first*, and *business family* enterprises. The prevailing paradigm informing the study of family business has become the three-circle Venn diagram, also called the Family-Owner-Manager (F-O-M) Venn diagram, which illustrates the interconnecting types of stakeholders in family firms: family, owners, and managers (Moores 2009). These three types have subsequently been confirmed empirically (Basco and Pérez Rodríguez 2009). Others too (e.g., Dekker et al. 2012; Sharma and Nordqvist 2008; Stewart and Hitt 2012) have distilled further differences within the class of family firms.

These differences highlight the heterogeneity of family firms and stress the need for our theories to recognize this important feature. At the same time accommodating too much heterogeneity risks generalizability. Accordingly, the incorporation of heterogeneity is arguably best achieved at abstract levels from which different theoretical and practical consequences can be highlighted. The paradigm of three intersecting systems, the F-O-M Venn diagram, provides an ideal basis to introduce such heterogeneity. Specifically, within-class differences can be at the family, owner, or manager levels.

The contribution of this chapter is the exploration of heterogeneity in family firms from its core antecedents: the presence of family and their pursuit of dual logics in decision-making. These features define a *mindset* that gives rise to *philosophies*, *frameworks*, and ultimately *skill-sets* that are all unique to family firms but which also serve to differentiate within this class of firms. These elements coalesce as a conceptual model, as presented in Fig. 21.1. The structure of this chapter commences with a brief overview of the family-business-paradigm underpinning of a dual-logic mindset, and where and how heterogeneity can be introduced. Thereafter we present the central philosophies of servant leadership, trust, and stewardship, from which further differences can emerge. We then refer to frameworks at both organizational (AGES) and individual (SAGE) levels that isolate the observable differences both *between* family and nonfamily firms and *within* our class of firms. The outcomes of the

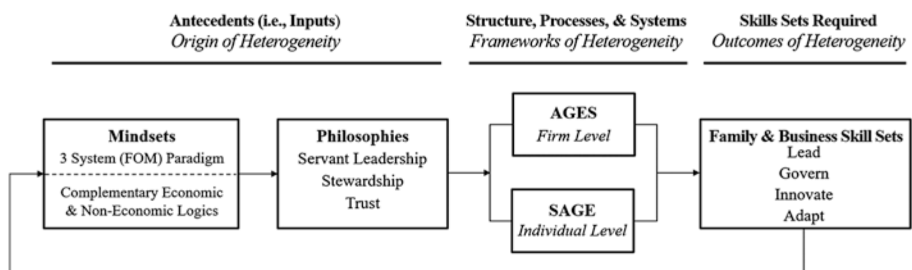

Fig. 21.1 Conceptual meta-model of family enterprise heterogeneity

mindsets, philosophies, and frameworks we examine require family firms to have both family and business skill-sets to lead, govern, innovate, and adopt. Finally, we conclude with how the conceptual meta-model of family enterprise heterogeneity can be used as guide for family firms to identify and understand the perception versus reality of their heterogeneity, and then to develop strategies to maintain organizational culture or evaluate organizational change.

The Three-Circle Paradigm Underpins the Dual-Logic Mindset

According to Kuhn (1970), the development and evolution of scientific disciplines follow identifiable paths (Table 21.1). Aligned with this notion, an emerging discipline seeking to explain the domain of family business has been developing and evolving over recent decades. Common processes exist across disciplines regarding how bodies of understanding are built cumulatively (Christensen 2006). To gain legitimacy, emerging disciplines borrow from more established fields to advance understanding of their phenomena of interest (Born 1956). Scholars within these communities engage in theoretical integration to facilitate evolution of knowledge and understanding, thereby enabling burgeoning fields to progress from pre-paradigmatic status to scientific consensus (Moores 2009).

Table 21.1 Kuhn's seven stages

Stage	Label	Characteristics
1	Pre-paradigm stage	During which a body of phenomena is examined by scientists espousing competing schools of thought, with no common body of belief
2	Development of paradigm consensus	The emergence of a common body of belief among practicing scientists within the field
3	Normal science	The paradigm is further articulated to better explain the subject body of phenomena
4	Crisis associated with anomalies	Observable facts are unexplainable within the existing paradigm
5	A new paradigm	Appears which is incommensurable with the old, followed by debates between advocates on the new paradigm
6	Resumption of normal science based upon the new paradigm	
7	Recycling through stages 4 to 7	

Moreover, to progress disciplinary evolution, scholars often make facilitative assumptions about their phenomena of interest. The difference between their focal phenomenon and those for which theoretical explanations already exist often motivates the search for new knowledge. To assist these intellectual endeavors, the notion of difference from others, but similarity among our focal interest, helps to progress knowledge. This truth indeed stimulated much of the early inquiry in family business, where scholars sought to explain the difference of family-owned firms from their nonfamily counterparts. These inquiries were founded on the assumption that all family firms at a certain level of abstraction were similar, or homogeneous.

As noted earlier, it did not take long for the homogeneity of family firms to be questioned. Ward (1987) was the first to identify three distinct types of family firms: *business first*, *family first*, and *business family* enterprises, a typology subsequently confirmed empirically by Basco and Pérez Rodríguez (2009). These differences among family firms highlight the heterogeneity of such firms and the need for our theories to recognize this reality. Specifically, the presence of both economic (efficiency) and noneconomic (family welfare) objectives calls for theoretical analyses that acknowledge trade-offs (Yupitun 2008). Because heterogeneity exists among family firms (Chrisman and Patel 2012; Chua et al. 2012), any theory of the family firm must be able not only to distinguish family from nonfamily firms but also to explain variations among family firms.

Calls to endogenize the family in the theory of the firm (Muntean et al. 2008) bring with them heightened prospects for identifying dimensions of heterogeneity in this domain. First, there are implications for how and in what ways to include "family" in the theory of the firm and, because of this, the objective function of the firm will need to be viewed differently. The question then arises as to how to introduce/embed "family" into the theory (Aldrich and Cliff 2003). Second, because families are acknowledged as having multiple objectives (Sharma et al. 1997), inclusion of "family" would imply that the concept of the firm primarily as a production function must be expanded. No longer can theory be based on a single objective to be maximized; instead, it must embrace the presence of multiple objectives. Neither a business (value maximization) objective nor a family (harmony maximization) objective reflects adequately the underlying reality of the presence of both these that need to be optimized.

Though the behavioral theory of the firm suggests that all managers pursue both economic and noneconomic goals (Cyert and March 1963) because the family serves as a dominant coalition in family firms, scholars agree that the family will generally pursue family-centered noneconomic goals that mainly

benefit themselves (Chua et al. 2015). In line with this, although family firms generally struggle to balance their desire to increase the business's financial viability with their objective of elevating the family's social capital (often referred to as socioemotional wealth), early studies examining decision-making in family firms found that family owners tend to prioritize the latter over the former (Kets de Vries 1993).

While the empirical literature has routinely upheld this pattern of prioritization (see Berrone et al. (2012) for a full review), recent research suggests that the picture might not be as simple as thought previously. That is, what were historically considered trade-offs between competing economic and noneconomic logics (Pache and Santos 2013) may not be trade-offs at all. Indeed, Martin and Gomez-Mejia (2016) argue that although a family's affective goals may dominate its financial goals, there may often be times when the two objectives overlap. These authors theorize, further, that family owners may find that achieving one goal facilitates their ability to achieve the other.

If Martin and Gomez-Mejia (2016) are accurate, then what have been viewed as competing logics in nonfamily firms may actually be complementary logics. Interestingly, this is precisely how Adam Smith viewed the pursuit of economic and noneconomic goals. While Smith did argue in *The Wealth of Nations* that business owners ought to first consider their economic interests rationally (Smith 1994), he argued earlier, in *The Theory of the Moral Sentiments*, that one should always avoid causing harm to others, particularly those with whom one is intimately related, such as family members (Smith 1976). In such cases, Smith advocated for "irrational" motives for decision-making, including love and benevolence (Nieli 1986). Thus, what seems unique about family firms compared to their nonfamily counterparts is that they appear to implement the full measure of Smith's thought in their day-to-day decision-making. According to Miller and Le Breton-Miller (2014, p. 717), this "extended" view of family business, in which "rewards accrue not merely to the family, but to other stakeholders as well, [a]nd the benefits to the business may be of more of a long-term nature," better reflects the phenomenon than the current "restricted" view.

Finally, expansion of the concept of the firm in this family-centric-driven way is likely to render the "entrenched paradigms across disciplines that notoriously underestimate the role of the family in economic enterprise and organizational behavior more generally" (Muntean et al. 2008, p. 6) less relevant to evolution of the discipline. Moreover, theories that address aspects of social capital—"features of social organization such as networks, norms, and social trust that can facilitate coordination and cooperation for mutual benefit" (Putnam 1995, p. 66) and institutionalism—and how organizational structure

conforms to expectations about appropriate design and function (DiMaggio and Powell 1983) will likely be more salient in our future endeavors to build robust theory of business families. The three-circle Venn diagram and the dual-logic mindset reflect the heterogeneity in family firms.

Origin of Heterogeneity 1 When we consider the family in the three-circle (F-O-M) paradigm as a lens, the family system morphs from a single family to a constellation of families over time. With this comes, inevitably, diversity along many dimensions, including but not limited to commitment to and engagement with the business, cultural differences as family members marry into families with different cultural origins, and expectations of what it means to be a part of a business family. Likewise, as ownership transitions over time, there are likely considerable differences among owners in how each interprets the meaning of ownership. Some may see ownership as a right while others consider it a privilege; some may attribute higher value to the psychological attachment rather than to any economic benefits ownership delivers.

In other words, it is inevitable that individuals will vary on the level of utility they receive from ownership. Different labels have been introduced to capture ownership types, including managing owners, passive owners, governing owners, and engaged owners. Ownership type has also been categorized by types of shares owned, and this will depend on jurisdiction (e.g., A shares vs. B shares). Similarly, because in our interpretation of the three circles we consider managers as those charged with managing on behalf of owners (others label this domain as "business" or "management"), there is likely some contrast among how appointed managers discharge their duties as managers. There will likely be, for example, considerable differences of opinion related to strategic direction of operating entities, how core and non-core assets are managed, how philanthropic activities are orchestrated, and how managers are prepared and monitored.

Origin of Heterogeneity 2 Further, using the dual-logic mindset as a lens to highlight heterogeneity, as the family and the business evolve, it is inevitable that there will be differences related to the role that the enterprise plays with the family and vice versa (i.e., the *family first/business first* paradox). Relatedly, the degree to which the family has a social versus economic purpose will be potentially contentious, particularly if the family is fortunate to enjoy sustained success. Variance may emerge related to, for example, the societal responsibilities of the business (or as one family positions this: "being a vehicle for good"). There may also emerge differences related to economic metrics

concerned with, for instance, growth and risk. Understanding different logics also highlights the benefit of the business being an economic vehicle useful for developing social capital, connection, and commitment to the broader community and, perhaps as important, sense of familial unity.

The Three-Circle Paradigm and Dual-Logic Mindset Underpin Philosophical Differences

Building from the paradigmatic and logics foundation presented above, to present divergent philosophies emergent within family enterprises, we utilized Greenleaf's (1977) servant leadership framework coupled with stewardship theory (Davis et al. 1997) and the most cited models of trust (Mayer et al. 1995; Schoorman et al. 2007). We introduce these three lenses as philosophies rather than theories and employ them for two reasons. First, each acknowledges family firms' unique ethical values compared to nonfamily firms, including their focus on fairness, respect, caring, stewardship, loyalty (Blodgett et al. 2011; Duh et al. 2010), the well-being of employees (Miller and Le Breton-Miller 2005), and collectivist firm culture (Bingham et al. 2011; Vallejo and Langa 2010; Ward 1987). Second, we found additional support for their appropriability by content analyzing 48 "philosophy of management" papers submitted by the Northwestern University Kellogg School of Management MBA students (from 12 different countries) in a family business class. The students were tasked with developing an individual approach (i.e., philosophy) to leadership/management; when reviewed, the dominant themes loaded on the dimensions of servant leadership, stewardship, and/or trust. In addition to aligning with themes in the broader family business literature, we have tentative empirical support for introducing each and, taken together, consider these rich philosophical anchors (see Fig. 21.2, philosophies emergent within family enterprises). Next, we will provide a deeper understanding of each philosophy and how each can further inform the concept of heterogeneity in family firms.

Servant Leadership

Servant leadership is linked to ethics, virtues, and morality (Graham 1991; Lanctot and Irving 2010; Parolini et al. 2009; Parris and Welty Peachey 2013a; Russell 2001; Whetstone 2002). Greenleaf introduced servant leadership into the organizational context with three foundational essays: *The*

Philosophies	Characteristic and Description of Each Dimension
Servant Leadership Behaviors (SQL) *Five Dimensions*	1. *Altruistic calling*—a desire to make a positive difference in others' lives 2. *Emotional healing*—fostering spiritual recovery from hardship or trauma 3. *Wisdom*—an awareness of surroundings and anticipation of consequence 4. *Persuasive mapping*—influencing others using sound reasoning and mental frameworks to conceptualize greater possibilities 5. *Organizational stewardship*—taking an ethical responsibility for the well-being of the organization and society.
Stewardship Theory *Six Dimensions*	1. *Intrinsic motivation*—behavior driven by internal rewards, reinforced through opportunities for personal growth, achievement, affiliation, and self-actualization 2. *Organizational identification*—accepting an organization's mission, vision, and objectives, as well as define oneself by his/her involvement within the organization 3. *Use of personal forms of power*—not utilizing one's position of authority to lead but relying on his/her personal informal power gained through relationships built over time 4. *Collectivism*—embracing organizational values and individual behaviors that bind and mutually obligate individuals to the group 5. *Low power distance*—fostering egalitarian interactions, discouraging inequalities, and treating others equally organizational members without formal titles or authority accept unequal distribution of power across organizational levels 6. *Involvement orientation*—encouraging an inclusive environment that provides employees autonomy and involvement in decision-making processes results in higher engagement benefiting the organization and the employees
Trust *Four Dimensions*	1. *Ability*—competence and expertise that enables someone to influence a domain 2. *Benevolence*—the extent to which a trustee is believed to want to do good to the trustor 3. *Integrity*—the trustor's perception that the trustee adheres to a set of moral principles that the trustor finds satisfactory 4. *Consistency*—the expectation that the trustee will constantly adhere to the same principles

Fig. 21.2 Philosophies emergent within family enterprises. (Source: Adapted servant leadership behaviors from Barbuto and Wheeler (2006); stewardship theory characteristics from Neubaum et al. (2017); and trust dimensions from Mayer et al. (1995) and Schoorman et al. (2007))

Servant as Leader (1970), *The Institution as Servant* (1972a), and *Trustees as Servants* (1972b). Servant leaders focus on building a loving and caring community, generating a shared vision for helping others, and creating the freedom and resources for employees to become servants themselves (Parris and Welty Peachey 2012), as their primary motivation is to serve others (Greenleaf 1977; Sendjaya and Sarros 2002). Aligned with Greenleaf's (1977) warning that servant leadership would be difficult to operationalize, theoretical development of this construct has been slow partially because it is more than just a management technique but a way of life that begins with "the natural feeling that one wants to serve, to serve first" (p. 7). A systematic literature review of empirical studies on servant leadership across organizational contexts, cultures, and themes by Parris and Welty Peachey (2013a) revealed it is a viable leadership theory that helps organizations, improves the well-being of employees, and can increase overall effectiveness of individuals and teams.

Servant leadership is a multidimensional construct where the leader places the good of those being led over their own self-interest, emphasizes employee development, displays stewardship of organizational resources, builds community, and practices empathy, humility, and authenticity (Barbuto and Wheeler 2006; Ehrhart 2004; Laub 1999; Liden et al. 2008; Spears 1995; Van Dierendonck and Nuijten 2011). To more efficiently contextualize how

the dimensions of servant leadership relate across the vast family business landscape, we utilized Barbuto and Wheeler's (2006) Servant Leadership Questionnaire (SLQ). The SLQ identifies five distinct behaviors: altruistic calling (a desire to make a positive difference in others' lives); emotional healing (fostering spiritual recovery from hardship or trauma); wisdom (an awareness of surroundings and anticipation of consequence); persuasive mapping (influencing others using sound reasoning and mental frameworks to conceptualize greater possibilities); and organizational stewardship (taking an ethical responsibility for the well-being of the organization and society). Before using servant leadership to interpret heterogeneity in family enterprises, it is important to consider the driving foundations of each of the five SLQ behaviors.

Altruistic Calling Highly distinctive to servant leadership is the willingness to sacrifice self-interests for the sake of others based on the desire to improve others' lives (Barbuto and Wheeler 2002, 2006; Beck 2014). One of the core issues differentiating the transformational leader from the servant leader is intent (Bass 2000). Altruism, the motivation to increase another person's welfare, is at the core of a servant-first leadership paradigm; it is contrasted from other approaches where a leader will serve others only after leadership has been established, because of egoism, or a need to increase one's own personal interests (Parris and Welty Peachey 2012). These leadership paradigms are opposites. Servant leadership goes beyond knowledge, skills, and abilities typically associated with leadership roles by requiring an internal transformation where the will to make life better for others and society is the primary motivation and becomes part of one's self-construction (Parris and Welty Peachey 2012).

Emotional Healing Aligned with helping others first, a servant leader is committed and skilled at practicing empathy, listening, and healing, which enables them to foster spiritual recovery from hardship or trauma. In being empathic, the servant leader strives to accept and understand others, never rejecting them, but occasionally refusing to recognize their performance as good enough. As a great listener, a servant leader automatically responds to any problem by listening, receptively, to what is said, which allows them to identify the will of the group and help clarify that will. A servant leader embraces the healing power of service by recognizing that as human beings employees can make themselves and others "whole" (Parris and Welty Peachey 2013b). Implicit in the relationship between the servant leader and the led is an understanding that the search for wholeness is shared (Greenleaf 1977). Servant leaders are adept at creating safe environments in both formal and informal settings for employees to share personal and professional issues (Parris and

Welty Peachey 2013b). A safe environment based on the healing power of service improves employees' well-being (Black 2010; Jaramillo et al. 2009a, b; Neubert et al. 2008) and increases organizational commitment (Cerit 2010; Hale and Fields 2007; Hamilton and Bean 2005; Han et al. 2010; Pekerti and Sendjaya 2010). By placing a high priority on the holistic development of employees, servant leaders create a safe environment and positive organizational culture (Ehrhart 2004; Liden et al. 2008) where those who experience personal trauma will turn to the leaders for support (Barbuto and Wheeler 2006). Empathy, along with the self-awareness to understand, experience, and predict the feelings of others, is a servant leadership skill that can be developed and nurtured.

Wisdom Servant leaders demonstrate self-awareness by viewing situations holistically and using foresight—intuitively understanding past lessons, present realities, and the likely outcomes of decisions (Parris and Welty Peachey 2013a, b; Spears 1998). Kant (1978) and Plato (1945) defined wisdom as the combination of awareness and foresight; similarly, Barbuto and Wheeler (2006) defined wisdom as the blend of knowledge and utility. When these two characteristics are combined, leaders are astute at picking up cues in the environment and understanding proactively the implications of an action. Servant leaders high in wisdom are observant and anticipate outcomes well, enabling them to mesh applied knowledge and informed experience to make optimally altruistic choices (Bierly et al. 2000).

Persuasive Mapping To guide others in making optimal-altruistic decisions, servant leaders practice persuasion—relying on convincing rather than coercion—nurturing others to dream great dreams (Parris and Welty Peachey 2013a, b; Spears 1998). Persuasive mapping is influencing others based on sound reasoning and mental frameworks through conceptualization (Barbuto and Wheeler 2006). Servant leaders build a high-quality relationship by fostering two-way communication and providing evidence-based explanations, logical reasoning, appraisals, inspiration, and/or mentoring. Employees are persuaded to discover voluntarily the right path for them through a mixture of autonomy, direction, empowerment, visioning, and developmental support (Greenleaf 1977; van Dierendonck 2011). The use of persuasive mapping can chart issues, lead to conceptualization of greater possibilities, articulate opportunities, encourage others to visualize the future, and offer reasons to serve others, including broader community and society.

Organizational Stewardship Stewardship is committing first and foremost to serving other's needs (Parris and Welty Peachey 2013a, b; Spears 1998). Servant leaders recognize the role of organizations is to create people who will build a better tomorrow, and therefore, they build "people first" organizations that emphasize service (Greenleaf 1977; Parris and Welty Peachey 2013b). Organizational stewardship assumes responsibility for the well-being of others and ensures organizational strategies and decisions to make a positive difference. Servant-led organizations act as caretakers and role models working for the common interest of society, developing a community spirit in the workspace, and building a positive legacy (Beck 2014; Greenleaf 1977; van Dierendonck 2011). As Greenleaf (1977: 60) said, "the only way to change a society is to produce people, enough people, who will change it." To servant leaders, organizations play a moral role in society to give back and make things better than when they found them. This aligns with family firms' unique organizational culture, where members are motivated intrinsically to act for the collective good (Craig et al. 2014).

The behaviors that define servant leadership—altruistic calling, emotional healing, wisdom, persuasive mapping, and organizational stewardship—align strongly with family firms' more frequent presence of ethical values than in nonfamily firms (Blodgett et al. 2011; Duh et al. 2010). A servant-first leadership paradigm for family firms supports Davis et al.'s (2000) proposition that employees who identify with the organization and embrace its objectives will be committed to make it succeed over the long term, even at personal sacrifice. Since the majority of global businesses are family firms, it is important to emphasize the cross-cultural applicability of servant leadership (Cerit 2009, 2010; Hamilton and Bean 2005; Han et al. 2010; Pekerti and Sendjaya 2010). The practice of servant leadership leads to increases in leader and organizational trust (Joseph and Winston 2005; Sendjaya and Pekerti 2010; Washington et al. 2006), organizational citizenship behavior (Ebener and O'Connell 2010; Ehrhart 2004; Hu and Liden 2011; Walumbwa et al. 2010), commitment (Carter and Baghurst 2014; Cerit 2010; Hale and Fields 2007; Jaramillo et al. 2009a, b; Pekerti and Sendjaya 2010), innovation, creativity, and helping behaviors (Jaramillo et al. 2009b; Neubert et al. 2008; Yoshida et al. 2014).

Servant leadership requires social exchanges that are long term, enduring, and ongoing, where individuals maintain consistency and fairness (Brashear et al. 2003). By building a loving and caring community, servant leaders create a multigenerational legacy of serving others first (Parris and Welty Peachey 2012). Although there is considerable heterogeneity among family firms,

typically they embrace an organizational mindset of long-term orientation (LTO), with priority given to the long-term implications of decisions (Anderson and Reeb 2003; Gómez-Mejía et al. 2007; Kellermanns et al. 2008; Lumpkin and Brigham 2011). In the context of family firms' desire to continue the business across multiple generations and build a family legacy (Ward 1987, 2004), time considerations are especially important (Anderson and Reeb 2003), along with capacity to build enduring relationships (Arregle et al. 2007).

Origin of Heterogeneity 3 Though servant leadership as a philosophical frame in our model helps to position heterogeneity from both within and between differences perspectives, our primary focus in this chapter is on the *within* differences. From a within-family-enterprise perspective, and as part of a configuration approach, there will be differences in how family enterprise leaders (of the family and the business) rank or rate on the five dimensions of the SLQ. On each of the dimensions, there will be differences along a continuum, with some dimensions considered innate while others will likely change over the individual's life stage.[1]

Conscious that a debate about fine-grained differences could distract from the purpose of this chapter, we consider that servant leadership provides a valuable philosophical frame to help establish what distinguishes family enterprises. Notable is the inclusion of stewardship as a servant leadership dimension; hence we discuss stewardship below as our next philosophical lens.

Stewardship

Aligned with the Servant Leadership (SL) positioning of organizational stewardship, we base our inclusion of stewardship as a philosophical dimension in our model on the contention that organizational members gain greater long-term utility from other-focused, prosocial behaviors (Davis et al. 1997; Hernandez 2012). Pro-organizational and collectivist behaviors are utilized by stewards to gain greater long-term utility than they would from individualistic, self-serving, and economic means. Stewards believe they have a moral obligation to place

[1] From a between family and nonfamily enterprise differences perspective, the five dimensions offer valuable clues into philosophical differences between family leaders and their corporate equivalents. Again, using a configuration and continuum approach to diagnose differences, given the motivation and systemic reward systems, there are likely differences between the leadership approaches pursued dependent on ownership type, or closely held family vs. widely held corporate.

the organization and its stakeholders above their own interest while ensuring the passing of the firm on to the next generation (Caldwell et al. 2002; Neubaum et al. 2017). Through role-modeling, instituting policies and procedures, communicating openly and transparently, and fostering organizational identification and intrinsic motivation, stewards create an organizational climate that encourages employees to share and promote the well-being of the collective (Davis et al. 1997; Pearson and Marler 2010). Family firms tend to exemplify the tenets of stewardship theory (Corbetta and Salvato 2004), and this theory has been used to explain organizational outcomes (Madison et al. 2015; Shulka et al. 2014). Recently, Neubaum et al. 2017 validated a measure of stewardship providing support that the effects of stewardship are stronger in family firms than in nonfamily firms. There are six interrelated dimensions—intrinsic motivation, organizational identification, use of personal forms of power, collectivism, low power distance, and involvement orientation—that all firms (family and nonfamily) have but, as the emergent evidence indicates, are more effectively embraced by family firms (Davis et al. 1997; Hernandez 2008, 2012; Vallejo 2009).

Intrinsic Motivation Stewards create an organizational climate that foster intrinsic motivation, or behavior driven by internal rewards, reinforced through opportunities for personal growth, achievement, affiliation, and self-actualization (Davis et al. 1997; Hernandez 2008). In a stewardship climate, employees are pushed to work harder for the organization and others because they are fulfilling their higher-order needs—receiving intrinsic benefits through the performance of meaningful and significant work (Hernandez 2012). Organizational practices of steward-led firms emphasize employee growth and provide intrinsic motivation through self-actualization mechanisms such as praise and support (Deci 1971, 1972).

Organizational Identification Steward-led organizations can create perceptions of fairness, unity (Greenberg 1990; Ramamoorthy and Carroll 1998), and organizational identification as a function of how they treat their employees (He et al. 2014; McAllister and Bigley 2002). Organizational members who accept an organization's mission, vision, and objectives, as well as define themselves by their involvement within the organization, express organizational identification (Davis et al. 1997). Those who identify with the organization and embrace its objectives desire a relationship with the organization and are committed to make it succeed over the long term, even at personal sacrifice (Astrachan et al. 2002; Davis et al. 2000). A stewardship climate fosters members who identify with the organization, view it as an extension of themselves,

and develop a prominent level of psychological ownership. Therefore, the members believe they are an intimate part of the business and internalize its success (Hernandez 2012; Le Breton-Miller and Miller 2009; Vallejo 2009). In alignment, servant-led organizations' employees extend their personal identities and form group-level identities (Parris and Welty Peachey 2013b).

Use of Personal Forms of Power The servant leadership behavior of persuasive mapping is analogous to how stewards do not utilize their positions of authority to lead but rely on their personal informal power gained through relationships built over time (French and Raven 1959; Kurland and Pelled 2000). Leaders in family firms have extraordinary personal discretion to create organizational values and practices that serve the interest of the company and its employees (De Massis et al. 2014). The process to become known as a knowledgeable and trusted leader, in accordance with social exchange theory (Blau 1964), is built upon the leader sharing information, establishing norms of reciprocity, and providing sound rationales for decisions that impact the work done (Heath 1994; Kurland and Pelled 2000). In strong stewardship climates, influencing others through open and lateral exchanges and using forms of personal power are the primary means of building a shared mental model of organizational values and collective responsibility (Kulharni and Ramamoorthy 2011).

Collectivism Organizational values and individual behaviors that embrace "the assumption that groups bind and mutually obligate individuals" (Oyserman et al. 2002, p. 5) are exemplified in stewardship climates (Early and Erez 1997). Stewards direct behavior toward accomplishing the collective good through creating an environment where individuals share responsibility for the accomplishment of positive outcomes (Hernandez 2012). In collectivist cultures, individuals form a group identity, a sense of belonging, and a belief that their individual contributions lead to the firm's success or failure.

Low Power Distance In organizations that identify with high stewardship virtues, the leader views their leadership as incomplete without a group of equals to build upon their talents. Greenleaf (1977) called these leaders primus inter pares—first among equals. Alternatively, in high-power-distance organizational climates, lower-rank members are dependent on permission and direction from those with higher power, status, and special privileges. Through fostering egalitarian interactions, discouraging inequalities, and

treating others equally, organizational members without formal titles or authority accept unequal distribution of power across organizational levels (Dorfman and Howell 1988). Inclusive action and collective responsibilities are outcomes of a strong stewardship climate (Hernandez 2012).

Involvement Orientation An inclusive environment that provides employees autonomy and involvement in decision-making processes results in higher engagement benefiting the organization and the employees (Butts et al. 2009; Riordan et al. 2005). Involvement-oriented management environments, consistent with a stewardship climate and servant leadership theory, enable members to reach their potential, provide increasing responsibilities and challenges, and support the collective achievement of organizational objectives (Hernandez 2012). Self-management work climates offer employees the chance to expand their knowledge, innovate, solve organizational problems, and provide intrinsic rewards for achieving organizational outcomes.

Led by steward leaders, family businesses are more likely to be concerned and supportive and to provide for employees. In comparison to nonfamily firms, this additional level of care in family firms for organizational members has resulted conceptually or empirically in greater employee trust, commitment to the organization, and prosocial behaviors (Pearson and Marler 2010); higher levels of intrinsic motivation (Bammens et al. 2015), organizational identification (Schröder et al. 2011; Vallejo 2008), and involvement orientation (Bammens et al. 2015); as well as increased use of personal forms of power (Marques et al. 2014), lower power distance (Sharma and Manikutty 2005), and collective action (Eddleston et al. 2012).

Origin of Heterogeneity 4 Stewardship as introduced conceptually by Davis et al. (1997) and validated empirically recently by Neubaum et al. (2017) canvasses both individual (psychological) and organizational (situational) perspectives. Again, as we did with SL, taking a configuration and continuum approach, it is possible to establish within (an individual family business; an individual family) differences along the six stewardship dimensions, which adds considerably to the understanding of family firm heterogeneity. Being careful not to be drawn into a detailed discussion that could take us along a path that detracts from the purpose of this chapter, we consider that family firms that embrace stewardship (and servant leadership) build trust, our third foundation philosophy.

Trust

Trust is embedded in economic transactions and social relationships (Fish et al. 2017; Granovetter 1985) and can be understood by exploring its causes, nature, and effects (Parris et al. 2016). It is defined as "the subjective probability with which an agent [trustor] assesses that another agent or group of agents [trustees] will perform a particular beneficial action" (James 2002, p. 292). Trust as social capital is critical for family firms to apply the frameworks of servant leadership and stewardship climate. For leaders in family firms, it is important to develop a deeper understanding of trust to fulfill their members' need for a deeper purpose and meaning, and create an organizational culture that harnesses the power of people working together (i.e., social capital) to create positive change.

The most widely cited models of trust were developed by Mayer et al. (1995), focusing on the interpersonal nature of trust, and extended into corporate trust and stakeholder trust by Schoorman et al. (2007). Trust implies vulnerability, as highlighted in their model that proposed perceptions of trustworthiness contribute to a person's willingness to take risks with another party. Trusting an individual or an organization requires two components: (1) belief in the trustworthiness of others and (2) one's specific preferences with regard to risk aversion, reciprocity, and altruism (Ashraf et al. 2006; Cox 2004; Karlan 2005; Sapienza et al. 2013). The willingness to be vulnerable can be predicted: if the perceived potential benefits outweigh the perceived potential costs, then the individual will be more willing to take a risk in a given relationship.

An individual or organization is perceived as trustworthy based on favorable evaluations of four dimensions: *ability* (competence and expertise that enables someone to influence a domain); *benevolence* (the extent to which a trustee is believed to want to do good to the trustor); *integrity* (the trustor's perception that the trustee adheres to a set of moral principles that the trustor finds satisfactory) (Mayer et al. 1995; Schoorman et al. 2007); *consistency* (the expectation that the trustee will adhere to the same principles).

A trusting relationship is highly unlikely when an individual has a low propensity to trust and perceives another individual as lacking ability, benevolence, integrity, or consistency. To create a sense of trustworthiness and accountability, organizational members, servant leaders, and stewards can build trust in an organization based on perceived organizational transparency through sharing information, creating learning opportunities, and communicating openly (Parris et al. 2016).

Origin of Heterogeneity 5 To demonstrate how the dimensions of trust potentially configure differently, and how each configuration impacts the perception versus reality of trustworthiness, consider the following profile: IaBc. In this configuration, an individual would be considered high on Integrity and Benevolence (thus the capital letters) but have a shortfall related to ability and consistency (lowercase letters). Interpreting this, it could be that the individual is of morally high standing and means well but is not capable and does not deliver at expected levels. So, without detailing and examining different potential configurations, it should be evident how the four dimensions of trust help to understand and appreciate heterogeneity in family firms. While positioned here for our purposes in individual differences terms, the fundamental principles apply at the organizational level of analyses so, again, between and within differences can be highlighted.

Where Heterogeneity Is Observable: Firm-Level and Individual-Level Frameworks

The third section of our model introduces two related frameworks—organizational-level (AGES; Fig. 21.3) and individual-level (SAGE; Fig. 21.3)—that capture the preceding mindset (i.e., paradigm and logics) and philosophical (i.e., servant leadership, stewardship, trust) considerations. The motivation behind creating these frameworks is to introduce into the lexicon theory-driven, evidence-based tools that efficiently and effectively consider where the within and between differences manifest. Understanding these, we argue, will facilitate the development of requisite skill-sets to improve family enterprise functioning.

The AGES framework is built around the areas in which unique features of family-controlled businesses are evident: architecture, governance, entrepreneurship, and stewardship. In broad terms[2]:

Architecture includes the underlying observable structures and systems, as well as the origins and outcome differences related to these, that are in place to deliver firm strategy (i.e., the *how*). So, pivotal in the AGES framework, architecture is in place to furnish governance, entrepreneurship, and stewardship (or the 'G,' 'E,' and 'S' of the framework). The architectures dictate

[2] For more detail on AGES and SAGE frameworks, see Craig, J. B. and Moores, K. (2017) *Leading A Family Business: Best Practice for Long-term Stewardship*. Praeger Publishing.

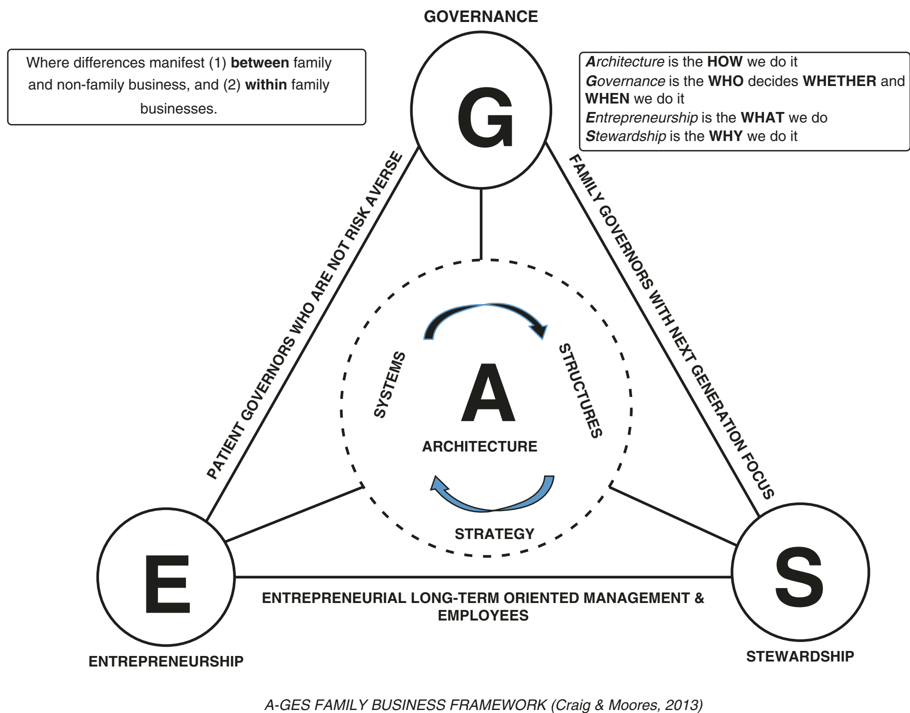

Fig. 21.3 AGES framework

both organizational activities and the authority and autonomy of those designated to undertake the activities. Architectures are (1) inherently different in all family firms, (2) will manifest in either functional, multidimensional, or matrix formats, (3) which will determine the managerial control systems, and (4) the functional systems in place, including performance, human resources, and marketing. In short, these architectures typically entail (1) flatter structures that enable (2) faster decision-making and (3) less sophisticated systems that are complemented by (4) clan-based controls.

Governance canvasses both business and family governance structures and some of the processes (i.e., the *who* decides *whether* and *when*). Governance provides direction, control, and accountability for an enterprise, to promote unity and commitment of ownership. For family enterprises the mixture of business, family, and ownership concerns makes governance more challenging than in nonfamily businesses, as this overlap often leads to a greater divergence of views on how the firm should be run, the direction it

should take, and the steps needed to achieve its goals. For the family, governance is a means to protect its wealth and preserve the family legacy, for generations to come.

In general, governance systems are used to direct and control an organization for and on behalf of the owners. They are built upon an interlocking framework of rules, relationships, structures, systems, and processes within and by which organizational authority is exercised and controlled. Understanding the unique governance dynamics of family business requires distinguishing between business governance and family governance, and therein lies the fundamental "between" difference. Still, when discussing heterogeneity of family enterprises, the "within" differences are similarly notable. Simply put, business and family evolution demands evolving governance, and this denotes considerable life-stage-influenced heterogeneity.

Finally, regarding the AGES dimension, the governance of family business is arguably more difficult than that in firms with more widely dispersed owners, as owners increasingly have different expectations of the business and, at the same time, also have limited opportunities to either influence others or liquidate their ownership relative to public company shareholders.

Entrepreneurship covers strategy and leadership (i.e., the *what*). To understand and explain entrepreneurship in family versus nonfamily businesses, the concept of entrepreneurial orientation (EO) is useful. The original measurement of the EO construct, which is based on the processes, practices, and decision-making approaches of firms that act entrepreneurially, suggested three main dimensions: *innovativeness* (a firm's tendency to engage in and support new ideas, novelty, experimentation, and creative processes that result in new products, services, or technological processes); *proactivity* (the propensity to compete aggressively and proactively with industry rivals); and *risk-taking* (the tendency of a firm's top management to take risks related to investment decisions and strategic choices in the face of uncertainty). Each of these three dimensions varies independently of the others, which suggests heterogeneity, as an entrepreneurial firm's levels of the three dimensions will differ, and their relative positions will likely change over time.

Stewardship is arguably the key differentiator and looks at both individual- and family business-level processes (i.e., the *why*) (see Fig. 21.3) and has been discussed in the previous section related to philosophies.

SAGE

The SAGE framework, which is derived from the AGES framework, captures the four roles that a family business leader needs to master concurrently to lead both the business and the family capably. Specifically, he or she needs to be a *Steward*, an *Architect*, a *Governor*, and an *Entrepreneur*.

Outcomes of Heterogeneity: Skill-Sets Required to Function Effectively in Heterogeneous World of Family Business

The final part of our model considers the skill-sets emanating from the antecedent elements discussed. Fundamentally, our argument is that an appreciation of the diverse and evolving sub-parts of the model will contribute to those involved, whether in a business or a family role, being better prepared to lead, to govern, to innovate, and to adapt. To capture the importance of having a way to understand the underlying heterogeneity in family enterprises, we divide this part into family and business skill-sets.

Family Skill-Sets As family enterprises introduce family governance initiatives to improve communication and education, opportunities to contribute in non-operational roles are developed. Forums and programs such as family assembly, family council, family office, and the associated guiding documents (e.g., family charter or constitution) require leadership and resourcing by committed and prepared family members. Our thesis is that the three-circle paradigm; dual-logic mindset; philosophies anchored in servant leadership, stewardship, and trust; and the firm- and individual-level frameworks we have introduced in the first three parts of the model are integral to such preparation.

Business Skill-Sets As family enterprises introduce business governance initiatives to provide independence and accountability and attract highest-caliber family and nonfamily executives and directors, an understanding of what distinguishes family enterprises from nonfamily enterprises and an individual family enterprise from other family enterprises is required to discharge responsibilities and contribute optimally. Given the vastness of the field and the considerable heterogeneity discussed above, it is important, even mandatory, that those recruited to business roles are well-versed in what (1) distinguishes family enterprises and (2) what is distinctive about a specific family business.

To illustrate, consider an independent director or nonfamily professional manager who has been approached to join a family enterprise board or executive team. Though likely accomplished in the corporate nonfamily domain, the targeted director or manager would benefit from reviewing the idiosyncratic family enterprise context using the core F-O-M paradigm and the dual-logic mindset; the philosophies linked to servant leadership, stewardship, and trust; and the AGES and SAGE frameworks. Similarly, a married-in or even next-generation family member would benefit by reviewing the antecedents to understand what is distinctive about their family enterprise.

Discussion

To gain a deeper understanding of how family enterprises are all the same but different, we identified five origins of heterogeneity: two primary antecedents—the presence of family (i.e., F-O-M Venn diagram) and their pursuit of dual logics in decision-making—that inform three philosophies: servant leadership, stewardship, and trust. These origins of heterogeneity shape the structure, processes, and systems of family firms and are observable at the organizational (AGES) and individual levels (SAGE). The AGES framework provides insight into how a family firm is controlled; the SAGE framework captures the four roles a family business leader needs to lead. The outcomes of a family firm's mindsets, philosophies, and frameworks require family firm leaders to have both family and business skill-sets to function effectively in the heterogeneous world of family business. A conceptual meta-model of family enterprise heterogeneity representing these elements (Fig. 21.1) can be used as guide for family firms to identify the perception versus reality of their heterogeneity, and then help them to develop strategies to maintain organizational culture or evaluate organizational change.

In a family firm, any group or individuals (i.e., stakeholders) will most likely form perceptions of the firm's heterogeneity during some communication interaction with the firm. A communication interaction can be either stakeholder-initiated or firm-initiated, and is a communication event where information is shared between the firm and stakeholder. Each communication interaction has the potential to change stakeholder perceptions of the family firm's heterogeneity. The reality of heterogeneity behavior relates to actual behaviors exhibited by organizational members, and will have strong impact on stakeholder perceptions; but reality and perception may not match, due to potential intervening variables. Each variable in the conceptual meta-model of family enterprise heterogeneity (Fig. 21.1) can be evaluated along a spectrum

Perception of Heterogeneity Behavior (High → Low)

	Low	High
High	**QUADRANT I** High perception + Low reality *Stakeholders are being fooled – condition not likely to endure – actual behavior must change*	**QUADRANT II** High perception + High reality *The ideal situation – efforts to maintain needed*
Low	**QUADRANT III** Low perception + Low reality *Stakeholder perceptions accurate – major efforts need to change behavior and communicate the new behavior*	**QUADRANT IV** High reality + Low perception *Likely a low level of antecedent exists – greater efforts to achieve antecedent needed*

Reality of Heterogeneity Behavior

Fig. 21.4 Perception and reality of heterogeneity grid. (Source: Adapted perception and reality of ethical behavior grid from Parris et al. (2016))

utilizing perception and reality behavior grid,[3] as shown in Fig. 21.4. For example, a family firm could evaluate one of the core mindsets, such as their dual logics. The reality of dual-logic behavior and its perception can both be high, as shown in Quadrant II in Fig. 21.4. In this case, if having both economic and noneconomic imperatives is strategically important, the family firm would need to maintain status quo; however, if any factor is low as represented in Quadrants I, III, and IV, the firm would then pursue something different.

Implications for Practice

The inherent heterogeneity of family firms challenges their leaders to understand how their organization is unique or similar. We provide a conceptual model of family firm heterogeneity to help family firm leaders develop a

[3] For more detail on the perception and reality behavior grid, see Parris et al. (2016) Exploring transparency: A new framework for responsible business management. *Organizational Dynamics*.

deeper understanding of their firm's mindsets, philosophies, frameworks, and skill-sets to make informed strategic decisions that further support the organizational culture or evaluate organizational change. As each antecedent informs the others, it is critical family firms leaders acknowledge and evaluate the intended and unintended consequences of increasing or decreasing any of the factors, as well as explore whether a factor should be strengthened or deemphasized. For instance, a family firm that is high in both perception and reality of practicing servant leadership may be high on four of the six dimensions of servant leadership, and decide to strengthen one or two dimensions by refining the organizational (AGES) and individual (SAGE) frameworks.

Future Research

Our conceptual model provides a template for scholars to advance the study of family firms and test application of the model empirically. Of particular benefit would be (1) experimental-design research that furthers the understanding of the mindsets that drive decision-making; (2) studies that examine relationships among servant leadership, stewardship, and trust, which could lead to a robust meta-philosophical diagnostic to better inform both family and nonfamily fields; and (3) longitudinal research that includes the dimensions of our model and which captures both economic and noneconomic output measures.

Conclusion

Mindsets of those involved in family enterprises inform *both* the three independent and interdependent family-owner-manager systems *and* the dual economic and noneconomic logics. Building on this underpinning of paradigmatic and logics, servant leadership, stewardship theory, and trust provide rich philosophical foundations that inform frameworks at both organizational (AGES) and individual (SAGE) levels, which isolate the observable differences both between family firms and nonfamily firms and within our class of firms. Understanding these relationships provides a foundation to the development of skill-sets needed to manage successfully the heterogeneity confronted by family business leaders.

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Justice in the Family Firm: An Integrative Review and Future Research Agenda

Laura E. Marler, Tim Barnett, and James M. Vardaman

Introduction

A key basis for devoting scholarly attention to family firms is the notion that they may differ in substantial ways from nonfamily firms due to the involvement and influence of a controlling family or families in the ownership and management of the business (Chrisman et al. 2012; Holt et al. 2017; Klein et al. 2005; Litz 1995). Yet, there is a general consensus among family firm researchers that family firms themselves are heterogeneous, in that the interactions between and among the family and business may play out very differently within different family firms, depending on such factors as the extent of family involvement in ownership and management, the degree and manner in which family influence is exerted in the firm, and the extent to which different family firms prioritize family-centered non-economic goals (Anglin et al. 2017; Chua et al. 2012; Marques et al. 2014; Miller and Le Breton-Miller 2006; Nordqvist et al. 2014; Sharma et al. 1997).

Family firm research has explored differences between family and nonfamily firms and heterogeneity among family firms, largely through the lens of agency theory, stewardship theory, the resource-based view of the firm, institutional theory, and other "macro" theories applied to the family firm context (Carney and Gedajlovic 2002; Leaptrott 2005; Schulze et al. 2001; Sirmon

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E. Memili, C. Dibrell (eds.), *The Palgrave Handbook of Heterogeneity among Family Firms*,
https://doi.org/10.1007/978-3-319-77676-7_22

and Hitt 2003). Relatively less emphasis has been placed on theory and research related to "…individual, interpersonal, and group-level behaviours in organizations…" (Gagné et al. 2014, p. 643). This lack of emphasis presents a theoretical gap in family firm research because attitudinal and behavioral challenges often surround family involvement in the firm's ownership and management (Bernhard and O'Driscoll 2011; De Massis et al. 2016; Eddleston and Kidwell 2012; Lansberg 1983; Lubatkin et al. 2007; Villanueva and Sapienza 2009).

Owing to the unique interaction of family and business systems, one of the foremost challenges is whether decision processes (procedural justice), decision outcomes (distributive justice), and decision-makers (interactional justice) are perceived as just by family firm stakeholder groups, including family members involved directly in the firm, family members not directly involved in the firm, and nonfamily managers and employees of the firm (Barnett and Kellermanns 2006; Lansberg 1983; Lubatkin et al. 2007; Schulze et al. 2002). Family influence has been conceptually linked with perceptions of injustice among certain stakeholders (Barnett et al. 2012), in particular nonfamily employees who comprise a key stakeholder group in the family firm (Mitchell et al. 2003). Parental altruism and preferential treatment of family member employees are specific ways in which family influence may negatively impact nonfamily stakeholders (Lubatkin et al. 2005, 2007). Notions of justice or injustice have likewise been extended to other stakeholders such as family employees, managers, and family owners who are frequently characterized as prone toward acting in self-interested ways (Lubatkin et al. 2007).

Theorizing about perceptions and the effects of justice in the family firm draws upon a vast body of knowledge on organizational justice, which is one of the more extensively studied constructs in the behavioral literature in management, with at least 2000 articles published in applied psychology and organizational behavior journals between the 1970s and 2010 (for recent meta-analytic reviews of the organizational justice literature at the individual and group level, see Colquitt et al. 2013 and Whitman et al. 2012). A great deal of literature indicates that when employees perceive treatment, outcomes, and interactions as just, positive attitudes and behaviors such as job satisfaction (Moorman 1991), affective commitment (Allen and Meyer 1990), job performance (Collins et al. 2012), and citizenship behaviors (Organ et al. 2006) are fostered within the organization. When employees perceive treatment, outcomes, and interactions as unjust, there are negative consequences for the organization such that positive attitudes and behaviors are less likely. Workplaces lacking in fairness are also associated with deviant

behavior (i.e., theft; Greenberg 1990) and greater intention to turnover (Dailey and Kirk 1992).

Despite the extensive study of justice in the organizational behavior literature since the 1970s, there is a relative dearth of research that examines the justice perceptions of family and nonfamily stakeholders in the family firm context. Although three types of justice have been discussed by family firm scholars (i.e., distributive, procedural, and interactional justice), most of the published literature that does exist is conceptual in nature (e.g., Barnett and Kellermanns 2006; Carsrud 2006; Lubatkin et al. 2007), and there have been only a few efforts to test research questions and propositions put forward by these theoretical pieces (Carmon et al. 2010; Kidwell et al. 2012; Sieger et al. 2011; Spranger et al. 2012).

One explanation for the paucity of empirical studies of the various types of justice in family firms could be the unique and complex nature of family firms. For example, Carsrud (2006, p. 855) pointed out that subjecting theoretical ideas about justice in family firms to empirical research "…could become problematic…" due to a number of factors in the family firm context that do not exist in other types of firms such as the interaction of family and business systems and the lack of satisfactory operational definitions of relevant concepts such as family, family influence, and family vision. ***Despite these difficulties, we believe that it is important that we extend our understanding of justice perceptions in family firms, and to do so, additional empirical research is vital.*** A good step toward this goal is to review and organize the literature to provide a coherent platform for these tests.

Therefore, the aim of this chapter is to summarize the existing literature on justice in the family firm in order to provide a theoretically sound launching point for empirical testing of relationships proposed in the literature. To accomplish this goal, we take stock of the small but growing family firm literature on justice perceptions. In this review, we briefly review notable conceptual papers published in the last 15 years that have put forward research questions and/or propositions related to justice perceptions in the family firm context. We look at the handful of recent empirical studies that have been done on justice in family firms and assess the extent to which research questions posed in the conceptual literature have been addressed, and identify a number of research questions that await empirical answers. We also identify reliable and valid measures for justice-related constructs, as well as family influence. Finally, we address some of the difficulties in translating conceptual ideas into empirical studies by considering challenges unique to measurement in the family firm context. Ultimately, we seek to clarify the unique questions about justice perceptions in family firms and to encourage researchers to design empirical studies to test the myriad unanswered questions.

Theoretical Background

The justice literature suggests that at least three types of justice are significant to individuals: distributive, procedural, and interactional. Distributive justice relates to the perceived fairness of outcomes resulting from a decision-making process (Adams 1965; Homans 1961). Individuals are thought to determine whether or not their outcomes are fair by comparing their own ratio of inputs and outcomes to the ratio of similar others (Adams 1965). Meta-analytic evidence suggests individuals who perceive outcomes to be fair will be more likely to engage in organizational citizenship behavior, have higher task performance, and be less likely to engage in counterproductive behaviors in the workplace (Colquitt et al. 2013).

The procedural form of justice, rooted in principles of fair legal proceedings, was first introduced by Thibaut and Walker (1975) and refers to the perceived fairness of the decision-making process used to determine outcomes (Lind and Tyler 1988). Leventhal (1980) further extended the notion of procedural justice beyond the legal context suggesting that six rules could be used to determine procedural justice in decision-making: consistency of procedure across time and individuals, suppression of bias by the decision-maker, accuracy of information, correctability such as the availability of appeal procedure, and ethicality. Research later revealed the importance of employee perceptions related to the fairness of policies and procedures such as performance appraisals (Greenberg 1986) and having a voice in decision-making processes (Bies and Shapiro 1988). Procedural justice aggregated to the group climate level represents how employees collectively view their treatment in the workplace (Naumann and Bennett 2000) and has also been linked to individual (Colquitt et al. 2002) and unit-level outcomes (Ehrhart 2004).

Interactional justice relates to the fairness of interpersonal treatment during a decision-making process (Bies and Moag 1986) and has also been further differentiated into two types: interpersonal and informational justice. The interpersonal type of justice relates to the treatment of individuals during the process, that is, the extent to which they are treated with dignity and respect (Greenberg 1990). Informational justice relates to the explanation provided as to why procedures were determined in a certain manner (Colquitt et al. 2001) or the adequacy of an explanation (Greenberg 1993). Perceptions of fairness related to interpersonal treatment are important because they have been positively associated with citizenship behavior and task performance and negatively associated with counterproductive workplace behaviors (Colquitt et al. 2013).

A Conceptual Review of Justice in the Family Firm

Early theorizing on the effect of justice in the family firm suggests that just processes and outcomes are likely to differ in family firms compared to nonfamily firms due to the overlap of the family and business systems (Lansberg 1983). Family firm scholars have drawn upon the justice literature to theorize *how* the overlapping of family and business systems affects the perceptions of fairness among both family and nonfamily stakeholders and how those perceptions affect their respective attitudes, behaviors, and firm-level outcomes. In this section, we provide an overview of notable conceptual papers related to justice in the family firm that have been published in the past 15 years (see Table 22.1).

While family employees are not immune from perceptions of injustice (Carsrud 2006), nonfamily employees have garnered the most theoretical attention. Because family member employees often hold key positions within the firm, nonfamily employees may be less likely to be promoted and more likely to experience less favorable procedures and outcomes. Following this rationale, it is not surprising that nonfamily employees have a greater likelihood of perceiving injustice in terms of the outcomes they receive in the family firm, hence negatively impacting distributive justice. Nonfamily member perceptions of injustice may also stem from the altruistic treatment afforded to family members in cases where these family members receive promotions without merit. The status conferred upon family employees due to their family membership may result in them being subject to different rules or standards (i.e., procedural justice) and more favorable interpersonal interactions (i.e., interactional justice).

Distributive Justice in the Family Firm

Four conceptual studies theorize about distributive justice in the family firm and employ agency theory, organizational justice theory, and family firm theory to do so (see Table 22.1). Schulze et al. (2002) draw upon agency theory to better understand when altruism toward family members will be associated with costs or if it will be beneficial. They formally propose that altruism and owner control jointly lead to incentive misalignment and perceptions of distributive injustice, which hampers a family firm's ability to compete. In developing this proposition, they note that nonfamily "agents" will have fewer promotion opportunities, perquisites, and privileges afforded to family "agents" which is likely to shape the distributive justice perceptions of nonfamily members. Thus, their theorizing suggests that nonfamily employees will behave in a self-interested manner due to perceptions of distributive injustice. Like Schulze et al. (2002), Van der Heyden et al. (2005) theorize about the

Table 22.1 Notable published conceptual family firm papers related to justice

Paper	Theoretical perspective/ framing	Key constructs	Formal research propositions related to justice	Nature of proposition(s) and/or key conceptual arguments and questions directly related to justice in family firms
Schulze et al. (2002) in *Managerial and Decision Economics*	Agency theory	Family ownership; altruism; distributive injustice	1	– Altruism and owner control jointly lead to incentive misalignment and perceptions of distributive injustice, which will hamper a family firm's ability to compete
Van der Heyden et al. (2005) in *Family Business Review*	Justice theory; organizational justice theory	Procedural justice; distributive justice; justice norms	0	– Different norms of distributive justice (need, merit, and equality, respectively) are relevant to the family, the family firm, and external shareholders, which will lead to disagreements about fair allocations – Adherence to procedural justice in decision-making will alleviate some of the problems that result – Application of Leventhal's (1980) procedural justice rules are essential to fair process in family firms
Barnett and Kellermanns (2006) in *Entrepreneurship Theory and Practice*	Organizational justice theory; family firm theory	Family influence; family firm HR practices; nonfamily employees' perceptions of procedural, distributive, and interactional justice	3	– Excessive family influence may lead to unfair HR practices, while moderate family influence may lead to fair HR practices – HR practices in family firms will have direct impact on nonfamily employees' justice perceptions – HR practices will partially mediate the effect of family influence on nonfamily employees' justice perceptions
Carsrud (2006) in *Entrepreneurship Theory and Practice*	Family firm theory; social systems	Family influence; family/ nonfamily; reference groups	0	– Empirically testing propositions related to family influence and nonfamily justice perceptions can be quite complex – Which "family" is the reference group for a nonfamily employee—the controlling owner's family or the employee's own family? – More precision is needed in definitions of family and family influence – Family members' perceptions of justice are impacted by two systems (the family and the firm), but nonfamily employees are only impacted by one (the firm)

Lubatkin et al. (2007) in *Journal of Management Studies*	Organizational justice theory; agency theory	Self-control; parental altruism; agency costs; procedural justice; distributive justice	5	– Distributive and/or procedural injustice will be associated with higher agency costs – Self-control (of the controlling owner) will moderate the relationship between parental altruism and perceptions of procedural injustice, among both family and nonfamily members – Self-control (of the controlling owner) will moderate the relationship between parental altruism and perceptions of distributive injustice, among both family and nonfamily members – Family members will be more likely to assess distributive justice in terms of equity, need, and equality rules of distribution. Nonfamily members will tend to focus on the equality rule of distribution
Barnett et al. (2012) in *Entrepreneurship Theory and Practice*	Social exchange theory; family firm theory	Family involvement; family vision; restricted and generalized social exchange; procedural justice climate; intra-family succession	2	– Procedural justice impacts the family firm succession process not only at the individual level of perception but also at the collective (group) level – A weak family vision and restricted social exchange will lead to a more negative procedural justice climate among nonfamily managers – A strong family vision and generalized social exchange will lead to a more positive procedural justice climate among nonfamily managers
De Massis (2012) in *Entrepreneurship Theory and Practice*	Affect theory of social exchange; social identity	Procedural justice climate; decision process; exchange norms; social identity categories; reciprocity; trust	2	– The controlling family's ability to influence decision processes and exchange norms in the firm is not a given – Different social identity categories within and outside the dominant coalition of the family firm will make it more difficult for the controlling family to influence decision processes and exchange norms – Non-reciprocity is a greater risk in a generalized exchange system and this risk will mediate the relationship between the social exchange system and procedural justice climate among nonfamily managers – Trust will moderate the relationship between risk of non-reciprocity and procedural justice climate; a high level of trust will enhance the generalized exchange and procedural justice climate relationship among nonfamily managers

potential difficulties associated with the overlap of the family and business institutions. However, they build on justice theory related to norms of justice and propose that different norms of distributive justice (need, merit, and equality, respectively) are relevant to the family, the family firm, and external shareholders and suggest these differences will lead to disagreements about fair allocations.

Barnett and Kellermanns (2006) propose that various levels of family influence lead to fair/unfair HR practices and that these practices influence nonfamily employee perceptions of distributive justice, such that attitudes about outcomes such as pay and promotions will influence their attitudes and behavior. Lubatkin et al. (2007) also developed theoretical propositions regarding the behavioral implications of distributive justice perceptions; however, they use agency theory as a foundation for their theorizing. They propose that distributive injustice will be associated with higher agency costs. Their work is predicated on the notion that parental altruism is potentially beneficial or costly to the family firm, depending on the self-control of the controlling owner. They propose that by demonstrating self-control, the owner can mitigate the potential negative effects of altruism on injustice. They also propose that family members and nonfamily members will differ in how they assess distributive justice. Whereas family members will be more likely to assess distributive justice in terms of equity, need, and equality rules of distribution, nonfamily members will tend to focus on the equality rule of distribution.

Procedural Justice in the Family Firm

Our review of the literature found that the procedural form of justice in the family firm is considered in five conceptual studies, and these studies draw from agency theory, organizational justice theory, the theory of the family firm, social exchange theory, affect social exchange theory, social identity theory, and the justice climate literature (see Table 22.1). These consider various factors that likely affect the perceptions of processes within the family firm. Barnett and Kellermanns (2006) propose the level of family influence nonfamily employee perceptions of human resource (HR) practices such that a moderate amount of family influence would be associated with fair HR practices and excessive family influence with unfair HR practices. HR practices are proposed to have a partial mediating effect on the relationship between family influence and nonfamily employees' procedural justice perceptions. HR practices are proposed to shape procedural justice perceptions, which

shape the formation of global attitudes about the organization (i.e., perceived organizational support, trust, organizational identity). They propose these attitudes result in value-creating attitudes and behaviors.

Similarly, Van der Heyden et al. (2005) theorize that "fair process is therefore an essential part of establishing trust, commitment, and harmony in family firms" (p. 7). Additionally, their theorizing suggests an environment of fairness leads to enhanced firm performance as well as the ability to attract qualified nonfamily managers. Drawing upon Leventhal's (1980) procedural justice rules, they suggest that adherence to these rules is beneficial to all stakeholders, both family and nonfamily.

The justice perceptions of family and nonfamily stakeholders may also be influenced by parental altruism. Parents engage in actions to benefit the welfare of their children (Stark 1995), and the interaction of family and business systems suggests parental altruism is likely to be part of the parent-child dynamic that filters into the firm. Nonfamily employees are likely to witness altruistic behavior and perceive it as a justice violation (Lubatkin et al. 2007). Family employees, too, may perceive justice violations. In both cases, Lubatkin et al. (2007) also offer theory on this issue, with self-control playing a pivotal role. According to their theorizing, parental altruism will be problematic to the extent that a controlling owner has problems with self-control. Specifically, they propose the self-control demonstrated by the controlling owner will moderate the relationship between parental altruism and perceptions of procedural injustice, among both family and nonfamily members (see Table 22.1).

Another issue involves nonfamily stakeholders not supporting family succession, which is essential to the continuation of the family firm into future generations. Barnett et al. (2012) theorize that nonfamily managers' hindrance or support of the process relates to their perceptions of the firm's procedural justice climate. They theorize family influence, exerted through the family's involvement and vision, affects the types and norms of social exchanges that occur within the firm, which in turn shapes the firm's procedural justice climate. Family involvement and vision are proposed to impact the procedural justice of the succession process through individual and collective (group) exchanges, contingent on whether the family business has a restricted (quid pro quo) or generalized (we all help each other) exchange system. Extending Barnett et al.'s (2012) work, De Massis (2012) proposes that not reciprocating exchange represents a risk to the justice climate among nonfamily managers in a generalized exchange system. He also sets forth the proposition that trust will moderate the relationship between the risk of non-reciprocity and procedural justice climate such that a high level of trust will enhance the generalized exchange and foster a positive procedural justice climate.

Interactional Justice in the Family Firm

The interactional form of justice has the least theoretical development in the family firm literature (see Table 22.1). Only one study offers theorizing related to processes that could influence the interactional justice perceptions of nonfamily employees. Barnett and Kellermanns (2006) note the importance of family influence in the firm, highlighting the importance of the relationship between nonfamily employees and family decision-makers. Their model suggests interactional justice will shape perceptions of support, trust in supervisors, and the extent to which a nonfamily employee identifies with a supervisor.

Empirical Investigation of Justice in the Family Firm

In this section, we highlight relevant findings from the four studies that empirically examine various forms of justice in the family firm. These studies are summarized in Table 22.2. We organize our discussion around the operational definitions of justice used in the studies which include distributive, procedural, interactional, and composite justice. The distributive justice perceptions of family and nonfamily member employees have only been examined in two studies. The findings are illustrative of the potential positive and negative effects of justice perceptions. The study conducted by Sieger et al. (2011), which included both family and nonfamily employees, indicated that higher distributive justice perceptions among nonfamily employees were associated with greater perceptions of psychological ownership. Psychological ownership partially mediated the relationship between distributive justice and affective commitment as well as the distributive justice-job satisfaction relationship. This finding suggests justice perceptions may create a stronger bond between the nonfamily employee and the family business. It is also important because psychological ownership has been linked to increased levels of helping behavior among nonfamily employees within family firms (Bernhard and O'Driscoll 2011).

Distributive justice has also been linked to relationship conflict. In a study of family member employees, Kidwell et al. (2012) found that when perceptions of distributive justice were higher there was less relationship conflict. Relationship conflict also mediated the relationship between distributive justice perceptions and family member impediment (dysfunctional attitudes/behaviors). Taken together, these findings support some of the propositions

Table 22.2 Recent published empirical family firm studies related to justice

Paper	Theoretical perspective(s)	Sample	Data source	Key findings (non-findings) related to justice in family firms
Carmon et al. (2010) in *Journal of Family Business Strategy*	Social identity theory; organizational justice theory	118 employees of 18 family firms (combination of family and nonfamily)	Survey; cross-sectional	– Family status not associated with perceptions of informational or interpersonal justice – Organizational identification did not mediate the justice to organizational commitment relationship, but post-hoc test suggested organizational commitment mediated the justice to organizational identification relationship – Perceptions of informational justice and interpersonal justice were both related to organizational commitment
Sieger et al. (2011) in *Journal of Family Business Strategy*	Organizational justice theory; psychological ownership	310 nonfamily employees of German and Swiss companies	Survey; cross-sectional	– Higher distributive justice perceptions were associated with psychological ownership – Procedural justice was not associated with psychological ownership – Psychological ownership partially mediated the distributive justice to affective commitment and job satisfaction relationships – Psychological ownership did not mediate the procedural justice to affective commitment or job satisfaction relationships

(*continued*)

Table 22.2 (continued)

Paper	Theoretical perspective(s)	Sample	Data source	Key findings (non-findings) related to justice in family firms
Spranger et al. (2012) in *Organizational Behavior and Human Decision Processes*	Network/kinship ties	378 employees of 21 family firms	Survey; cross-sectional	– Family members perceived higher levels of composite justice than nonfamily members – High levels of family density was associated with higher perceived levels of composite justice – The association between high levels of family density and composite justice was stronger for family than nonfamily members – The association between perceptions of nepotism and composite justice was more negative for nonfamily than family members
Kidwell et al. (2012) in *Journal of Business Ethics*	Stewardship theory; agency theory; social exchange theory; family firm theory	147 family member employees from multiple family firms	Survey; cross-sectional	– Perceptions of higher distributive justice among family member employees were associated with less relationship conflict – Relationship conflict mediated the relationship between distributive justice perceptions and family member impediment (dysfunctional attitudes/behaviors)

set forth by Lubatkin et al. (2007), who suggest lower levels of distributive justice will be associated with agency costs (e.g., dysfunctional behavior). Both empirical studies of distributive justice provide evidence that employee perceptions of the distribution of outcomes in the family firm shape their attitudes and behavior. However, numerous propositions remained untested. We have derived the following research questions from the literature on distributive justice in the family firm:

– *What types of comparisons are made between family and nonfamily employees when determining if outcomes are fair? Do these groups view each other as similar others?*
– *How do justice norms shape expectations and reactions of various stakeholders? Do family and nonfamily employees have different expectations regarding how resources will be allocated (*e.g.*, equally in the family, merit-based for employees)? How does meeting or not meeting these expectations affect attitudes and behavior?*
– *Does psychological ownership mediate the relationship between distributive justice perceptions and behavioral outcomes such as OCB and deviance?*

Empirical research on procedural justice in the family firm remains scant. The sole study empirically examining procedural justice perceptions in the family firm context provides some support for Barnett and Kellermanns' (2006) propositions that perceptions of procedural fairness will influence the work attitudes of nonfamily employees. Sieger et al. (2011) found that both affective commitment and job satisfaction were influenced by procedural justice. However, procedural justice was not associated with psychological ownership. Unlike distributive justice, psychological ownership did not mediate the relationship between procedural justice and affective commitment or job satisfaction.

While Sieger et al.'s (2011) study suggests that procedural justice shapes the attitudes of nonfamily employees, the majority of the theoretical propositions on procedural justice in the family firm remain untested. We have little evidence of the processes that shape perceptions of procedural justice in the family firm or how procedural justice influences the attitudes and behaviors of family stakeholders and nonfamily stakeholders. Therefore, we have derived the following research questions from the literature on procedural justice:

– *Through what processes does procedural justice shape the attitudes and behaviors of family stakeholders? What factors other than family influence and HR practices might uniquely influence various stakeholders' perceptions of procedural justice?*

- *Does procedural justice support/hinder intra-family succession, and if so, how does it affect various stakeholders' perceptions of potential injustice related to processes and procedures in the firm?*
- *To what extent does family influence factor in to the attitudes and behaviors of both family and nonfamily employees?*
- *Does the adherence to Leventhal's (1980) procedural justice rules increase perceptions of procedural justice among family and nonfamily employees?*
- *Do perceptions of justice at the collective level (*i.e., *procedural justice climate) influence outcomes in the family firm?*
- *How does owner self-control affect employee perceptions of procedural justice?*

Perceptions related to the informational and interpersonal forms of justice of both family and nonfamily employees were included in the 2010 study conducted by Carmon and colleagues. Counter to expectations, family status was not associated with perceptions of informational or interpersonal justice. This finding is surprising given that a great deal of theorizing suggests that the treatment of family and nonfamily employees will differ. Both informational and interpersonal justice were related to organizational commitment but not organizational identification. Also, organizational identification did not mediate the justice to organizational commitment relationship as hypothesized, but post-hoc analysis suggested organizational commitment mediated the justice/organizational identification relationship. This study indicates that the treatment of individuals during interpersonal interactions is important because it can shape attachment to the organization (e.g., commitment). However, because so little empirical research has been conducted on interactional justice perceptions in the family firm, many unanswered questions remain. We have derived the following research questions on interactional justice from the extant literature:

- *When does family membership influence interactional justice perceptions?*
- *Through what processes does interactional justice shape the attitudes and behaviors of family stakeholders?*
- *What factors other than family influence and HR practices might uniquely influence various stakeholders' perceptions of interactional justice?*
- *Do the perceptions of interactional justice among stakeholders affect particular outcomes in the family firm?*

The work of Spranger et al. (2012) uses a composite measure of justice comprised of distributive, procedural, and interactional justice, and additional questions can be derived from the findings in this study. Their findings support the prevalent idea that nonfamily employees have lower perceptions

of justice compared to family employees. Contrary to their hypothesis, greater concentrations of family members in the firm were not associated with lower levels of justice. The authors suggested this finding occurred because higher levels of family density were associated with higher levels of composite justice among all employees, not just family member employees. As expected, they found that the association between high levels of family density (concentration of family in the firm) and composite justice was stronger for family than nonfamily members. Also, the negative association between perceptions of nepotism and composite justice was stronger for nonfamily members, supporting Schulze et al.'s (2002) contention that altruism negatively affects justice perceptions. Additional questions derived from this study include:

- *How does family density relate to family influence and through what mechanisms other than nepotism does this type of family influence affect justice perceptions?*
- *How and what attitudinal and behavioral outcomes are influenced by composite justice and how does these affect a family firm's ability to compete?*

Measurement Tools and Challenges

Justice Measures

Scholars have encouraged empirical examination of justice in family firms (e.g., Barnett and Kellermanns 2006; Carsrud 2006), with some suggesting that the procedural and distributive forms of justice for family and nonfamily employees are "missing variables" in the family firm literature (e.g., Yu et al. 2012). Yet, as shown by our review, only a small number of studies have directly addressed issues of justice in the family firm. Psychometrically sound measures assessing the various forms of justice can be found in the HR/OB literature (Gagné et al. 2014). We provide a summary of scales that family firm researchers can employ in empirical designs (see Table 22.3).

Measures of procedural, distributive, interpersonal, and informational justice validated by Colquitt (2001) are, since their publication, perhaps the most frequent measures used to assess these respective forms of justice. Colquitt (2001) drew upon earlier conceptual definitions of the various dimensions of justice (e.g., Bies and Moag 1986; Leventhal 1980; Thibault and Walker 1975) to support each item in his measures and subjected them to a rigorous validation process. This approach yielded four parsimonious measures, anchored on five-point scales, which can be readily adapted to a wide variety of organizational settings, including family businesses. Alternative

measures of distributive, procedural, and interactional justice have also been used in empirical studies in the general OB literature (Bies and Moag 1986; Moorman 1991; Price and Mueller 1986).

Although most justice research has focused on the specific types of justice as discussed above, scholars have asked whether this focus fully captures the manner in which individuals reason about fairness (Ambrose and Schminke 2009; Cropanzano et al. 2001; Lind 2001). Attention in the OB literature has recently turned to overall justice perceptions, which involve general perceptions of fairness that do not explicitly refer to decision processes (procedural justice), outcomes (distributive justice), or treatment (interactional justice). Some of this research suggests that overall justice perceptions may mediate the relationship between the different types of justice and employee attitudes and behavior (Ambrose and Schminke 2009). A six-item measure of overall justice, which demonstrated acceptable psychometric properties, was developed by Ambrose and Schminke (2009). In addition, a recent family firm study by Spranger et al. (2012; see Table 22.3) took a somewhat different approach to the study of overall justice by using an 18-item composite measure, which included items from previously developed procedural justice, distributive justice, and interactional justice scales, that they termed an overall justice measure.

Measurement Challenges in the Family Firm Context

Assessing Family Membership The lack of empirical examination of justice in the family firm is likely due to the variety of challenges related to the complexities associated with this research setting (Carsrud 2006). Ambiguities surround the mere identification of what constitutes family membership. Carsrud (2006) denoted the need for more precision in definitions of family and family influence. We agree that many questions remain regarding what constitutes familial status, such as the status of individuals who have married into the family (in-laws), and individuals who were previously married to a family member (i.e. divorcees) who still work for the firm. Therefore, researchers are left to determine what constitutes family membership and how family members should be best identified.

Justice determinations often involve comparisons of treatment between individuals (Colquitt 2001). Theorizing about justice in the family firm suggests that nonfamily employees make these comparisons with individuals in the family group. Carsrud (2006) points out the problematic nature of determining which “family” is the reference group for a nonfamily employee. Also, he points out that family members’ perceptions of justice are impacted by two

systems (the family and the firm), but nonfamily employees are only impacted by one (the firm).

Fortunately, the few empirical studies of justice in the family firm to date seem to be representative of various types of family firms. However, just as family firms are heterogeneous, so are the individuals working within them. While family members share a common bond and may share a similar overall vision for the firm, they may differ in their characteristics and perceptions. How can researchers account for these differences moving forward? One useful approach is to include multiple family respondents in a study (e.g., Sharma 1997).

Assessing Family Influence Another challenge related to the study of justice in the family firm relates to the operationalization of family influence. Family firm scholars suggest the family's ability to exert influence in the firm's decision-making processes depends on the extent to which family members

Table 22.3 Validated measures to assess justice

Measure	Example item	Source
Procedural justice	Have those procedures been applied consistently? (7 items, $\alpha = 0.93$)	Colquitt (2001)
Distributive justice	Does your (outcome) reflect the effort you have put into your work? (4 items, $\alpha = 0.93$)	Colquitt (2001)
Interpersonal justice	Has (he/she) treated you with dignity? (4 items, $\alpha = 0.92$)	Colquitt (2001)
Informational justice	Were (his/her) explanations regarding the procedures reasonable? (5 items, $\alpha = 0.90$)	Colquitt (2001)
Composite justice	(18 items; $\alpha = 0.84$)	Spranger et al. (2012)
Distributive justice index	How fair has your company been in rewarding you when you consider the work you have done well? (5 items)	Price and Mueller (1986)
Procedural justice	Procedures in your organization are designed to generate standards so decisions can be made with consistency (7 items)	Moorman (1991)
Interactional justice	Your supervisor treats you with kindness and consideration (6 items)	Bies and Moag (1986), Folger and Konovsky (1989), and Leventhal (1980)
Overall justice	For the most part, this organization treats its employees fairly (6 items, $\alpha = 0.92$)	Ambrose and Schminke (2009)

are involved in ownership, management, and governance of the firm (Astrachan et al. 2002; Carney 2005; Chrisman et al. 2012) as well as their aspirations and values (Chrisman et al. 2003). While a great deal of the family firm literature is predicated on the notion that family influences the decisions that are made in the firm, operationalizations of family influence have not been entirely consistent. Many family firm scholars view family influence not as a dichotomy but as a continuum (Barnett and Kellermanns 2006; Chua et al. 2004), and it is along this varying continuum that justice perceptions of various stakeholders in the family firm may be influenced.

Family influence accounts for heterogeneity across family firms and has been measured quite differently across studies (see Table 22.4 for measures). Klein et al. (2005) operationalized family influence as being comprised on three dimensions: *power* (family control through ownership/management), *experience* (accumulated family memory), and *culture* (values and commitment). Other scholars have captured family influence by assessing *family involvement* and *family essence* which are thought to influence family-centered non-economic goals (e.g., Chrisman et al. 2012). Chrisman et al. (2012) operationalized *family involvement* as percentage of family ownership, number of family members, and generational involvement of family members. *Family essence* was operationalized by inquiring about desire for intra-family leadership succession and family commitment which was measured using a modified version of the F-PEC.

The consideration of socioemotional wealth endowments in the family firm is an alternate way to take into account the influence of family on the firm. Debicki et al. (2016) propose that it is the importance of socioemotional wealth that is significant to understanding the influence of the family in the firm. Their socioemotional wealth importance (SEWi) scale includes three dimensions: *family prominence* (how family image is built and maintained), *family continuity* (family involvement in the firm over time), and *family enrichment* (meeting family obligations through business operations).

Discussion

In this chapter, we reviewed notable conceptual and empirical papers published in the last 15 years that put forward research questions, propositions, and hypotheses related to justice perceptions in the family firm context. Three commonly studied forms of justice were included in this review: distributive,

Table 22.4 Validated measures to assess family influence

Measure	Example item	Source
Family influence on power, experience, and culture (F-PEC)		
Power	Percentage of family share ownership (3 items, $\alpha = 0.75$)	Klein et al. (2005)
Experience	What generation owns the company (3 items, $\alpha = 0.96$)	Klein et al. (2005)
Culture	Family members agree with the family business goals, plans, and policies (12 items, $\alpha = 0.93$)	Klein et al. (2005)
Socioemotional wealth importance (SEWi)		
Family prominence	If family reputation is important, as a family firm we will strive to conduct our business in ways that do not jeopardize the family's reputation (i.e., ethically, honestly, respectfully) (3 items, $\alpha = 0.82$)	Debicki et al. (2016)
Family continuity	How important is it that the business gives the members of our family an opportunity to work as a unit, make decisions together and work toward agreement (3 items, $\alpha = 0.86$)	Debicki et al. (2016)
Family enrichment	How important is it that through operating a business enterprise, we can ensure the enhancement of happiness of our family members not directly involved in the firm (3 items, $\alpha = 0.83$)	Debicki et al. (2016)
Family involvement	Percentage of family ownership (3 items)	Chrisman et al. (2012)
Family essence		
Transgenerational family control intentions	Wish/expect that the future successor as president of your business will be a family member (1 item)	Chrisman et al. (2012)
Family commitment	Family members feel loyal to my business (7-item modified F-PEC; $\alpha = 0.96$)	Chrisman et al. (2012)

procedural, and interpersonal justice. Our review suggests that justice theory offers a sound platform for gaining a better understanding of the complex interactions that occur within overlapping family and business systems. In general, the conceptual literature reveals that scholars have attempted to explain how family influence shapes various stakeholders' perceptions of the fairness of processes, outcomes, and interactions within the firm. At the same time, this review reveals a great deal of untested theoretical propositions and some of the inconsistent empirical findings related to various forms of justice in the family firm. Only four studies in our review offer an empirical examination of justice constructs in the family firm. Thus, most of the research questions in the conceptual literature remain untested.

Considerations for Future Research

Given the paucity of empirical work, it is not surprising that the manner in which justice perceptions are developed by family and nonfamily employees and the individual- and firm-level consequences are not well understood. However, it is our hope that by setting forth research questions that are in need of answers and providing information about available measures that scholars will be encouraged to further investigate justice in the family firm context. We recommend that future research take into account that family governance may result in justice costs for certain stakeholders, in particular nonfamily employees (Barnett et al. 2012). Because family firms rely on non-family employees to function effectively and to prosper in the long run (Miller and Le Breton-Miller 2006), we suggest future research focus on understanding the justice perceptions and associated behavior of this important stakeholder group. We also suggest scholars consider the effects of family influence on justice perceptions. The strength of family vision and pursuit of family-centered goals differs across family firms. Therefore, we encourage future research to take into account this heterogeneity by capturing the effects of family influence on justice. By utilizing existing measures of justice and family influence, scholars could examine whether inconsistent or unpredictable practices and reward allocations foster perceptions of injustice among nonfamily employees and other stakeholder groups.

Contributions

By reviewing the small but growing body of literature pertaining to justice in the family firm, we offer several contributions to the family firm literature. First, this review reveals that empirical research on the effect of family influence on justice perceptions of various firm stakeholders is underdeveloped. Although significant conceptual work has offered theory on these effects, empirical tests, and extensions remain needed. Second, we have highlighted research questions that could drive this work, thereby providing a pathway for family firm scholars to move knowledge on justice in family firms forward. Third, we provide a discussion and list of psychometrically sound measurement tools related to justice and family firm influence. This repository of validated measures should assist scholars in designing future studies. Finally, we identify challenges related to conducting justice research in the family firm context.

Conclusion

In summary, the family firm literature has been conceptually enriched by the incorporation of knowledge from the organizational justice literature. Empirical examinations to date, although limited, are encouraging, and a variety of validated measures of both justice and family influence are available. However, family firm researchers will continue to face unique challenges as they advance knowledge related to justice perceptions in the family firm. It is our hope that our review of justice in the family firm will lend scholars additional insights and tools for conducting empirical examinations of justice in this unique setting.

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23

The Heterogeneity of Family Firm Ethical Cultures: Current Insights and Future Directions

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Introduction

With the rise of corporate scandals and increased calls for more ethically minded business practices, the relevance and importance of ethics for organizations has become more prominent in the management literature (Treviño et al. 2014). In this, the unique interaction of the family with the firm has given rise to portrayals of family firms as a potential model of ethically minded businesses due to their approbation of values such as honesty, integrity, and quality (Miller and Le Breton-Miller 2005). For instance, Cargill, one of the world's largest family firms, has risen to prominence given that its commitment to honesty and integrity form the foundation upon which the firm was built (Broehl 2008; Miller and Le Breton-Miller 2005). The 2015 survey of Ernst and Young finds that 78% of large family firms believe ethical behavior is essential to their success. Indeed, research suggests that family firms of all types are oriented toward values such as trustworthiness, empathy, and warmth, all forming to create a more ethical organizational culture (Ding and Wu 2014; Koiranen 2002; Payne et al. 2011). This culture contributes to family firms exuding more stewardship-like governance structures built on

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E. Memili, C. Dibrell (eds.), *The Palgrave Handbook of Heterogeneity among Family Firms*,
https://doi.org/10.1007/978-3-319-77676-7_23

trust, cooperation, and value alignment that provide these firms with family-like environments even as they professionalize, representing a primary source of their competitive advantage (Davis et al. 2010; Miller and Le Breton-Miller 2005).

However, recent research presents competing conceptions of the ethical culture of family firms. With family firms being typified by unilateral control from a dominant coalition, having less professionalized governance structures, and being indisposed to instituting formalized ethical codes or norms, researchers draw attention to how these attributes may make family firms more susceptible to abuse or corruption than firms that do not have a single dominant coalition (Kidwell et al. 2012). For instance, the extensive involvement of the Madoff family in their financial firm is believed to have made them more susceptible to fraud because it provided Bernie Madoff, the family patriarch and leader of the firm, extensive latitude to control and influence the actions of the organization, allowing him to facilitate the largest Ponzi scheme in economic history (Ding and Wu 2014; Kidwell et al. 2012; Kirtzman 2009). Historically, the concern that family firms may be ripe for abuse was popularized by the work of Matthew Josephson (1934) who described how wealthy families in the United States (e.g., Carnegies, Rockefellers, Vanderbilts) acted as 'robber barons' who used unethical or illegal practices to benefit their family at the expense of the rest of society. Similar arguments are made by Banfield (1958) who provides empirical evidence that the prevalence of powerful families in Italy contributed to worsened economic conditions in their respective areas. In addition to these concerns, family firms commonly engage in bifurcation bias, the nepotistic practice of benefitting family over nonfamily members in human resource decisions, that may create perceptions of unfairness and injustice in these firms, representing a potential source and cause of unethical behavior (Verbeke and Kano 2012).

These drastically different descriptions of family firms highlight the need for clarity with regard to their ethical cultures. Further, evidence indicates that family firm ethics may be a primary, yet less acknowledged, source of family firm heterogeneity. We contend that ethics represents a crucial aspect to understanding the nature of family firms because of its relationship with family firm culture, which subsequently influences decision-making. Although organizational culture has been defined in a wide array of ways, most definitions of culture refer to *values* as a central component of the cultural disposition of an organization (Alvesson and Lindkvist 1993; Cruz et al. 2012). For instance, in their seminal articles on culture, Dyer (1988) lists values as one of the four primary components of family firm culture, while Schein (1990) describes culture as the set of shared *values*, norms, and beliefs within a firm.

Values can refer to ethical principles (e.g., honesty, integrity, forgiving), competency values (e.g., ambitious, creative, capable), social ideals (e.g., world peace), or personal desires (e.g., comfort, excitement) (Koiranen 2002; Rokeach 1973), indicating that ethics is a subset of the values of a firm. Therefore, the prioritization of ethics relative to other values such as competency or social ideals will dictate the prominence of ethical values within a firm. In addition, Treviño and Youngblood (1990) identifies ethics as a component of organizational culture because the interaction of formal and informal organizational systems shapes and influences the ethics and morality of firms and vice versa. Collectively, this suggests that ethics is a primary component of organizational culture, and that rendering an understanding of family firm ethics is necessary to understand family firm culture itself.

In light of this, the objective of this chapter is to systematically review the literature on family firm ethics to encapsulate both its antecedents and outcomes. By doing so, we can move beyond questions of *if* family firms have more ethical cultures than nonfamily firms to instead understanding *why* and *how* ethical cultures vary across the landscape of family firms. This provides a more thorough elucidation of the predictors of ethical and unethical behavior in family firms and, in effect, provides a more comprehensive explanation for family firm heterogeneity. Additionally, by examining the current status of the literature, we are able to offer a future research agenda that will provide a path forward for advancing knowledge related to the role of ethics in shaping family firm cultures.

Scope of the Review

To identify the research published on family firm ethics, we drew on recognized methodologies (e.g., Daspit et al. 2016; Madison et al. 2016). Accordingly, we first identified synonyms of or related concepts to ethics and then performed an electronic search in the EBSCOhost Business Source Complete database, searching abstracts for the terms *ethics*, *values*, *virtue*, *morals*, *beliefs*, *principles*, *norms*, *customs*, and *integrity* combined with the keywords *family firm* and *family business*. From this, we identified 117 articles, but only 14 were deemed relevant because articles related to financial and firm value were also retrieved when using the search term *values*. Next, we searched 35 prominent management, finance, and economics journals[1] for family firm articles, identi-

[1] The list of journals examined include *Academy of Management Journal*, *Academy of Management Review*, *Administrative Science Quarterly*, *American Economic Review*, *Business Ethics Quarterly*, *California Management Review*, *Corporate Governance: An International Review*, *Entrepreneurship & Regional Development*, *Entrepreneurship Theory and Practice*, *Family Business Review*, *Harvard Business Review*, *Human Relations*,

fying four more articles related to family firm ethics. Additionally, we included ethics-focused journals in our search,[2] identifying four more articles. Finally, we searched the references of relevant publications to ascertain additional articles related to family firm ethics. We identified seven additional articles through this process. In all, we identified 29 articles relevant to our review published in 15 journals between 1996 and 2016. Table 23.1 provides a list of these articles and their key characteristics. Through our reading and coding of these articles, it became apparent that the articles coalesced around three primary themes: ethics of family firms versus nonfamily firms, antecedents of ethical family firm cultures, and outcomes of family firm ethical cultures. Therefore, we organize and synthesize the literature according to these themes.

Are Family Firms More Ethical than Nonfamily Firms?

When considering the ethicality of family firms, an initial challenge involves defining ethics itself. In particular, the management literature implies that ethics are subjective and contextually specific rules or norms accepted by a given group. For instance, in their review of ethical behaviors, Treviño et al. (2006) contend that what is ethical is largely determined by the society in which an individual or organization is embedded, with certain norms or behaviors being designated as ethical within a given populace. Relatedly, Sims (1994) contends that ethics refers to the rules or principles that define rights or wrongs for individuals or groups (Sims 1994). These two definitions contend that what is ethical is determined by the milieu or context of which a group or individual is a part. Thus, what is ethical is contextually dependent and primarily related to the referent in question, demonstrating the limitations associated with asking if family firms are more or less ethical.

International Small Business Journal, *Journal of Applied Psychology*, *Journal of Business Ethics*, *Journal of Business Research*, *Journal of Business Venturing*, *Journal of Family Business Strategy*, *Journal of Finance*, *Journal of Financial Economics, Journal of Management*, *Journal of Management Studies*, *Journal of Organizational Behavior*, *Journal of Small Business Management*, *Leadership Quarterly*, *Long Range Planning*, *Management Science*, *Organization Science*, *Organization Studies*, *Organizational Dynamics*, *Quarterly Journal of Economics*, *MIT Sloan Management Review*, *Small Business Economics*, *Strategic Management Journal*, and *Strategic Organization*.

[2] The list of journals includes *African Journal of Business Ethics*; *Business Ethics: A European Review*; *Business and Professional Ethics Journal*; *Journal of Business Systems, Governance and Ethics*; *Journal of International Business Ethics*; *Journal of Management, Spirituality & Religion*; *Journal of Religion and Business Ethics*; *Southern Journal of Business and Ethics*; and *Turkish Journal of Business Ethics*.

Table 23.1 Family firm ethics literature

Source	Sample	Location	Theoretical lens	Key findings	Ethics consideration
Adams et al. (1996)	771 family and nonfamily employees	USA	N/A	Family firms tend to display similar ethics-related perceptions and attitudes as nonfamily firms with regard to company responses, content of ethics codes, and moral reasoning	Homogeneity (family vs. nonfamily firms)
Belak et al. (2012)	49 family and nonfamily firms	Slovenia	Ethical structure framework	Family firms tend to encourage ethical behavior more so through role modeling than family firms. Conversely, nonfamily firms tend to make greater use of value statements to do so	Heterogeneity (antecedents)
Blodgett et al. (2011)	264 family and nonfamily firms	Varied	N/A	Family firms tend to emphasize ethical values more so than nonfamily firms in their mission statements. Specifically, US family firms emphasize integrity and honesty, while international family firms lead in social responsibility	Heterogeneity (antecedents)
Chang et al. (2010)	308 family and nonfamily firms	Taiwan	N/A	Family firms tend to expropriate the interests of minority shareholders to benefit the controlling family. They are less likely to penalize individuals for financial misstatements	Heterogeneity (antecedents)
Cuadrado-Ballesteros et al. (2017)	547 family and nonfamily firms	Varied	N/A	Formal ethics codes contribute to family firms' increased commitment and engagement with social performance, but the impact is lessened by reliance on informal codes of conduct	Heterogeneity (antecedents)
Davis et al. (2010)	366 family and nonfamily employees	USA	Stewardship theory	Family employees perceive significantly higher family business stewardship, trust, and value commitment. Nonfamily employees do display trust and commitment even though it tends to be lower compared to family employees	Heterogeneity (antecedents)

(*continued*)

Table 23.1 (continued)

Source	Sample	Location	Theoretical lens	Key findings	Ethics consideration
Ding and Wu (2014)	622 family firms	USA	N/A	Family firms are less likely to commit corporate fraud than nonfamily firms because of the desire to maintain stronger reputations, particularly during transgenerational succession	Heterogeneity (outcomes)
Duh and Belak (2009)	28 family and nonfamily firms	Slovenia	N/A	Family firms display more positive attitudes toward ethical values than nonfamily firms. They maintain their ethical environments through caring relationships, whereas nonfamily firms seek to maintain ethical environments through rules and codes	Homogeneity (family vs. nonfamily firms)
Duh et al. (2010)	49 managers	Slovenia	N/A	Family firms are generally more caring, ethical, and value-oriented than nonfamily firms	Homogeneity (family vs. nonfamily firms)
Fassin et al. (2011)	23 small family business owners	Belgium	N/A	Small family business owners consider their ethics and corporate social responsibilities as distinct but complementary concepts	Heterogeneity (outcomes)
Gallo (1998)	253 family firm owners or members	Spain	N/A	Having control over the firm gives family firm owners the opportunity to engage in unethical behaviors. The most common of these are delayed succession, failure to strategically plan, and using resources to ensure employee loyalty	Heterogeneity (antecedents)
Haugh and McKee (2003)	Four family firms	Scotland	N/A	Shared values underpin family firm culture, encourage employee autonomy, and reduce the need for close supervision. Strong cultures encourage workforce continuity and stability. Subcultures, conflict, and cultural fragmentation appear to be prevalent	Heterogeneity (outcomes)

Hebert et al. (2002)	120 family and nonfamily firm owners	USA	N/A	Family and nonfamily firm owners display similar ethical judgments. Of five scenarios, employees revealing secrets to a firm competitor was considered the most unethical behavior among owners, whereas nepotism was considered the least unethical	Homogeneity (family vs. nonfamily firms)
Kidwell et al. (2012)	147 family employees	USA	Ethical climate	When an incompetent, opportunistic, or ethically dubious family member joins the firm, this can create injustice perceptions, relational conflict, and role ambiguity that can negatively impact the ethical climate of the firm	Heterogeneity (antecedents)
Koiranen (2002)	27 family firms	Finland	N/A	Older family firms (100+ years) have values such as honesty, credibility, quality, and industriousness. These families self-identified as committed, responsible, fair, hardworking, and successful. This study highlights the importance ethics and values to long-term success	Homogeneity (family vs. nonfamily firms)
Litz and Turner (2013)	124 students	N/A	Generic responses typology	Questionable ethical climates in the family firm impact the younger generation differently, with some becoming disengaged and leaving, while others respond with loyalty and commitment hoping for improvement	Heterogeneity (antecedents)
Long and Mathews (2011)	Conceptual	N/A	Social exchange	Social exchange between family members impacts the structure, culture, and ethics of the firm. It can create a distinctive ethical frame for the firm that distinguishes it from other types of firms	Heterogeneity (antecedents)

(*continued*)

Table 23.1 (continued)

Source	Sample	Location	Theoretical lens	Key findings	Ethics consideration
Marques et al. (2014)	12 family firm CEOs	Spain	Stewardship theory and SEW	Family involvement and values influence their level of corporate social responsibility, most notably with regard to the firm environment and how leaders treat firm members	Heterogeneity (outcomes)
O'Boyle et al. (2010)	526 family and nonfamily employees in family firms	USA	Stewardship theory	The level of family involvement in the firm positively predicts the ethical focus of the firm which, in turn, positively predicts firm performance	Heterogeneity (outcomes)
O'Leary (2015)	1 family firm	N/A	N/A	This study explores professional identification's impact on fraud through a case of a nonfamily CEO siphoning financial benefits from a hundred-plus-year-old family financial firm	Heterogeneity (outcomes)
Payne et al. (2011)	435 family and nonfamily firms	USA	N/A	Family firms tend to display greater organizational virtue orientation, empathy, warmth, and zeal than nonfamily firms, but less courage	Homogeneity (family vs. nonfamily firms)
Plant et al. (2009)	167 family firms	USA	N/A	Larger family businesses are more likely to have an independent board of directors, formal ethics codes, and formalized ethical compliance processes than smaller family firms	Heterogeneity (antecedents)
Sorenson (2013)	Conceptual	N/A	N/A	Ethics, morals, and values are embedded in the family firm through social capital, socialization, inclusion of family members in the firm, and promoting family values	Heterogeneity (antecedents)
Sorenson et al. (2009)	405 family firm leaders and employees	USA	Family point of view	Through dialogue, family firm members develop common and shared ethical norms that contribute to increased social capital and lead to improved firm performance	Heterogeneity (antecedents)

Sue et al. (2013)	498 family and nonfamily firms	Taiwan	Agency theory	In less developed countries, family and nonfamily firms do not differ in the quality of financial reporting. However, family firms engaging in irregular accounting is generally associated with more serious failures for firms with poor reputations	Heterogeneity (outcomes)
Vallejo-Martos and Puentes-Poyatos (2014)	410 family and nonfamily firm leaders and employees	Spain	Stewardship theory	Family firm stewardship governance structures foster ethical behaviors and norms (trust, participation, cohesion) among nonfamily employees by inculcating loyalty, firm identification, and goal alignment	Heterogeneity (antecedents)
Venter and Farrington (2016)	266 family firm owners and employees	South Africa	N/A	Family firm owners tend to exude ethical, relational, and altruistic leadership styles that serve to manage the values of family firms	Heterogeneity (antecedents)
Yan and Sorenson (2006)	Conceptual	N/A	N/A	Confucian values can shape family firm succession; these more collectivistic values can influence family firm behaviors and ultimately hinder succession	Heterogeneity (outcomes)
Zwack et al. (2016)	14 family firm employees; 226 business school alumni	Germany	N/A	Storytelling is an effective means of transmitting family firm culture and values throughout the firm	Heterogeneity (antecedents)

With this in mind, the six articles we identified that compare the ethical values of family firms to nonfamily firms make the comparison by looking at different aspects of ethics, concluding whether or not family firms are more ethical depending upon the referent point (e.g., fairness, honesty, trustworthiness,). Because of this, we contend that the research indicates that ethics and morality are better understood as operating *differently* in family firms, with these organizations displaying a distinctive understanding of what it means to be ethical. These differences arise because family firms generally receive greater utility than other firms from nonfinancial outcomes, leading to distinctive behaviors and norms that distinguish the ethics of these firms from each other. On one hand, family firms tend to be less dependent on those outside the family both for guidance and resources, creating 'thick walls' due to their group cohesiveness and intra-family reliance that provides them with a unique schema and ethical frame that makes them less susceptible to outside influence or pressures (DiMaggio and Powell 1983; Long and Mathews 2011). Because of this, society's influence on the family's determination of right and wrong may be lessened in relation to other firms. Even though families are embedded within a society, families tend to display values and attributes that can distinguish them from others within that society (Brice et al. 2008). On the other hand, family firms tend to be highly sensitive to their reputations and cultures given such effects on long-term success and given the family's standing in the community is integrally related to the reputation of the firm (Miller and Le Breton-Miller 2005). Because of this, we expect the situation and context to affect the ethical decisions of family firms, often leading them to act or behave differently than nonfamily firms with regard to ethical decision-making.

To offer insight into how family firms differ from nonfamily firms, we observed that there are differences in how both types of firms prioritize values. Researchers note that, while most organizations perceive moral or ethical values as generally positive, some organizations assign different priority to these behaviors or attitudes than others. Family firms generally prioritize values, such as integrity and honesty, more so than nonfamily firms, and nonfamily firms tend to give precedence to differing values such as achievement or risk-taking (Duh et al. 2010). In his survey of Finnish family firms that were over 100 years old, Koiranen (2002) finds that family firms place greater priority on employee and firm behaviors than on outcomes. In ranking their values, the family executives selected honesty, credibility, obeying the law, quality, and industriousness as desirable modes of conduct while diminishing

the importance of economic return, growth, and social recognition. Similarly, an analysis of CEO shareholder letters of S&P 500 firms reveals that family firms have a greater organizational virtue orientation than nonfamily firms, referring more often to values such as warmth, empathy, and zeal in these letters (Payne et al. 2011).

This distinction between family and nonfamily firms is consistent with the study from Carlock and Ward (2001) that finds that family firms expressed greater prioritization for values such as equality, humility, and reputation than nonfamily firms, which instead focus more on values such as efficiency, innovation, and performance. This further highlights that family firms may be distinguished from nonfamily firms in their efforts to focus on means over ends. Similarly, Chrisman et al. (1998) and Sharma and Rao (2000) find that integrity is the most important attribute of successors in a family business. Research indicates the prioritization of these values generally inculcates in family firms a more honest and rule-abiding organization, making family firms less likely to engage in unethical behaviors such as financial fraud (Ding and Wu 2014).

Importantly, however, this ethical value orientation appears to be driven primarily by a desire to bolster the family, not simply because ethics or morality is an end in itself. García-Álvarez et al. (2002), in their survey of family firm founders, find that approximately 50% of family firms prioritize the family in their actions and decisions while only about 25% give precedence to morality and ethics in their decision-making processes. This suggests that family firms may be inclined to prioritize ethical values because such values align with achieving economic and noneconomic goals such as an improved reputation and long-term sustainability. Additionally, this may indicate that family firms are likely to excuse unethical behaviors or actions when doing so appears to benefit the family unit.

Regardless of the family's motivation for ethical behaviors or their potential to excuse some unethical behaviors, this body of research seems to indicate that family firms generally value ethical behaviors more than nonfamily firms. A limitation of this research, however, is that it treats family firms as a homogenous group. Instead, because the family unit is the primary motivation and source of family firm ethics, the business family itself is likely to determine the ethicality of family firms, serving as a likely source of heterogeneity among family firms. Accordingly, the next section synthesizes the research on antecedents to family firm ethics, discussing what researchers have identified as the primary contributors to the ethical makeup of family firms.

Antecedents to Family Firm Ethics

Constituting the primary focus of the family firm ethics literature, 15 (51.7%) of the articles in our review elucidate the antecedents to family firm ethics. This literature indicates that whether a family firm has a more or less ethical culture is primarily determined by the extent to which ethical codes are instituted and propagated within the firm. Given that many family firms (primarily those of a smaller size and less professionalized) are less likely to have explicit ethical codes, the influence of the family business leader and business family becomes paramount to the development of an ethical culture within the family firm. Largely, the literature related to this topic focuses on how family firms make use of ethical codes, how firm leaders influence the ethics of a firm, and how the family's involvement shapes firm ethics. The combination of these interdependent factors gives rise to unique ethical cultures in family firms that make them distinct from nonfamily firms and creates a source of family firm heterogeneity.

Ethical Codes

Even though family firms prioritize certain ethical values more than nonfamily firms, family firm leaders are less inclined to instill these values within the firm through traditional methodologies. Although formal codes of ethics, compliance programs, and ethics training are commonly perceived as effective means for infusing ethical values into an organization, family firms are less likely to make use of these means than their nonfamily counterparts (Adams et al. 1996; Cuadrado-Ballesteros et al. 2017; Duh et al. 2010; Matlay 2002; Plant et al. 2009). The literature identifies two primary reasons for this. First, family firms are less inclined in general to professionalize, making the lack of formal ethics systems or programs simply another aspect of this inclination (Adams et al. 1996; Chua et al. 2009). Second, because of the values commonly shared among family members, formalized systems or programs are often perceived to be unnecessary. This means that while family firms may not have formalized ethical expectations or procedures, they do have unwritten ethical values that are likely to be well-understood by firm members. Plant et al. (2009) find that among family firms without a formal written ethical code, 94% of these firm owners or managers believe they have tacit ethical values that are ascribed to and understood by firm members. Therefore, even though they may have less formalized processes for transmitting these values, ethical values are perceived to have a powerful impact on the firm (Haugh and McKee 2003).

Because family firms tend to have less formalized means of disseminating ethical values throughout the firm, it is typically incumbent upon family firm leaders and the family itself to act as the promulgators of family firm ethics, which highlights the central roles of leaders and family in affecting family firm ethical cultures. Because business families normally have majority or singular control over their respective firms, the literature generally identifies family leaders and business families as sources of positive ethical cultures in family firms because their autonomous control better situates them to transmit and diffuse their ethical value prioritizations throughout the firm. Nevertheless, control over the family firm allows families to engage in behaviors that may undermine the ethical integrity of the firm, resulting in a wide divergence in the degree to which positive or negative ethics infiltrates their firm culture.

Role of Family Firm Leader

In all organizations, founders or leaders in general play a vital role in the firm both as authority figures and as credible role models, influencing the thoughts and actions of their employees (Belak et al. 2012; Treviño et al. 2014). However, in family firms, the role of the founder in shaping firm ethics is perceived to be amplified, particularly because of their ability to socialize many family members both as a parent and as the firm leader (Adams et al. 1996; Sorenson 2013). With parents being the primary sources of the values and ethics development in their children (Smetana 1999), firm founders can be deeply influential on a firm's values simply through their influence on the family. Additionally, these individuals typically have a unique and heightened role on the firm's understood history, often achieving mythical status due to their role in the firm's formation and their protracted length of time with the firm, making their impact on the firm's culture even more categorical (Duh et al. 2010; Zwack et al. 2016). Further, family firm founders and leaders have extensive abilities to reward and castigate different behaviors and actions due to their unilateral control of the firm. Because organizational members tend to adjust their behaviors according to what is approved and disapproved by leadership, all employees are expected to attune their behavior in alignment with the desires of the firm founder or leader (Treviño et al. 2014). In family firms, this is expected to inculcate a more ethical workforce as firm leaders tend to use their influence to instill more ethical behaviors into their employees because of their prioritization of ethical values. Moreover, in their study of family firm leadership, Venter and Farrington (2016) draw attention to how family firm leaders act as role models, exuding more ethical and altruistic

leadership styles, in order to influence the firm's values. As such, ethical values are infused within the family firm. In light of this, even more so than in non-family firms, the family firm founder is likely to be a disproportionate influencer of family firm ethical values (Schein 1983).

However, the authority and influence of family firm leaders can, at times, lead to unethical firm cultures. Gallo (1998) notes that family firm leaders are more liable to engage in questionable practices such as using firm resources to ensure employee fidelity that may negatively influence the ethical culture of the firm. Likewise, in their research on Taiwanese family firms, Chang et al. (2010) find that family firms are less likely to act on or penalize individuals responsible for financial misstatements, indicating family leaders' control over the firm may allow them to disregard unethical behaviors when doing so is preferable or convenient.

Therefore, while the literature commonly regards family firm leaders as a positive influence on firm ethicality due to their prioritization of ethical values, this positive influence will vary as the leaders' absolute control over the firm can allow them to engage in unethical practices that leaders at other firms are unable to accomplish. When this occurs, such actions can have detrimental effects on the firm. The effects may be exacerbated when other members of the family are involved in the business. In studying the responses of college students to unethical business situations, Litz and Turner (2013) conclude that, when confronted with ethical dilemmas stemming from the older generation of the firm, unethical behavior can lead younger family members to disengage, become less committed to, or even exit the family firm. This indicates that unethical behavior among family firm leaders can threaten both the performance and the long-term survival of the firm, potentially offering an additional explanation as to why family firm leaders tend to be more ethically inclined. However, because their research involved hypothetical scenarios, more research needs to be performed on younger generation responses to unethical situations by looking at actual responses of family firm members to unethical situations.

Role of Business Family

In addition to the leaders, the business family itself contributes to the ethical culture of the firm. Long and Mathews (2011) describe how the long-term firm tenures and extended relationships characteristic of business families contribute to a more ethical firm ethos distinguished by care and concern for all members. These family relationships encourage greater trust and cohesive-

ness among members that encourage them to engage in more ethically minded behaviors. These ties often extend into the firm itself when family members engage in generalized social exchange through indirect reciprocity and altruism that encourages norms of benevolence among all members (Long and Mathews 2011), fostering a more ethical framework among members who often adopt the values and beliefs of the family. Because of this, family firms are better situated to engage in stewardship governance, wherein nonfamily employees are trusted and respected by the business family. Davis et al. (2010) indicate these trusting environments encourage both family and nonfamily employees to commit themselves to the firm and to be more vulnerable to firm leaders, resulting in employees who more fully align themselves to the values of the firm and tend to act in agreement with the family's ethical norms. Therefore, as Sorenson (2013) indicates, the inclusion of family in the firm can embed the family's values into the business, turning these firms into incubators for the family's values that often encourage more ethical and socially conscious behaviors among members (Vallejo-Martos and Puentes-Poyatos 2014). Because of this, the distinctive values of the respective family are anticipated to create an idiosyncratic firm culture informed by the ethics of the business family.

Further, the family's involvement with the firm is likely to contribute to a shared identity and sense of oneness with the firm that makes them protectors and upholders of the family's values and its culture (Eddleston 2011). This sense of shared identity with the firm is expected to make family members more conscious of both the firm's reputation and culture, spurring them to be more concerned about the ethics of the firm. Because unethical firm behaviors can damage the firm's reputation, high family involvement firms are expected to regard ethical behaviors and actions among firm members as particularly vital (O'Boyle et al. 2010). Because of this, family involvement in the firm is expected to contribute to increased communication, such as through stories or legends, about the primacy of ethics in the firm as a means of instilling and ensuring the family's values into the firm (Zwack et al. 2016). In their study of 405 family firms, Sorenson et al. (2009) find that increased discussion among family firm members about the firm's values positively contributed to ethical norms becoming more widely accepted within a firm. With these values being rewarded by family members and leaders, other firm members are expected to respond by, again, more fully aligning themselves with the family's ethical values (Long and Mathews 2011).

However, even though family members are expected to advocate for more ethical behaviors within the family firm, their very involvement in the firm may constitute a potential threat to the ethicality of family firm cultures. For

instance, Adams et al. (1996) argue that the nepotism prevalent in family firms can undermine their ethical culture. In fact, the influence of the family may actually make these firms less, not more, ethical because family firms tend to prioritize family origin over competence in personnel decisions (Adams et al. 1996). This often leads to allegations of injustice or unfairness that may be associated with unethical behaviors (Eddleston and Kidwell 2012; Hebert et al. 2002). Moreover, the family firms' human resource practices may create perceptions of unfairness that undermine intra-firm trust and, hence, increase the probability that firm members will respond by behaving unethically (Barnett and Kellermanns 2006; Kets de Vries 1993). This contention is extended by Kidwell et al. (2012) who argue that families are more inclined to be governed by intra-family fairness in which family members are treated equally regardless of their contributions or abilities. Such behavior can give rise to the 'Fredo effect,' named after the inept brother in the *Godfather* series, wherein incompetent or unethical family members are treated equally to the rest of the family in the business setting (Kidwell et al. 2012). This can create significant problems for family firms because they show preference for family members who are either ineffectual or unprincipled, potentially encouraging other family or firm members to act dishonestly or idly because of the lack of accountability. Put simply, the injustice inherent in many family firms because of bifurcation bias and nepotistic practices is liable to spread throughout the organization, activating unethical behaviors that negatively influence the family firm.

Because of these effects, the family unit contributes to whether the family firm develops a more or less ethical firm culture. While the increased involvement of the business family can often lead to a more positive ethical environment (O'Boyle et al. 2010), this is largely dependent on the perceived behaviors and competencies of the family members themselves, with less suitable family members being counterproductive to firm ethicality. Generally, the literature underscores how the business family influences whether the extent to which an ethical culture is achieved within the firm. Our review highlights that the business family, particularly the family firm leader, is the root source of the heterogeneity of family firm ethics. However, as described, the goals of family firms likewise influence whether family firms are able to achieve ethical cultures. Therefore, our next section addresses the motivation behind family firm ethics, showing how the perceived potential outcomes dictate the level of commitment family firms will have to developing ethical cultures.

Goals and Outcomes

Although family firms' ability to inculcate a more ethical culture is primarily dependent upon the firm leader and the business family, our review highlights that family firms prioritize the importance of ethical norms and behaviors more than nonfamily firms (Duh et al. 2010; Koiranen 2002; Payne et al. 2011; Sorenson 2013). Along this line, several articles identified related to family firm ethics emphasize the outcomes of family firm ethical cultures. We identified eight articles (27.6%) that discuss how family firm ethics leads to the fulfillment of family firms' economic and noneconomic goals such as a positive reputation, a family-like culture built upon the values of the business family, and long-term family control. The literature identifies the instilling of a more ethical culture into the family firm as essential to achieving each of these goals, illustrating a primary reason family firms prioritize ethical values more so than nonfamily firms (Sorenson 2013). Therefore, when family firms are able to achieve ethical cultures, several positive outcomes are realized.

First, because of their long-term goal orientation and the close affiliation of the family with the firm, a positive reputation is considered a primary objective and source of competitive advantage for many business families (Berrone et al. 2010). O'Boyle et al. (2010) note that, particularly for firms with high family involvement, any threats to their outside reputation can threaten the family's name, personal wealth, and even their sense of well-being for multiple generations. Therefore, family firms tend to exert extreme protection of and devotion to the firm's reputation, making this a primary motivator for their ethical orientations (Marques et al. 2014). Because acting morally and ethically toward stakeholders such as customers, community members, and employees is a principal means through which they can enhance their reputation, business families seek to infuse values such as honesty, integrity, and trustworthiness into the firm so that both family and nonfamily employees will act ethically when interacting with stakeholders (Belak et al. 2012). These employees, as representatives of the firm, will therefore augment the firm's reputation because of the goodwill they engender through their more ethically driven behaviors (Collier and Esteban 2007), both improving the firm's performance and enhancing the family's standing in the community.

Striving for a more positive firm reputation reflects the long-term goal orientations of the firm. In particular, because of many family firms' commitment to intra-generational succession, one reason they are committed to ethical values is to preserve the firm's positive reputation as it is passed on to the next generation. For example, Ding and Wu (2014) find that transgenerational

succession intentions among family firms made the organizations less liable to commit financial fraud. Succession intentions encourage family firms to engage in ethical conduct because they can impute the ensuing moral capital and positive reputation to the younger generation. Extending this reasoning further, firm goal horizons expand, making firms particularly sensitive to the firm's reputation because reputation is a viable basis for future success especially in cases where family firm leaders intend to transfer the firm to the next generation.

However, beyond an improved reputation, family firm ethics contribute to firm performance by creating a more family-like firm culture. Belak et al. (2012) note that more ethical family firm cultures lead to improved firm performance because they facilitate the alignment of employees' values with the firm and family's values. This value alignment leads to a more cohesive firm culture wherein socialized nonfamily members exude the qualities and character of the family (Haugh and McKee 2003). When instilled effectively, this allows family firms to institute looser and less costly governance structures that better assist with the formation of social capital, intra-firm trust, and firm commitment among members (Davis et al. 2010; Fassin et al. 2011). While this often results in improved firm performance, it is also motivated by family-centered noneconomic goals because many business family members desire a more caring and communal firm environment underpinned by the family's values (Carmon et al. 2010; Miller and Le Breton-Miller 2005). Therefore, through inculcating an ethical firm culture in line with the value prioritizations of the family firm, family leaders can better preserve and augment their strong culture by encouraging value alignment, intra-firm trust, group cohesion, and commitment (Vallejo-Martos and Puentes-Poyatos 2014). This means that ethics underpins the culture of a family firm, making it essential for long-term family success. Because firm culture represents what is potentially the most inimitable and sustainable competitive advantage (Barney 1991), family firms able to preserve and strengthen their culture by instilling a more ethical environment into the firm will be better positioned to achieve their long-term goals.

In sum, this stream of family firm ethics literature highlights that the long-term goals of family firms can be more easily attained by developing a more ethical culture because doing so will help family firms achieve a more positive reputation and robust firm culture, both of which are potentially long-lasting competitive advantages available to family firms. Therefore, family firm goal horizons act as a primary motivator for the instilling of ethically oriented values into the family firm.

Discussion

We reviewed and synthesized the literature on ethics in family firms, revealing that ethics is an understated but vital source for comprehending the nature of the family firm. Our review indicates the goals, governance, and resources of family firms, which are primary sources of the distinction between family and nonfamily firms (Chrisman and Holt 2016), will influence how the ethical practices among these firms vary. Family-centered noneconomic goals such as reputation, binding social ties, and transgenerational succession may lead to ethical practices. Further, the governance structures of these firms may encourage family firms to prioritize ethical alignment instead of anticipated productivity when hiring nonfamily members (Gomez-Mejia et al. 2011). However, because the family unit is oftentimes the most valuable resource of these firms (Habbershon et al. 2003), this may encourage family firms to engage in seemingly less ethical practices such as family bias or bifurcated treatment to ensure the family's long-term commitment to the firm. Thus, the interaction of the goals, governance, and resources of family firms may shape and influence their ethics, accentuating that ethical heterogeneity will exist among family firms, distinguishing family firm cultures not only from nonfamily firms but from other family firms as well.

Our review contributes to the family firm literature in meaningful ways. First, we comprehensively review and synthesize the literature on family firm ethics. In doing so, we highlight the findings and contributions of the extant literature to expand our knowledge on ethics. We not only examine the literature comparing the ethics of family and nonfamily firms, but importantly we present ethics as a source of heterogeneity across the landscape of family firms. Second, we provide a comprehensive yet parsimonious table that identifies and summarizes the 29 articles on ethics in family firms. This table provides scholars with a consolidated account of the extant literature, and it helps reveal research gaps. Third, as presented in the next section, we propose future research ideas that can narrow these research gaps and offer guidance for conducting research on ethics. By doing so, we hope to facilitate scholarly research that can further extend our knowledge of family firms in general and ethics in particular.

Future Research

Although family firm researchers have revealed important insights about how and why family firms inculcate ethical cultures, important questions remain regarding the heterogeneity of family firms with regard to their ethics. While

there are several potential avenues for future study, we discuss research opportunities stemming from the key gaps in the literature that our review revealed. These include an understanding of how ethics is influenced by family firm professionalization and by the context in which they operate.

A primary gap in the family firm ethics literature involves the influence of ethical cultures in light of professionalization and the presence of nonfamily employees within the firm. Specifically, scant research describes how nonfamily employee inclusion in the family firm shapes and is impacted by family firm ethics. Because these ethical values are rooted in the family, many studies of nonfamily employees have focused on how family firms socialize nonfamily members to take on the values of the family firm. However, this may offer only a partial explanation for how family firms maintain these ethical cultures. Instead, a more thorough explanation of how family firms identify, attain, and retain nonfamily employees who align with their ethical priorities is needed.

Competing theories would seem to predict divergent results for family firms with these more ethical cultures. Attraction-selection-attrition processes and signaling theory predict that family firm ethical cultures will attract employees who are ethically aligned with these cultures and are drawn to the values exuded by the family (Schneider 1987; Spence 1973). However, transaction cost theory predicts that opportunistic agents will seek to join these firms instead, perceiving that their more trusting and ethical environments can be more easily exploited because of their relaxed governance structures (Williamson 1979). How family firms manage their ethical cultures when professionalizing in light of the predictions of these competing theories though is unknown. This implies that the processes family firms institute to hire nonfamily employees may be a source of family firm heterogeneity because family firms' (in)abilities to recruit and select ethically aligned nonfamily employees will lead to widely divergent results. However, the processes through which family firms recruit nonfamily members remain under-researched, making this a necessary area for future study.

Relatedly, more research is needed to understand how family bias actually impacts nonfamily employees. In most circumstances, nonfamily employees are likely aware that family members are involved in the firm and will be promoted and rewarded regardless of merit. Therefore, nonfamily employees likely join the firm with the expectation that conventional notions of fairness do not apply in these firms. Because nonfamily members likely anticipate injustice, it is less certain that they will be negatively impacted (or to the same extent) by the experience of unfairness that commonly occurs in family firms

(Rodell and Colquitt 2009). Because of this, the negative ethical fallout of family bias on employee behavior is potentially overstated. However, before conclusions can be reached, more empirical research is necessary.

A potential model for future research could consider how family firm leader behaviors interact with the firm's human resource practices. For instance, management research shows that factors other than decision-making processes (e.g., manager religiosity, organizational support) influence justice perceptions (Ambrose and Schminke 2009; Hollensbe et al. 2008; Rodell et al. 2017). Thus, if human resource practices are biased toward family members, whether nonfamily members perceive this as unjust could be determined by whether firm leaders engage in ethical behaviors such as honesty or integrity. Put differently, ethical leadership may moderate the relationship between human resource practices and nonfamily justice perceptions. Future research that tests how family firm leaders mitigate the negative impact that family firm bias in human resource practices has on nonfamily perceptions could be particularly useful to family firm practice.

Finally, more needs to be understood regarding how both family and nonfamily employees are socialized into the family firm. For instance, role modeling is cited as a primary means through which family firm leaders inculcate ethical values (Belak et al. 2012); however, what this entails and how it is distinct from that of nonfamily firm leaders is unclear. Do family firm leaders rely primarily upon being good examples, actively coaching nonfamily employees, or rewarding certain behaviors in order to encourage firm members to adopt their values? Although recent research has begun to explore the distinctive leadership qualities of family firm leaders (Venter and Farrington 2016), more clarity regarding how ethical orientations encourage family firm leaders to adopt certain leadership behaviors is needed.

A second notable gap in the family firm ethics literature involves the contextual factors that may influence their ethical cultures. For example, one potential reason family firms may foster more ethical cultures is due to the type of industry, sector, and/or location(s) in which they operate. Family firms tend to operate in low-skill or low-growth industries or sectors where intra-firm trust better situates them to compete against nonfamily firms (Child and Marinova 2014). In these industries, integrity and honesty may be more highly valued than high competence in a given task due to the commonality of the latter, giving family firms a competitive advantage in these environments. Further, because of tighter margins, the strong cultures and positive reputations associated with family firms may allow these firms to thrive when employee ability and talent are not the primary determinants of firm perfor-

mance. Because of this, ethics and morality appear to be essential for the long-term survival or prospering of family firms in these types of contexts.

A notable gap in the research is whether family firms in high-growth or high-skill industries are characterized by the same ethical commitments. In these industries, a robust culture or family reputation may not provide the same advantages, making a more ethical culture potentially less advantageous. Instead, the opportunities presented by family control, along with the increased incentives for unethical behavior because of their more lucrative markets, may encourage family firms to be less, not more, ethical. Because of this, a potential source of family firm heterogeneity may be found when considering the differences between family firms in varied sectors or industries, importantly demonstrating how family firms prioritize different values depending on situational or contextual variables.

Although much is known about family firm ethics, these examples of future research directions illustrate that many more questions remain. Importantly, we urge scholars to address these questions by utilizing and extending theory. Our review reveals that 19 of 29 articles (65.5%) are not theoretically derived. Perhaps applying theories such as institutional theory, referent point theory, stakeholder theory, or social contract theory may provide useful insights about family firm ethics. Additionally, theories from family science may reveal additional family-related drivers of ethical cultures in family firms.

Implications for Practice

Our review offers valuable insights for practitioners. For family firm leaders, understanding the relevance of ethics to long-term goal attainment provides a potentially overlooked but straightforward means for firm owners to establish competitive advantage. Although the popular press commonly suggests the societal ills of unethical business practices, our research indicates that problems may result at the firm level as well, particularly in small family firms reliant on their culture and reputation for firm success. Second, our research may provide actionable steps for how family firms can overcome the liabilities associated with family bias. Although family bias may foster injustice perceptions or other troubles among nonfamily stakeholders, our research reveals that family firms may be able to overcome these challenges by acting ethically in other respects. For instance, because ethics may influence justice perceptions among nonfamily employees, this remedy may be plausible.

Conclusion

In conclusion, although family firms are motivated to inculcate ethical orientations into the firm as a means of improving their reputation and the firm's culture, the ethical culture of the family firm is likely a source of family firm heterogeneity. Depending on the influences of the family firm leader, the business family, and the goals of the firm, family firms will potentially develop widely divergent approaches to firm ethics. Dubious firm leaders may be more problematic for family firms than nonfamily firms because of their more extensive control and influence over the firm. Business families with incompetent or unprincipled family firm members can cause morale problems because of their preferential treatment in the firm that discourages other employees, potentially leading to a more toxic firm culture. Finally, family firms with shortened goal horizons or who are highly incentivized to exploit firm resources may disregard the needs of the firm in order to benefit family, potentially leading to more unsavory decisions and behaviors that negatively impact the ethical culture of the firm. While typical family firm qualities may incline such organizations to adopt a more ethical orientation, these firms are expected to show a wide divergence of ethics because the family's unilateral control of the firm and family-centered goals may entice deviation from their ethical values. Because of this, family firm ethics is a potentially fruitful avenue for considering and exploring the heterogeneity across family firms.

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24

The Diversity of Deviance: How It Can Hurt (and Help) Families and Family Firms

Roland E. Kidwell, Kevin C. Cox, and Kathryn E. Kloepfer

Introduction

Differences in how family systems and family firms function and are structured and how family members interact within them may lead to varying outcomes either contributing to, or detracting from, firm survival and growth (Aldrich and Cliff 2003; Jaskiewicz and Dyer 2017; Olson et al. 2003). This heterogeneity in families and family firms may have its roots in the developmental stages of the family system, thus strongly impacting the variance in long-term financial and social performance and the level of dysfunction in family firms (e.g., Eddleston and Kidwell 2012a, b; Greenhaus and Powell 2006; Jaskiewicz et al. 2017; Kidwell et al. 2018). Although scholarly examination of the heterogeneity of family firms in the context of family science theory has been limited as several reviews suggest (e.g., Danes 2014; James et al. 2012; Jaskiewicz et al. 2017), there have been several strong contributions regarding the important role that family differences play in the functioning of the family firm.

For example, Cramton (1993) anchored her study of the creation of a retail sales business both in the entrepreneurship and the family science literatures. The public accounts of the founding focused on the entrepreneurial aspects of

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E. Memili, C. Dibrell (eds.), *The Palgrave Handbook of Heterogeneity among Family Firms*,
https://doi.org/10.1007/978-3-319-77676-7_24

the business while private stories told of a founding driven mainly by changing family relationships. Danes and colleagues' prolific research in the area of sustainable family business theory (Stafford et al. 1999) considered the roles of business and family in the adoption of quality management practices in small family firms (Danes et al. 2008a), in the ethnic and cultural contexts in development of family businesses (Danes et al. 2008b), and in the resilience of family businesses in the face of disaster (Danes et al. 2009). Distelberg and Blow (2011) examined boundaries of the family system by studying the social networks of family businesses as well as families. These studies and others document the importance that healthy family interactions have in sustaining the growth and long-term survival of the family firm and point out the importance of studying the diversity of families and family firms in the theoretical contexts of both family science and entrepreneurship (Jaskiewicz and Dyer 2017).

One area of importance to family firms that has seen comparatively less attention than these topics is how deviant, dysfunctional behavior develops in the family system and is then reflected in the functioning and performance of the family firm. This chapter provides a significant contribution by examining potential antecedents of often overlooked negative behaviors (e.g., free riding, theft, interpersonal conflict, revenge, substance abuse, and aggression) in families and how they may threaten the survival of the family firm as well as harm relationships among family members (Eddleston and Kidwell 2012a, b; Kidwell et al. 2013). Further, we expand our contribution by examining other forms of deviance that can have positive and constructive impacts on the family and the firm. Finally, we contribute to the literature by using a theoretical explanation of imprinting to examine reference group norms that result from three salient family systems perspectives and by examining how these norms lead to differing forms of deviance.

Different families, family systems, and family business systems facing diverse experiences and backgrounds establish varied values and norms, that is, basic behavioral standards that are often prescribed by formal or informal rules, policies, procedures, and practices (Bennett and Robinson 2000). Deviance involves violation of the normative expectations of the social context (Merton 1968) and can lead to negative firm and family outcomes. However, any assumption that all norms are inherently productive or "good" is flawed (Mainemelis 2010). Likewise, deviance does not always result in dysfunctional outcomes—in fact, there is clearly a diversity to deviance that creates positive as well as negative consequences for individuals and organizations alike. "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). Deviance can also be used strategically to help attain a firm's goals (Kidwell and Nygaard 2011).

Workplace deviance has been defined as "voluntary behavior that violates significant organizational norms and, in doing so, threatens the well-being of the organization or its members, or both" (Bennett and Robinson 2000: 349). However, a different perspective on deviance views it merely as a behavioral shift away from reference group norms (Warren 2003). Warren's typology classified behaviors as conforming or deviating from normative expectations and as constructive or destructive either at the firm level (reference group norms) or the societal level (hypernorms). Thus, some behaviors that violate norms could be helpful to the firm and/or society (e.g., innovation), and others could be harmful to certain members of the firm but helpful to society (e.g., whistleblowing). A focus on positive, sometimes called constructive or creative deviance, has been growing among researchers over the last several years (e.g., Galperin 2003; Lin et al. 2016; Mainemelis 2010; Spreitzer and Sonenshein 2003, 2004; Vadera et al. 2013).

We believe deviance, its antecedents, and its outcomes—diverse as they are—can be studied in families and family businesses by applying theory from family science, entrepreneurship, and family firms. This chapter considers and applies relevant theory to different types of deviance and is organized as follows. First, we discuss family science theories capable of explaining antecedents of deviance in the family as well as the family firm, at the organizational as well as the societal level. Then we discuss different categories of deviance and how they might be classified as dysfunctional/destructive, functional/constructive, and intentional/strategic. We conclude with a discussion about potential research questions and research avenues that might be explored using our suggested framework.

By integrating multiple theoretical lenses and perspectives from family science to explain potential outcomes and antecedents, we contribute to the family firm literature by offering alternative views regarding the framing of future research into deviant behavior in family firms. The framework advanced in this chapter provides a theoretically grounded and comprehensive explanation about how different types of deviance emerge and the outcomes that can be expected, thus providing a distinctive contribution to the existing research landscape by suggesting directions for future inquiry.

Theoretical Grounding

The diverse and hybrid nature of families and family firms is reflected in the well-known three-circle model (Tagiuri and Davis 1992), which illustrates the overlap among firm ownership, firm management, and family, and has been

regarded as a key framework by academics and practitioners alike in discussing the implications of these three interlocking systems. In terms of the hybrid identity (Whetten et al. 2014) of the family firm, family business scholars, in particular, have discussed two contrary theoretical perspectives to explain behavior and performance of family firms (Le Breton-Miller et al. 2011). Stewardship theory posits that family firm owners/managers are long-term stewards of their organizations who seek the best for all stakeholders through cooperation and care for the well-being of the firm, whereas agency theory proposes that owners/managers put the individual's or family's interests first and attempt to maximize short-term gain and diversion of resources while seeing a strong need to monitor and control family and non-family employees (Davis et al. 2010; Eddleston et al. 2017; Le Breton-Miller et al. 2011; Madison et al. 2016). Both theories have been linked to positive outcomes such as innovation and extra role behaviors in family firms as well as negative outcomes such as family member entitlement, dysfunctional altruism, and destructive behavior.

Previous research indicates that an agency perspective may be more closely related to dysfunctional behavior such as free riding and theft by family members (Chrisman et al. 2007; Schulze et al. 2001). Conversely, stewardship theory has been more commonly linked to a firm's functional behavior, for example, whistleblowing and organizational citizenship (Eddleston and Kellermanns 2007; Eddleston et al. 2017). We agree with the view that to "emphasize processes owning families use to fit together and to fit with their businesses" (Danes 2014: 611), to richen these two perspectives of the family and family firm and to illustrate the heterogeneity of the family firm, it is important to consider and apply relevant family science theories to deviant behavior in the family and the family firm. We suggest that the three most salient theories in this regard are family systems theory (Broderick 1993; Whitchurch and Constantine 1993), the family-niche model of birth order and personality (Sulloway 1996), and parental control theory (Baumrind 1967, 1971). As we explain below, applying these theories provides a richer explanation for the development of boundaries and boundary maintenance, conflict, and the manner in which it is handled; the development of norms and values regarding entitlement, justice, parental altruism, innovation, and other phenomena that impact the functioning of the family and the family firm through imprinting (Kidwell et al. 2018); and the development of shared family values that diffuse into the functioning of the firm. It is also important to apply these varied theoretical perspectives because families may operate under one set of norms, whereas their family businesses may adopt a different

collection of expected behaviors. In addition, norms adopted by the family and norms adopted by the family firm may differ from hypernorms, that is, accepted values operating at the societal level (Warren 2003).

Each of these theories helps explain the different patterns of interactions, values, goals and structures among families. They can also aid in advancing a better understanding of how certain key events in the development of the family, the business family system, and the family business can result in positive or negative imprints, the perspective that what happened to people and organizations during past key events in large part influences how they behave in the present and the future (Simsek et al. 2015). We discuss each theory and its implications for deviance at the organizational and societal levels applying an imprinting perspective. Theories and types of deviance and potential outcomes resulting from family members engaging in deviant behavior are shown in Fig. 24.1.

Family Systems Theory

Family systems theory considers the family as a complex, open, and hierarchical system in which family members interact using established rules, values, and rituals. The examination of families and family processes as an open system is rooted in general systems theory (Broderick 1993) with the family members within the system attempting to maintain equilibrium and system boundaries by separating out elements that may harm or violate rules governing the system. The system features feedback loops that assist in determining the behavior of family members in light of a system's relationship to the external environment. The consideration of family as an ecological system, which originated in the area of family therapy, allowed the "study of wholes rather than parts," thereby providing an explanation about the process of interaction within the family and the behaviors that result (Bavelas and Segal 1982: 99).

Bacallao and Smokowski (2007) proposed that the attitudes, behaviors, and family structures in an extended family system potentially ingrain each individual family member with a strong family orientation, obligation, and cohesion rooted in the family. On the positive side, one important role the family system can play is its incubation and support of entrepreneurship among family members such that an individual's motivation and capability to pursue a career as an entrepreneur may be encouraged by the process of interaction in the family and across generations (Dyer 2003; Jaskiewicz et al. 2015; Zellweger et al. 2011). On the negative side, researchers have suggested that boundary sharing and boundary overlaps between the family and the business

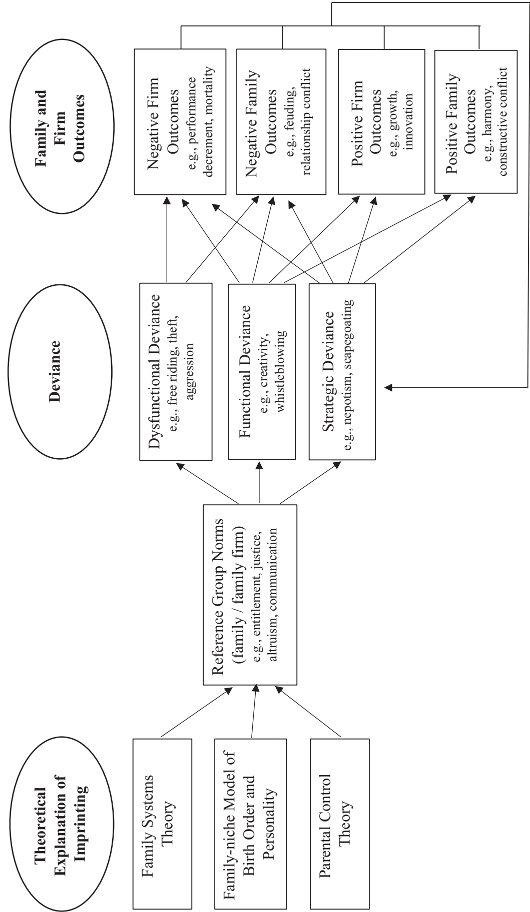

Fig. 24.1 Family science theories applied to deviance

systems can create role ambiguity and role conflict for family employees and that these conditions can have problematic results for both systems (Cooper et al. 2013).

The family business

> defines the limits of family-workplace boundary sharing…The exact dynamics of such organizations vary…One very common pattern…features a patriarchal head or a partnership of brothers with wives assigned to vital but often subordinate positions in the financial, public relations, or office-management side of the business. Children are motivated by the promise of eventual inheritance, and from their earliest years are directed to 'learn the business from the ground up.' As youths, they may end up doing much of the common labor in the organization, rising to more responsible positions only as they are judged ready for it. Whether organized in this patriarchal format or according to some more egalitarian or female-centered model, the stress points tend to be found where familial and business rules of interaction come into confrontation. (Broderick 1993: 157)

Unclear boundaries between family and business systems may lend themselves to a vicious or a virtuous cycle of behavior (Eddleston and Kidwell 2012a) occurring within the systems. In other words, the nature of a system, seeking to sustain or return to stability, can encourage repeated behaviors that can be extremely positive and reinforcing or extremely negative and reinforcing. An example is that of a family member who is perceived as an outcast or treated negatively by the family, that is, the black sheep or scapegoat, and that person's negative behavior becomes a self-fulfilling prophecy based on how other family members treat and react to him or her. In addition, the inability to segment and isolate family roles from work roles in a family firm can create a situation in which positive or negative behaviors in one system bleed into the other and continue in both systems. Building on boundary theory (Ashforth et al. 2000; Kreiner 2006; Nippert-Eng 1996; Rothbard et al. 2005), Cooper et al. (2013) proposed that role conflict and role ambiguity can develop due to a lack of correspondence between a family employee's preference for work-family segmentation and his or her ability to segment roles in the family firm and the family. This situation can ultimately lead to a family member's norm breaking, that is, deviant behavior as the family member tries to bridge boundaries and properly engage in both the family and the family business system. A lack of clarity across boundary roles can escalate into negative behavior perpetuated by ongoing work-family relationships and interactions (Cooper et al. 2013).

Processes of the family and business systems are also relevant to deviant behavior when considering the development and perpetuation of phenomena such as parental altruism, family-based entitlement, and scapegoating in the family. Parental altruism is defined as a trait that links a parent's welfare to that of his or her children (Lubatkin et al. 2005; Stark 1995) and involves parents unconditionally providing generous rewards to their children. It is often connected to problems related to agency costs in firms such as parental self-control, adverse selection, and shirking responsibilities (Schulze et al. 2001, 2003). Altruism by parents in interacting with children working in the family firm can lead some children to develop a strong sense of unearned entitlement—seeking an equal share of the family's resources and wealth from the business regardless of contribution—because they perceive the family firm leader as a parent rather than a boss (Eddleston and Kidwell 2012a). This is particularly the case with disfavored children who may serve as the family scapegoat.

Family scapegoating occurs when a family member, often a child, bears the burdens of the family and is unfairly blamed for family problems. The scapegoat—the target of blame and shame—performs an important function in keeping the family system balanced by "channeling family tensions and providing the family with a basis of solidarity" (Pillari 1991: 4). The scapegoat serves as the carrier of sins away from the family much in the way that high priests in ancient Jerusalem burdened a goat with the people's sins so as to appease the spirit of evil (Pillari 1991). The scapegoat serves as an extreme example of a disfavored child, and despite his or her role in the family, the scapegoat can develop guilt and a negative self-image, amplifying the effects of parental altruism and entitlement in a vicious circle leading to behavior that is destructive to the individual and the family.

Due to their loyalty in bearing the burdens placed upon them by the family, particularly by their parents, scapegoated children, as adults, can develop a belief that they have rights to equal shares of family wealth, regardless of actual contribution to the family business. Furthermore, parental altruism encourages disfavored children such as the scapegoat to behave selfishly because the parents' guilt eventually compels them to share wealth with all children and to forgive a child's perceived indiscretions, including those manufactured as part of the scapegoating process. The parents' guilt for their treatment of a scapegoated child serves as a mechanism that would seek to repair interpersonal bonds by providing material contributions to compensate the scapegoat as a surrogate for care and affection not provided in childhood. Parents can feel immense guilt in regard to their children's well-being and behavior (Baumeister et al. 1994; Pickering 1991); research on parent guilt

suggests that when a parent feels sorry for a child and/or feels that (s)he has been too harsh toward a child, the parent's discipline of the child weakens, leading the parent to give in to the child's demands and to spoil the child (Pickering 1991). Thus, parents may treat the child as a scapegoat but still display altruistic behaviors that can eventually increase the child's sense of unearned entitlement as the relationship continues, and deviant behavior is one potential result.

Family-Niche Model of Birth Order and Personality

The family-niche model of birth order and personality is a family science systems theory proposing that personality development of the child is influenced by the way siblings create special niches based on birth order to gain access to their parents' resources. Factors that affect relationships between birth order and personality development include birth intervals, personality differences in families, and biological composition of the family (Paulhus et al. 1999; Sulloway 1996).

To summarize thousands of studies and a century of research, "first borns are reported to be more responsible and achievement oriented than later borns, who are in turn reported to be more socially successful than older siblings" (Sulloway 1996: 55). In addition, first-borns may be "dethroned" by a second sibling's birth and must manage and overcome the related trauma, whereas youngest children are not in the position of being dethroned and "are said to become lazy and spoiled" (Sulloway 1996: 55; Adler 1956). A competition evolves in which children battle to occupy a niche that will provide them with access to parental resources. Support has been found for Sulloway's (1996) thesis that first-born children try to please parents by being successful and responsible and develop into conscientious and conservative adults, whereas later-born children develop an empathic adult character that strives for uniqueness that can result in rebellion (Paulhus et al. 1999).

Although there have been exhaustive studies of the model and how it applies to personality development and eventual outcomes, it is useful to consider its implications for deviant behavior, both negative and positive, in particular, how the sibling competition leads to the development of creativity on the part of some children and the development of the dark triad of personality traits (Machiavellianism, narcissism, and psychopathy) among others (Paulhus and Williams 2002). Whereas creativity is linked to scientific investigation and innovation, the dark triad traits serve as antecedents to unethical behavior and fraud. In terms of ethics, narcissism motivates individuals to behave

unethically for personal benefit, Machiavellianism motivates individuals to act unethically and to deceive others, and psychopathy affects how individuals rationalize their unethical behaviors (Harrison et al. 2016). The niche model provides another theoretical lens by which to understand how both positive (creativity) and negative (dark triad) deviant behavior can develop within the family and the family firm.

Parental Control Theory

Parental control theory identified three dominant parenting styles and found that each of these parents' styles differentially impacted the characteristics of their children (Baumrind 1967, 1971). The most self-reliant, self-controlled, and content children had controlling and demanding parents who were warm, rational, and receptive in communicating with the child (Baumrind 1971). These parents who exercised high control and used positive encouragement of the child's striving for independence were said to be displaying authoritative parental behavior. Authoritarian parents—detached, controlling, and less warm than other parents—had children who were relatively discontent, withdrawn, and distrustful. Finally, parents who were neither demanding nor controlling but relatively warm were labeled permissive parents and their children were the least self-reliant, explorative, and self-controlled (Baumrind 1971).

Subsequent research revealed that parenting style had important implications for the way children behaved as adolescents as well as adults, and each style had implications for how the children would behave relative to others in the family and the family firm. For example, Steinberg, Elmen, and Mounts (1989) found that authoritative parenting facilitates academic success in adolescents and its positive impact on achievement is mediated by the effects of authoritativeness on developing a healthy sense of autonomy and a healthy psychological orientation toward work. In addition, an authoritative parenting style, which includes high acceptance, supervision, and psychological autonomy granting to children, leads to better adolescent school performance and stronger school engagement. The positive impact of authoritative parenting on adolescent achievement is mediated by the positive effect of authoritativeness on the degree to which parents are involved in schooling (Steinberg et al. 1992). Despite these findings, research has also indicated that the influence of authoritative, authoritarian, and permissive parenting styles can vary depending on the family's social environment (Darling and Steinberg 1993).

Parental control theory can be useful in the context of the development of deviance in the family firm. Family firm leaders may bring a parenting style

from the family system to the family business system that impacts interactions with family member employees. Such a crossover can result in family members experiencing a boundary violation by authoritarian parents who continue to direct their children even though they are adult business executives. Family firm founders, in particular, are often perceived as interfering with their successor children in business operations even after they have seemingly relinquished control to the next generation. This type of boundary violation can threaten the family member's identity as a "grownup" leading to difficulty in work-family role segmentation and potentially rebellion in a way that leads to the breaking of normative guidelines (i.e., deviance).

The Imprint of the Family System Experience

The family science theories discussed in the previous sections help explain how families function as open systems that attempt to balance the internal functions of the family with their interactions with other systems, such as the family business, and to influence and be influenced by the external environment. These theories may predict the antecedents of behaviors that include norm breaking resulting in deviance. The question arises as to how and why exposure to these experiences at an early age would affect behaviors that occur many years later. We suggest imprinting theory as a potential explanation.

Imprinting theory proposes that significant event experiences of individuals in their early lives and careers and the experiences of early stage organizations have a great impact on the subsequent behavior of those individuals and organizations many years after the initial event (Stinchcombe 1965; Marquis and Tilcsik 2013). Imprinting at the individual level is an element of learning theory in that behaviors occurring later in life are influenced by events that occurred during a person's formative years (McEvily et al. 2012). Family systems theory, the family-niche model of birth order and parental control theory can all provide an understanding of how shared values develop in the family and eventually how an organizational culture develops in the family business. One of the key elements in the differentiation of the family firm from a non-family firm is the degree to which the family's values are reflected in the operation of the family business (e.g., Chirico et al. 2011).

Building on research that found growing up in a certain social class can have a lasting impact on an individuals' tendency to take business risks (Kish-Gephart and Campbell 2015), Kidwell, Kellermanns and Eddleston (2018) proposed that family interactions occurring long before a family member enters the family business leave psychological imprints that impact subse-

quent behavior. They proposed that although imprinting is often associated with a "positive halo effect," it can lead to negative behaviors and harmful firm-level outcomes. A dark side of imprinting develops as negative family dynamics (e.g., entitlement, injustice, and parental altruism) that were imprinted by key events in one stage of a family's development come into the organization as the family culture becomes the family *firm's* culture and that culture is carried forward through generations that continue to pass the imprinted attitudes, values, and behaviors on to current and future family members (Kidwell et al. 2018).

On the positive side, sources of entrepreneurial thinking in the family firm, innovation, and other favorable outcomes can develop via the imprinting process (Jaskiewicz et al. 2015; Kammerlander et al. 2015). Other research related to family firms or entrepreneurship has connected imprinting to multi-family-owned businesses that last over several generations (Pieper et al. 2015), human resource values in early-growth stage firms (Leung et al. 2013), and the role of organizational learning in the survival of new firms (Dencker et al. 2009). In sum, imprinting can help explain the mechanisms by which family system phenomena are translated into the family business system for better or for worse. However, it is important to note that imprinting theory focuses on how values and norms—positive and negative—may be established and learned in the family firm rather than explicitly explaining how and why deviant behavior later violates them.

Deviant Behavior: Dysfunctional, Functional, Strategic

Until recently, deviant behavior was generally viewed as threatening the well-being of organizations and their members through the voluntary breaking of norms, an assumption being that the violated norms were important to organizational functioning (Bennett and Robinson 2000). Robinson and Bennett (1995) proposed a typology of deviant behavior that focused on four elements: production (damaging quantity and quality of work), property (abusing or stealing company property), political (badmouthing others, spreading rumors), and personal (being hostile or violent toward others).

Other characterizations differentiated between behavior that deviates or conforms to norms at different levels of analysis: reference group norms, the organization's norms, and the society's generally accepted norms, that is, hypernorms (Warren 2003). The possibility that deviance might not be negative—when violating a norm has potentially positive effects in some way, such

as in the cases of innovation or whistleblowing, or depending in some instances upon a violator's motivation—led to a stream of research that focused on both constructive and creative deviance (Galperin 2003; Mainemelis 2010; Spreitzer and Sonenshein 2003, 2004; Vadera et al. 2013). To classify the different types suggested by this literature as seen in Fig. 24.2 (adapted from Warren 2003), we can say that destructive deviance violates both reference group norms and hypernorms, constructive deviance violates reference group norms but not hypernorms, constructive conformity is a non-deviant positive outcome in line with both types of norms, and destructive conformity may violate hypernorms but not the norms of the reference group such as the family or family firm. This allows classification of behaviors that are harmful (e.g., aggression, lying, theft, sabotage, and noncompliance to rules) and, in other instances, classification of behaviors that are potentially beneficial (e.g., innovation, whistleblowing). Another view of deviance, developed in the franchising literature, regards it as a potentially strategic behavior that assists in the overall goals of an organization despite effects that may be positive and negative (Kidwell et al. 2007; Kidwell and Nygaard 2011).

Proposition 1: Reference group norms mediate relationships between theoretical explanations of imprinting (family systems theory, family-niche model of birth order and personality, and parental control theory) and dysfunctional, strategic, and functional deviance in family firms.

Deviance carries with it a level of ambiguity. The intent in breaking a norm may be constructive or destructive, the result of breaking a norm may be positive or negative, and the decision to engage in deviant behavior may be strategically positive for the organization. The ambiguity of deviance can be illustrated by considering a behavior that violates an organizational norm but

	Conformity	*Deviance*
Constructive	No violation	Violates reference group norms only
Destructive	Violates hypernorms only	Violates reference group and hypernorms

Fig. 24.2 Deviance conformity violation matrix

that could have varying results based on motive. Consider a family firm with a long tradition of not firing a family member under any circumstances—even poor performance. A family member who is a senior manager at the company fires his brother-in-law who has performed his sales job incompetently for the last several years. Three years later, another family member who is a senior manager in a different division of the company fires his competently performing nephew as the result of a feud with his sister, the boy's mother. Both managers have violated a family firm norm by firing a family member, and thus their behavior would be regarded as deviant. The first case, however, is an example of constructive deviance and the second is a case of destructive deviance. In both cases, there may be threatening results for the organization: the potential for family unrest both in the business as well as in the family. However, the firm's performance might be improved in the first case and not so in the second example. In this section, we define and discuss the three general types of deviance and apply them to the business family and family business systems. We frame our discussion of the heterogeneity of deviance by labeling different varieties of deviant behavior as dysfunctional, functional, or strategic and discuss characteristics and subtypes of each.

Dysfunctional Deviance

Several different, yet similar, terms have been used to describe deviance that has potentially dysfunctional and destructive consequences for an organization. These labels include dysfunctional behavior, organizational misbehavior, antisocial behavior, and counterproductive behavior. All share the common characteristic that the behaviors have harmful consequences for the organization. We define and briefly discuss each in turn.

Dysfunctional behavior occurs when employees or groups of employees engage in activities that have negative consequences for an individual in an organization, a group of individuals, and/or the organization itself. There are two general types: violent and deviant (e.g., aggression, physical and verbal assault, terrorism) and non-violent dysfunctional (e.g., alcohol and drug use, revenge, absence, and theft) (Griffin et al. 1998; Griffin and O'Leary-Kelly 2004). *Organizational misbehavior* is defined as "acts in the workplace that are done intentionally and constitute a violation of rules pertaining to such behavior" (Vardi and Weitz 2004: 3). Organizational misbehavior may intend to benefit an individual or an organization and intends to inflict damage (Vardi and Wiener 1996). Researchers consider misbehavior broadly: time wasting, absence, turnover, crime, and sexual harassment (Ackroyd and Thompson 1999; Vardi and Weitz 2004). *Antisocial*

behavior is intended to bring harm to and/or does harm an organization, its employees, or the organization's stakeholders. It includes aggression, discrimination, theft, interpersonal violence, sabotage, harassment, lying, revenge, and whistleblowing. Antisocial behavior focuses primarily on personal and property interactions, and less so on production with the exception of sabotage (Giacalone and Greenberg 1997). Finally, *counterproductive behavior* consists of "any intentional behavior on the part of an organization member viewed by the organization as contrary to its legitimate interests" (Sackett 2002: 5). Counterproductive behavior is considered an element of job performance. Examples can include theft, destruction of property, misuse of information, unsafe behavior, poor attendance, and poor work quality.

When one considers how these various elements of destructive behavior affect the family and family firm systems, we suggest that they occur in a much more subtle fashion and develop over time as opposed to manifesting themselves as blatant efforts to engage in activities that bring harm such as theft and violence. The system establishes norms to help it function effectively. Norms and values are imprinted on the family and family business systems during key events in their development. Deviating from these positive norms in a destructive way could be the result of personal conflicts that develop among family members that have more to do with relationships in the family system than with specific elements of a task or process in a family firm (Gordon and Nicholson 2008; Kellermanns and Eddleston 2004). This was illustrated in a study in which about a third of family firms reported that a family member employed at the firm served as an impediment to the business's success (Kidwell et al. 2012). The survey of 147 family firm members indicated that norms of family harmony and fairness lessened the likelihood of a family member impediment, whereas the presence of role ambiguity and relationship conflict increased the likelihood of a family member engaging in what could be defined as destructive deviant behaviors (Kidwell et al. 2012).

Proposition 2: Dysfunctional deviance is an antecedent to both negative firm and family outcomes.

Functional Deviance

Many organizational leaders are heavily invested in creating a business's norms and then in seeking compliance to the rules, policies, and procedures they have established. Whereas breaking organizational norms is generally perceived as threatening and negative, we noted earlier that violating organizational rules

and standards by disobeying supervisors and other actions can fall under the "deviant" classification, yet may not have destructive results. Whistleblowing, creativity, innovative thinking related to organizational change and dissent from a firm's stated policies can be among these forms of deviance. These actions may deviate from the norms established by the majority, but they can also be the source of positive results for the organization (Crom and Bertels 1999; Kim and Markus 1999; Vadera et al. 2013). The study of functional, or positive, deviance has led to a variety of types and terms to describe this phenomenon; two major types are constructive deviance and creative deviance.

Constructive deviance has been defined as "intentional behaviors that depart from the norms of a referent group in honorable ways" (Spreitzer and Sonenshein 2003: 209), and as "voluntary behavior that violates significant organizational norms and in doing so contributes to the well-being of an organization, its members, or both" (Galperin 2003: 158). An important distinction between the two definitions is that Spreitzer and Sonenshein explicitly state that constructive deviance involves norm breaking in "honorable" ways that "improve the human condition" (209), whereas Galperin focuses only on the benefits that constructive deviance has for the organization (Vadera et al. 2013). Constructive deviance can serve as an umbrella term (Warren 2003; Vadera et al. 2013) that includes a wide range of behaviors such as whistleblowing (Near and Miceli 1985), principled organizational dissent (Graham 1986), prosocial behaviors (Puffer 1987), extra role behaviors (Van Dyne and LePine 1998) and organizational citizenship behaviors (Smith et al. 1983). Such deviance can improve firm performance in a variety of settings (Mertens et al. 2016).

"Creative deviance refers to the violation of a managerial order to stop working on a new idea" (Mainemelis 2010: 560). The violation, or deviance from a norm, in this case, "fosters the evolution of radical new ideas, and allows the organization to respond in a flexible manner to the inherent uncertainty that both creativity and deviance entail" (Mainemelis 2010: 560); several case studies indicate the importance of creative deviance to the innovation process. How the leader responds to creative deviance and provides supportive supervision in the process can impact subsequent creative deviance and creative performance (Lin et al. 2016).

In some family systems, the elders set norms that provide for higher levels of creativity and constructive activity, whereas in other systems a focus on tradition and stability may dominate and preclude creativity or challenges to the status quo and thus set the stage for creativity, innovation, and change to be viewed as deviant. The value of what has worked in past and current generations may restrict positive views toward experimentation and challenge,

but the intergenerational interplay between these two points of view is a key factor. Conflict between generations on a variety of issues can encourage the development of conditions that lead to the occurrence of deviant behavior, but whether the conflict works for the betterment or the detriment of the organization depends on the nature of the conflict and how conflict resolution is managed in the family and the family firm.

For example, one family member, dissatisfied at the mechanism for conflict resolution in the family, may attempt to resolve a relationship conflict or a perceived wrong by telling outsiders in positions of authority, that is, law enforcement, of wrongdoing in the family firm. Whereas this type of whistleblowing activity may be rare, it could be a manifestation of both dysfunctional deviance to the family firm and of functional deviance to society. A family member who violates norms by engaging in innovative practices could be an example of functional deviance at both the firm and the societal levels.

Proposition 3: Functional deviance is an antecedent of positive firm and family outcomes as well as negative firm and family outcomes.

Strategic Deviance

Regardless of whether the deviant behavior is functional or dysfunctional, constructive or destructive, the family system and family firm may engage in deviance strategically. Strategic deviance is defined as "the complementary use of organizational mechanisms and actions that may violate established norms and be perceived as dysfunctional yet contribute to overall system wellbeing. Strategic deviance provides a rationale as to why apparently negative behaviors are accepted and potentially take on an ambiguous character" (Kidwell and Nygaard 2011: 468).

An illustration of strategic deviance is seen in franchising where the franchisor must deal with both a vertical agency problem, for example, shirking by company managers who don't have ownership incentives, and a horizontal agency problem, for example, free riding by franchisees (Brickley and Dark 1987). Such deviance can be viewed as a strategic tool in the framework of a plural ownership model such as franchising because ownership of company stores, despite manager shirking, provides valuable information to the franchisor about store operations to improve system performance, and the franchisees provide valuable market knowledge to the franchisor despite any tendencies to free ride on the brand (Kidwell and Nygaard 2011).

One practice engaged in by family firms that is often seen as deviant, at least in terms of societal norms, is nepotism. Nepotism involves an owner's hiring of family members rather than job applicants who are not related to the owning family. This preference discriminates against non-family members, and such discrimination is generally viewed unfavorably by society (Jaskiewicz et al. 2013). Whereas nepotism may be seen as detrimental and deviant from a normative perspective at the societal level, some family firms benefit by hiring family members, in that these firms maintain a workforce that shares similar values, build commitment to the organization, and allow future firm leaders to become proficient in crucial skills (Jaskiewicz et al. 2013; Salvato et al. 2011). A key factor that would determine whether the firm is practicing strategic deviance through nepotism rather than dysfunctional behavior would be the degree to which it hires family members based on merit rather than considerations that reflect parental altruism and family status.

A second use of strategic deviance involves breaking existing norms in a way that successfully addresses challenges the organization is currently facing as it moves through the family and business life cycles and seeks rejuvenation (Hoy and Sharma 2010). For example, new generations of leadership in a family firm can shift the values of the firm from an emphasis on status quo and stability toward creativity and flexibility when industry or business conditions dictate that strategic leadership of change is needed. Absent such leaders, family member employees and managers who aggressively raise major issues that are traditionally not discussed or debated in the family are engaging in a form of strategic deviance that could ultimately benefit the organization. The actions of such radical dissenters can lead members of the family to question underlying assumptions and be more open to positive change (Elmes 1990). At some stage, as norms change, the family leadership may establish a devil's advocate in the decision-making process. The devil's advocate could encourage healthy discussion of task and process conflict assisting the family business in making more effective decisions. Thus, dissent that was once deviant would now become the norm.

Finally, family leaders may use strategic deviance in a negative way by identifying a disfavored or "problem child" in the family, and ultimately the family business, that is, the Fredo effect (Kidwell et al. 2012), and using the adverse treatment of that black sheep to control the behavior of other family members. The use of a scapegoat is a form of bullying in which the scapegoat is given the blame for all that goes wrong; it is generally viewed as deviant and dysfunctional yet it is common practice (Pillari 1991). Bullies target victims such as the scapegoat to establish the compliance of bystanders who believe

they could be targeted as the next victim. This dysfunctional use of deviance could be employed intentionally and strategically as a disciplining mechanism for stability and continuity by family and family firm leaders. Whether its use would be conducive to the long-term health of either family or family business system is a subject for future research into firm performance as well as ethical behavior. It would also be interesting to consider whether sanctions imposed by parents on unfavored children is a form of altruistic punishment in which uncooperative behavior is punished in an effort to induce future cooperation of those punished even though there may be no direct or indirect benefits to the punisher (Egas and Riedl 2008).

Proposition 4: Strategic deviance is an antecedent of positive firm and family outcomes as well as negative firm and family outcomes.

Further Implications for Family Firms and Deviance

Family science theories can assist in understanding how the three subsystems of the family business—family, ownership, management/organization—engage with and relate to one another regarding how deviant behavior develops and affects the family firm. The role of the family system in the forming and imprinting of values and norms on family members who go into the business is a good starting point to examine how these norms affect interactions and performance and eventually how deviations occur that may be destructive, constructive, and/or strategic. It is clear that norms can change over time; what was once considered deviant in a group or a society can eventually become the norm, thus early family imprints that shape subsequent behavior in the family and the firm can be subject to re-imprinting (Kidwell et al. 2018). How this re-imprinting process occurs is one of several additional directions for future research.

The heterogeneity of family firms lends itself to a study of how each key subsystem influences the formation and modification of the values and norms in the family business ecosystem and subsequent deviations. As noted, the family system can play a large role on what kinds of imprints are developed in the family and subsequently the family firm. Extreme dominance of family welfare could lead to the development of norms that define the firm as a family-first business in which family welfare is paramount, in that the business exists primarily for the good of the family and benefits and rewards are distributed based on family wants and needs regardless of merit (Poza and

Daugherty 2014). We propose that this type of prevailing culture lends itself to the establishment of family and firm norms and values that may be in serious conflict with societal norms and can ultimately lead to rule and law breaking that can destroy the business.

On the other hand, when the management system of the family firm is more dominant than the other systems in forming the norms, a family member is treated like any other employee and receives job assignments, performance appraisals, and compensation plans that are standard for all employees. In this case, we propose that the prevailing norms and values should be consistent with the firm's goals rather than those of the family, and family members and other employees who are not satisfied with the result may engage in dysfunctional behavior. Finally, if the ownership system is dominant, shareholders, often family members, come before other interests and establish the prevailing norms. Family members who are not active in the business may set expectations of behavior and make short-term demands that have a negative impact on both the family and the firm. In this case, we propose that increased levels of positive deviance are a potential outcome as both family and nonfamily managers violate norms to maintain patient capital for the long-term financial good of the enterprise. In addition, the feedback loops of the various subsystems influence each other as well as the overall superstructure of the family enterprise in what may become a virtuous or vicious circle.

Before the firm gets to the point of one subsystem or another becoming dominant, it is useful to examine how the application of family science theories might affect the eventual emergence of one system over the others—or a lack of dominance and more balance—in forming norms, and the circumstances of how those norms might be broken and changed if necessary. Leaders in the family system may be founders who have established the business and its values and culture or they may be of subsequent generations whose role in firm ownership or management is limited. The firm's culture, shared values that guide the behavior of those in the business, may reflect the original values of the founders, may have changed over time, or may need modification due to a negative influence on the system. If the values, norms, and the culture in which they operate need change, leadership must emerge to lead that change—reflected earlier in our discussion of strategic deviance. To change an organization's or a family's culture may require a change in leadership (Cameron and Quinn 2005), and an ultimate act of leadership is for the leader to destroy a dysfunctional culture (Schein 2006); thus norms that eventually result in widespread destructive deviance need to be examined as to the reasons why they exist. It is also possible that constructive deviance, for example, whistleblowing or innovation, emerging from the system may indicate that a re-

examination of norms is necessary. The point where new generations emerge to lead the family firm is a good time for these new leaders to serve as change agents and examine which norms of the family and of the family firm impact each other and which provide strength to the organization and which ones are sources of weakness (Kidwell et al. 2018). From this examination can emerge a re-imprinting of the family firm with revised practices and behaviors that reflect new values, new norms and new culture.

Proposition 5: Positive firm and family outcomes as well as negative firm and family outcomes provide feedback that then determine family firm responses (e.g., re-imprinting) to various types of deviant behavior.

Discussion and Future Research

In this chapter, we contribute to the family firm literature by explaining how three different family science theories—family systems theory, family-niche model of birth order and personality, and parental control theory—can be applied to offer a comprehensive understanding about the manner in which imprinting occurs and norms develop within the family and within the family business. We suggest that the integration and application of these theoretical perspectives derived in family science literature constitute a meaningful contribution as this framework can be applied in the future to address many of the interesting and largely unanswered questions that involve norms within families and firms, deviance, and family/family firm outcomes. For example, future research may consider that certain norms are far more important than others and that different factors contribute to the development of significant versus less significant norms. In addition, there may be differences in the conditions under which family members are more or less likely to deviate from family norms or societal norms. The strength of familiness, heterogeneity of the family and the family firm's stakeholders, and the cultural setting of family and firm may all potentially impact or moderate the development of norms and the occurrence of certain types of deviance in the family and the family firm.

We have also attempted to highlight and provide a thorough explanation about how constructive deviance can emerge and result in positive impacts to the family business, thereby providing a timely contribution to recent research focused on deviance and its implications. This line of inquiry naturally and logically leads to the consideration of how family firms (or family firm ownership/management) might take steps, or embed policies that purposefully promote, or even reward, functional deviance for the betterment of the firm.

Future research could link these ideas of promoting functional deviance to the corporate entrepreneurship literature, which also highlights the importance of policies that promote and reward innovations that may violate current organizational norms.

Additionally, the explanation and framework presented has important practical implications by specifying deviance that might yield positive firm and family outcomes. For example, family firm leaders should recognize that their parenting styles as well as their children's birth order and personality have consequences on potential dysfunctional, functional, and strategic deviant behavior. Furthermore, family firms would benefit from knowing the different types of deviant behavior that can occur in their organizations and acknowledge that not all violation of norms are harmful to the firm and to society. Future research can apply this framework to more explicitly specify deviance that will yield positive firm and family outcomes. Future research should also consider the role that intentions have in the deviance and norm violating process. We know that some functional types of deviance are characterized as having highly uncertain outcomes (e.g., creativity and innovation) that may eventually be beneficial or detrimental to the firm. Thus, how might reactions to deviant behavior vary based on intentions versus outcomes? Developing a better understanding of the implications deviance has for performance is an important area for future research and will benefit from continued integration and application of family science and management theory.

In closing, we briefly discuss three other family science theories that may be useful in explaining the establishment of norms, the occurrence of deviant behavior of different types, and the imprinting and re-imprinting of the family and the family firm. These are family development theory (e.g., Duvall 1962), intergenerational solidarity theory (e.g., Bengston and Roberts 1991; Silverstein and Bengston 1997), and family communication patterns theory (e.g., Ritchie and Fitzpatrick 1990).

Family development theory considers life cycle stages and family transitions over time; the development of each family member impacts the overall development of the family and vice versa as family norms systematically shift across the family's life cycle (Duvall 1962). Families able to anticipate changes from one stage to the next can manage transitions among stages. This theory may help explain the need and the process of effective re-imprinting as the family and its members develop over time and changing family stages demand establishing new norms.

Intergenerational solidarity theory proposes how bonds are developed across generations by examining family members' attitudes and behaviors that lead to solidarity and intergenerational cohesion in the family (Silverstein and

Bengston 1997). This theory may help guide the study of how norms and values transcend generations based on the bonding of family members from different generations. The degree to which cohesion is present among the different generations could be a double-edged sword regarding the family firm because a highly cohesive relationship between parents and adult children may obviate a need to examine and modify norms as conditions change.

Finally, family communication patterns theory studies the influence of in-family patterns of agreement and disagreement on communication norms defining the family (Ritchie and Fitzpatrick 1990) and describes the degree to which effective communication through the dimensions of conversation and conformity occurs in families. In families with a high conversational orientation, family members are encouraged to discuss any topic, whereas when a high conformity orientation is present, family members emphasize accepting the same attitudes, values, and beliefs (Fitzpatrick and Ritchie 1994). These orientations can reflect whether there are high levels of conformity to norms in the family and how those who deviate are treated as well as the degree to which discussion of the effectiveness and appropriateness of current norms can take place. Both of these dimensions can have an impact on the level and nature of deviant behavior in the family and the family firm.

Conclusion

In this chapter, we applied multiple family science theoretical lenses to develop a comprehensive framework capable of contrasting and classifying different types of deviant behavior across different levels of analysis. Specifically, we explain how family systems theory, family-niche model of birth order and personality, and parental control theory can lead to imprinting of norms and values within the family and the firm, and how, subsequently, these same perspectives might lead to different types of deviant behaviors under different conditions. We also specify the distinctive differences between dysfunctional, functional, and strategic deviance that can occur within family firms. Finally, we provided a detailed explanation about how our framework is meaningful to the existing research landscape and how it, and other variations and family business theories, might be applied to answer other research questions unearthed here.

The development of such a framework represents an important contribution to existing research as we can now clearly delineate not simply a typology of deviant behavior, but the initial emergence of norms to theoretically grounded family attributes, interactions, and behaviors that have been

imprinted in the family and the firm. The resulting framework provides a more thorough understanding of imprinting, norms and values, and deviance, as they emerge and evolve in families and family firms.

In conclusion, we suggest that family firm research will undoubtedly be enhanced and informed by developing a better understanding of the role that deviance plays in the family system and what the various implications are for the family business as well as the business family. We believe there remain many important questions in the realm of family firm research that relate to imprinting, norms, deviance, and family business and that integrating multiple theoretical perspectives will help develop a more comprehensive understanding of these issues.

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25

The Dynamics of Identity, Identity Work and Identity Formation in the Family Business: Insights from Identity Process Theory and Transformative Learning

Richard T. Harrison and Claire M. Leitch

Introduction

In family business research, issues of identity and identity construction have become an increasing focus of attention, in terms of the conflict between organisational, family and individual identity; the identity shift or threat posed by intergenerational relationships and succession; and the tensions between traditional patrimonial family business leadership and gender-equality ideologies. Building on prior research (Leitch and Harrison 2017; Harrison and Leitch 2015, 2017), we identify three gaps in the literature on identity in the family business: first, identity is treated for the most part as an entity to which can be attributed individual and family business outcomes; second, the nature of leadership and leadership development in the family business has received scant attention, particularly as it relates to identity formation; and third, the nature of the identity work undertaken to create and maintain identity in the family business context in particular has been ignored.

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E. Memili, C. Dibrell (eds.), *The Palgrave Handbook of Heterogeneity among Family Firms*,
https://doi.org/10.1007/978-3-319-77676-7_25

In this chapter, therefore, we develop a new perspective on leadership and identity in the family business by drawing on three wider literatures. First, we draw on identity process theory as a dynamic model of how individuals define, construct and modify their identities, particularly but not exclusively under conditions of radical change or threat. Second, we draw on recent reinterpretations of transformative learning theory, originally developed in the context of adult learning, as a psycho-social process fundamentally oriented to catalysing a change in identity. Third, as part of a wider discussion of leadership and leader development, we draw on recent work in the leader development literature that seeks enhanced understanding of the process underpinning identity construction, as represented in the identity work construct.

We extend these literatures and apply identity process theory, transformative learning and identity work to demonstrate how the leader of a first- to second-generation transitioning family business in a traditional masculinist manufacturing sector constructs her identity in the face of significant identity threats personally and organisationally. Using a single, longitudinal case, we illustrate the interconnectedness between the leader's identity, her various lived and ongoing experiences, current context and enactment of her leadership. We conclude that identity work is an implicit, continuous and negotiated process between self and others. This is contrary to much of the contemporary identity literature which views identity as real and stable and identity work as necessarily purposive (Leitch and Harrison 2017). Based on both our theoretical discussion and empirical case analysis, we make a contribution to family business research by demonstrating the applicability of identity process theory as a framework for identity research in family business, and of transformative learning as an approach to family business leadership development and as both a coping strategy and an identity workplace in the face of significant identity threats.

Identity and the Family Business: An Identity Process Theory Perspective

Family business research is characterised by two features that increasingly constrain the development of the field. First, and notwithstanding the attention given to, for example, socio-emotional wealth, intergenerational conflict and succession planning, it emphasises first and foremost the business and places less attention on the family aspect of family business (James et al. 2012; Rosa et al. 2014; Bettinelli et al. 2014). Second, it is for the most part reliant implicitly or explicitly on the Western model of the conjugal nuclear family, a

model which is not and never has been universal (Cherlin 2012) and which was already in decline in the West by the time Goode's book extolling its virtues, world revolution and family patterns, had been published in the 1960s (Cigoli and Scabini 2006). Both of these characteristics reflect a limited engagement by family business scholars with the wider family sociology and family psychology literatures (Jaskiewicz and Dyer 2017).

Building on previous research on discursive psychology and identity formation in the family business (Harrison and Leitch 2015), this chapter uses the shifting nature of the 'family' as the context for an investigation of the nature of identity and how it is developed and maintained in the family business context. As a starting point, research into the heterogeneity of the family business must recognise the underlying heterogeneity of the family itself, not just the availability of alternative literatures, such as 'family science' (Jaskiewicz et al. 2016). This heterogeneity includes: recognition of the non-conjugal, non-nuclear family model characteristic outside the West (Cherlin 2012); the growth of 'non-traditional' families as gender fluidity and the recognition of same-sex relationships increases (Rambukkana 2015; Cahill 2012); the influence of increased longevity on family dynamics, notably intergenerational relationships (Bengtson 2001); the influence of migration and the development of transnational families (Lersch 2016); changes in work-life relationships as the 'family economy' evolves and the boundaries between work and family shift (Poelmans et al. 2013); the emergence of alternatives to the traditional patrimonial model, including copreneuring (Helmle et al. 2011), father-daughter succession (Halkins et al. 2016) and woman-led family businesses (Brush et al. 2006); and the wider implications of increased gender equality for both family and business roles in the family business (Yang 2013). As in small business and entrepreneurship research more generally (Harrison et al. 2015), there is a pressing need in family business studies to take gender, and the identity issues it raises, more seriously (Mulholland 2003). In so doing it will be necessary to address the argument that rather than leading to a happy ending and the establishment of a new model of the family, gender-egalitarian ideologies remain the prerogative of the well-off and highly educated (The Conversation 2016), emphasising the importance of addressing the intersectionalities of gender, education, class and ethnicity in future family business research.

Our argument is that against this background of the shifting nature of 'the family', renewed attention must be given to understanding how identity emerges and is shaped in the family business. Much of the research in the field to date comes from an organisational identity perspective, largely on the argument that "the concepts of organizational and hybrid identity organizations … are highly

relevant for family business scholarship… [as] … a coherent framework for understanding this type of organization as an amalgam of equally important social forms" (Whetton et al. 2014: 481). Specifically, the focus of much of this research is on the distinctiveness of the "family business system" and its meta-identity that can account for aspects of performance and behaviour (Zellweger et al. 2010; Shepherd and Haynie 2009; Knapp et al. 2013; Whetton and Mackey 2002). This perspective has recently been challenged (Harrison and Leitch 2015) on the basis, first, that it conflates individual and organisational identity by viewing the business as a de facto extension of the (founder) entrepreneur (Powell and Baker 2013), and second, that it downplays the extent to which identity is a process rather than an entity (Gioia et al. 2013).

Here we extend this process perspective of family business and entrepreneurial identity as the dynamic outcome of the interplay of the individual and the social (Leitch and Harrison 2016, 2017; Harrison and Leitch 2015, 2017; Leitch et al. 2016). This highlights two key features of contemporary research on family business and entrepreneurial identity. First, it views identity as a dynamic rather than a (relatively) fixed and unchanging feature, shaped by different life episodes. It is increasingly fluid, multilevel and multidimensional, comprising multiple subidentities rather than a univocal (and unchanging) self. As such, it has a profound effect not only on the way we feel, think and behave but also on what we aim to achieve. Accordingly, it is vital that its dynamics are better understood, particularly in determining how actors behave in an increasingly heterogeneous family business context. Second, it focuses attention on identity work as the process through which family business and entrepreneurial identities are formed and shaped, and how the dynamics of identity formation relate to entrepreneurial outcomes in a range of individual and organisational contexts.

We adopt the definition of identity (in identity process theory) as a dynamic social product of the interaction of the capacities for memory, consciousness and organised construal with the physical and societal structures and influence processes which constitute the social context (Jaspal and Breakwell 2014). In other words, identity resides in psychological processes but is manifested through thought, action and affect: it is a process located in the core of the individual and yet also in the core of their communal culture, a communal culture which in the case of the family business has a complex dynamic in the interplay between family and business. In applying insights from family sociology and psychology to identity formation in the family business, we build on recent processual arguments that identity arises from the three processes of identity formation, identity activation and resultant behaviour (Bothma et al. 2015). As such, identities, in the family/business as

elsewhere, provide a meaning-making anchor: choices (decisions, outcomes) are identity-based and identity-congruent, and identities are, therefore, the traits and characteristics, social relations, roles and social groups that define who one is. In this respect, they are orienting, they provide a meaning-making lens and focus one's attention on some but not other features of the immediate context.

Breakwell's (1986) original account of identity process theory identified four 'identity principles': continuity across time and situation (continuity) (Wiggins 2001), uniqueness or distinctiveness from others (distinctiveness) (Vignoles et al. 2000), feeling confident and in control of one's life as a defining feature of identity (Codol 1981) (self-efficacy), and feelings of personal worth (self-esteem) (Abrams and Hogg 1988). Vignoles et al. (2006) have extended this to identify two more identity principles, or motives: belonging—the need to maintain feelings of closeness to and acceptance by other people (Leary and Baumeister 2000)—and meaning, the need to find significance and purpose in one's life (Gergen and Gergen 1988). They emphasise that these six principles may not be exhaustive, are defined as pressures towards certain identity states and away from others and guide the processes of identity construction, and people may not necessarily be aware of them. On the basis of detailed analysis across a number of studies, Vignoles et al. (2006) conclude that each of these identity principles made a substantial and unique contribution to predictions of (positive) affect and identity enhancement, confirming that none of them is redundant or subservient to the others.

While originally developed as a theory about reactions to threats to identity, where 'threat' at some level is continuous as social and personal circumstances change, identity process theory is general a model of identity dynamics, of the routine operation of these four key principles in achieving identity structures. What emerges from the body of detailed applications of the theory is that self-esteem and self-efficacy are relatively constant in individuals over significant time periods, suggesting that "any changes that are wrought in identity are actually not effecting modifications in the overall subjective assessment of self-esteem or self-efficacy over time" (Breakwell 2014: 34).

While many aspects of identity appear relatively stable over time (Breakwell 2004), identities can and do change through the ongoing processes of identity work. This involves the twin processes of assimilation-adjustment and evaluation (Jaspal 2014); assimilation in terms of the absorption of new information into the identity structure and accommodation in terms of the adjustment that takes place for it to become part of the identity structure; evaluation as the process that confers meaning and value on the content of identity. These twin processes can be engaged in both informally, in the

course of everyday interaction and exchange, and explicitly in the form, for example, of participation in leadership development programmes which challenge participants to define, construct and modify their identities. Following Coyle and Murtagh (2013), from a social constructionist perspective, identity can be construed as taking up, according, resisting and negotiating subject positions within discourses (Davies and Harré 1990), where subject positions can be understood as "sets of images, metaphors and obligations about the sort of responses people can make in interactions that are informed by associated discourses" (Coyle and Murtagh 2013: 44). As such, identities are not just located in individual psyches but are negotiated in social relationships. In exploring these issues in the family business context, we use Identity Process Theory (IPT) as the framework for understanding the process of identity negotiation in the family business, both as observed in natural identity-relevant settings (e.g., the workplace) and in the formalised arenas of identity work afforded by off-site leadership development.

Identity process theory, as outlined above (Breakwell 2014), provides a useful perspective for research on identity in the family business setting. First, it is concerned with the holistic analysis of the total identity of the person, encompassing elements dynamically derived from all aspects of experience. Identity is, in other words, both a dynamic process and a dynamic state of being, with relatively predictable states of identity—leader, entrepreneur, family business owner—that are sought. Identity derives from social category membership and other aspects of experience in the social world: as a multidimensional complex phenomenon, this view of identity better accommodates the reality of the family business situation. Second, this approach emphasises the agentic role of the person while acknowledging that social identities, as part of the holistic identity, are derived from category memberships and representational processes. For family business research, this provides a basis for overcoming the organisational/individual and personal/social dichotomies that bedevil the current discourse of identity in the field. Third, identity process theory provides a framework for understanding both the structure of identity and the process by which identity changes. If much identity theory has been criticised for taking identity as fixed, more recent processual views of identity, as some of its advocates recognise (Gioia et al. 2013), can be criticised for going too far in the other direction and arguing that identity is all process and evolution. Fourth, identity process theory has at its core a theory of identity change in response to threat. This threat may be substantial in terms of preventing the construction and maintenance of identity, or it may be everyday in terms of situational and personal changes that require the renegotiation of identity. Obviously, new venture creation, business restruc-

turing, intergenerational transfer of the business, intra-family personal and professional conflict and business succession represent potential threats that, if subjectively recognised as such, have the potential to trigger identity change. One key coping mechanism in the face of identity threats is participation in external programmes to provide knowledge, skills and support through coaching and mentoring on which the person can draw in the process of (re)constructing their identity, and it is to this that we now turn, with specific attention to leadership development (Harrison and Leitch 2018).

Leadership and Identity Formation

The importance of understanding leadership and leadership development as an identity workspace for the family business reflects both the heterogeneity of the family business and the nature of the wider context within which it operates. In an increasingly global, turbulent, unpredictable, uncertain, competitive and hyper-connected business environment (O'Connell 2014; Bennis 2012), it is unsurprising that there has been growing interest in leaders and their abilities. However, leader and leadership development is struggling to keep pace with the requirements of the twenty-first century: "leader development, even more than leadership, lacks definition, theory, agreed upon constructs, and effective processes" (O'Connell 2014: 184). In this chapter we develop a transformative learning perspective on identity work and leader development in a family business context. This builds on four recent trends: first, calls for more and better leadership (Petriglieri 2011a) following the 2007–2008 global financial crisis (Knights and McCabe 2015) and as a response to so-called VUCA (volatile, uncertain, complex, ambiguous) environments (Horney et al. 2010; Petrie 2011); second, growing interest in the role of identity in the emergence and effectiveness of leaders (De Rue and Ashford 2010), given that how individuals see, feel and think about themselves and behave are issues of identity (van Knippenberg et al. 2004; Leary and Tagney 2003; Day and Harrison 2007); third, recent applications of transformative learning theory to identity and identity work (Illeris 2014a, b); and fourth, calls for leader development research to be more sensitive to organisational context, and to entrepreneurial and family business contexts in particular (Coglister and Brigham 2004; Vecchio 2003; Kempster and Cope 2010; Leitch et al. 2013; Harrison and Leitch 2015, 2018), not least because they are distinctive in terms of ambiguity, risk, uncertainty, innovation, environmental dynamism and volatility, organisational size and newness (Chen 2007; Surie and Ashley 2008; Autio 2013).

In so doing, we recognise that developing family business leaders involves a complex set of processes requiring enhanced understanding of learning and development (Day et al. 2014). However, identifying appropriate pedagogical approaches to encourage self-reflection and self-awareness remains a challenge (Petriglieri et al. 2011). As leader development occurs in the context of ongoing adult development (Day et al. 2009), we demonstrate how transformative learning theory provides a framework for understanding the development of leader identity.

With the exception of Cope's (2005a, b; Cope and Watts 2000) work, there has been little substantive discussion of transformative learning in entrepreneurship or family business research. However, transformative learning shares with identity process theory an emphasis on the challenge of adapting to changing circumstances (Ciporen 2010; Cope 2005a; Johnson 2008) and the transformation of individuals' frames of reference after an encounter with a critical event or disorienting dilemma to make them more applicable in a new situation (Dirkx and Mezirow 2006; Mezirow 2011). In other words, this transformation changes the way people understand themselves and their relationship with others and the world (Franz 2010; Hodge 2014). After such a transformation of perspective, individuals have adapted existing or adopted new ways of thinking and doing, including the shaping and reshaping of their identity, which they can apply in their actions (Dirkx and Mezirow 2006; Isopahkala-Bouret 2008; Howie and Bagnall 2013). The relevance of transformative learning to identity formation in the family business context arises from, first, the emphasis it places on learning from critical incidents (Cope 2005a; Harrison 2016) and disorienting dilemmas (Mezirow 2011); second, its ability to handle the complex issues the entrepreneur faces (Cope 2005a; Johnson 2008; Pittaway and Thorpe 2012); third, the high rate of disorienting dilemmas, critical incidents and threats arising from the close involvement of the family in the business (Hartog et al. 2010); and fourth, the specific identity challenges presented by the work role transition from non-entrepreneur to entrepreneur, from family member to family business executive (Isopahkala-Bouret 2008).

However, elsewhere, interest in transformative learning and the development of identity is growing (Gray 2006; Trott 2013; Schyns et al. 2013; Conklin et al. 2013; Hawkins and Edwards 2015). Transformative learning, initially developed as an approach to adult learning theory (Mezirow et al. 1990, 2009), is concerned with acquiring, developing and changing understandings of and dealings with essential life conditions and the outside world. However, critics have argued that it is not sufficiently explicit about either the learning process or the outcome of that process, that is, "what is

actually transformed?", and that its sole focus on the cognitive dimensions of learning is limited (Illeris 2014b). Drawing on Erikson's (1968) understanding of identity as psycho-social (Illeris 2014a: 40) has re-defined transformative learning to comprise "all learning that implies changes in the identity of the learner".

Contemporaneously, there has been increasing interest in identity and self-awareness in leader development theory and practice (Carroll and Levy 2010; Ibarra et al. 2010; Day and Harrison 2007; Lord and Hall 2005; Hall 2004). For instance, Ely et al. (2011) have conceptualised leadership development as identity work, while Petriglieri (2011b) has described leadership development programmes as identity workspaces. Much of this research, however, has been uncritical, focused on how leaders' identities are developed, maintained and enhanced in a leadership development setting (Nicholson and Carroll 2013). However, the elements that enhance or constrain leader identity construction are still not fully understood (De Rue and Ashford 2010; Ibarra and Petriglieri 2010).

In the remainder of this chapter, we set out to do the following. First, we extend transformative learning theory to identity work to illuminate the process by which an individual constructs his/her identity through and beyond participation on a leader development programme. Second, we build on the literature on identity work as a form of transformative learning to show how the identity work an individual engages in as part of their leader development impacts on their enactment of leadership. Third, we illustrate the importance of designing an extended learning arena in leadership development programmes in which both personal and intersubjective development occur for participants. Finally, we present a transformative learning-based framework for leader development in a family business context.

Transformative Learning, Identity and Leader Development

Transformative learning, predicated on a view of learning as change (where the condition, meaning or understanding of something already acquired is changed), rather than learning as addition (where something new is added to that already acquired), was originally grounded in work on the emancipation of women learners (Mezirow 1978; Illeris 2014b). The focus is on that which shapes our understanding of ourselves, qualitative changes in meaning perspectives, mind-sets, worldviews, frames of reference and habits of mind. Achieving this requires both the capability to self-reflect (Kegan 2000) and

reflective judgement (King and Kitchener 1994), that is, the ability to assess the assumptions underpinning beliefs, values and feelings. Fundamental to this reflexivity is the promotion of self-directed learning and agency (Bennetts 2003) resulting in changes in an individual's future behaviours and decisions potentially leading to improved performance and emotional wellbeing (Mezirow 1991, 2003). Recently, there has been increasing disquiet that the emphasis on critical reflection, open discourse and implementing new understandings in practice is too narrow and too focused on cognition (Newman 2012). In re-defining transformative learning to highlight its radical nature and encompass social and emotional elements as well as cognitive, Illeris (2007, 2014b) emphasises the importance of relating to one's self, to one's existence and to the outside world. This can occur in interconnected processes both through the design and delivery of formal leader development programmes, in which participant-facilitator, peer-to-peer and self-oriented learning can all occur, and in individual processes of leader identity work. In other words, fundamental to understanding one's self is the concept of other and, in particular, our relationship with those with whom we interact. Indeed, it is frequently through this interaction that learning occurs (Bennetts 2003). Key to transformative learning theory is how one experiences being in the world and relates to and is experienced by others, and this in turn resonates with identity (Illeris 2014a).

Although the terms 'self' and 'identity' have been used interchangeably, a distinction between 'self' as a psychological concept and 'identity' as a shift towards the social side of the individual-social dichotomy can be made (Tennant 2012: 9). From an individual psychology perspective, identity explains how the social becomes an integral part of individual psychology, while from a social perspective, identities can be "resisted, contested, and negotiated by challenging the interpretive systems underlying them" (Tennant 2012: 9) including traditions, institutional rules, social norms, modes of discourse about others and views of what is 'natural'. For Illeris (2014a: 31–33), identity is not a firm, stable, mature personality developed over a period of time through a succession of fixed stages but a flexible and responsive development of the self, the person, the identity and the biography, through creating the ability to and readiness for change and renewal.

In an echo of the emphasis in identity process theory on identity as both a dynamic state and a dynamic process, identity in transformative learning therefore becomes a task, a life project which is incomplete and for which we continually strive becoming what, and who, we are. Illeris (2014b) argues that identity or identities are formed and influenced by unique and individual characteristics and traits, and shaped by social interaction with others through

group membership and roles. Evidence that transformative learning has occurred is signalled through any change in identity: "given that identity is the core of life, transformative learning is the process by which we deal with constant possibility, urge and necessity to change and transform elements of our identities" (Illeris 2014a: 579). In short, learning transforms our identity. Clearly this type of learning is more than just the addition of new knowledge and skills and is based on restructuring and changing our existing beliefs and discourses and how we narratively construct ourselves (Driver 2010; Cunliffe 2002).

Moreover, it is an ongoing process in which the self is conceived of as having a definable and malleable identity (Perriton 2007) which is shaped by the operation of the twin processes of assimilation-adjustment and evaluation on identity principles (continuity, distinctiveness, self-esteem, self-efficacy, belonging, meaning). Identity in this sense as subjective experience rather than objectivist 'essence' is not constructed in a social or cultural vacuum, and there are likely to be situational variations in how these identity principles are satisfied (Vignoles et al. 2006: 328): "for example, a sense of continuity may be maintained by denying change or by constructing a narrative account of one's history (Chandler et al. 2003); similarly, a sense of distinctiveness may be derived from feelings of difference and separateness or from one's unique position in a network of social relationships" (Vignoles et al. 2002). As such, these variations will have important implications for the types of context (cultural, organisational) and event that will satisfy each identity principle, and hence for the cognitive and behavioural strategies that people adopt to maintain, enhance or defend their identities (Vignoles et al. 2006: 328). Specifically, the implications of the different ways in which individuals can construct feelings of continuity, distinctiveness, self-esteem, self-efficacy, belonging and meaning remain an important and challenging area for research (Breakwell 2014). The heterogeneity of the family business will necessarily be matched by the heterogeneity of family business identities and identity processes. In developing such an integrated theory of identity development, we can identify two major implications against which interventions such as transformative learning can be understood. First, people are motivated to adopt an identity (e.g., leader, entrepreneur, business person) to the extent to which it can provide feelings of continuity, distinctiveness, self-esteem, self-efficacy, belonging and meaning; in particular, if the focus is on enhancing cognitive identification, more emphasis should be placed on self-esteem, continuity, distinctiveness and meaning, whereas attempts to increase the enactment of particular identities might emphasise self-esteem, belonging and efficacy (Vignoles et al. 2006). Second, threats to identity can be recast in this

perspective as events that undermine feelings of continuity, distinctiveness, self-esteem, self-efficacy, belonging and meaning. As the case study below will show, this provides a very useful perspective on identity change in the family business.

Traditionally, the focus of transformative learning has been on individual change, and organisations have been viewed as the context for change, not the target of the transformative process (Henderson 2002). However, learning in an organisational context changes who we are, how we see and how we do things (Driver 2010). Despite recent revisions, modernisations and extensions (Illeris 2014b; Taylor and Cranton 2012), transformative learning remains focused on education: "transformative learning in working life … is not included … there is no place or publication where a similar systematic, adequate and comprehensive presentation of transformative learning in these areas can be found" (Illeris 2014a: 12). It has its roots in the view of learning as a "process of constructing meaning; it is how people make sense of their world" (Merriam and Caffarella 1999: 261), and has close parallels to action learning (Marsick and Watkins 1990; Yorkes et al. 1999), an approach to organisation development that promotes transformative learning in working life (Illeris 2014a: 138).

This shift from the purely individual to the organisational recognises that individual identity is enacted and changed in and through context-dependent learning (Baker et al. 2005; Cunliffe 2002). This interplay between identity and activity is particularly important for leaders to appreciate (Petriglieri 2011a) because of the profound implications the enactment of their leader identity can have on others. As Illeris (2014a: 143) argues, without development or explication, managers and leaders, in shaping their identities, have a need to understand and experience transformative learning and "participate in courses that involve the creation, practice, evaluation and reflection of transformative processes". Appropriate leader development programmes and experiences play a vital role in identity development, in response to identity threats arising from both personal development issues and in external changes in social and professional roles and contexts.

However, reflecting our critique of identity in family business research above, in leader development, an essentialist conception of identity has tended to be adopted, with functionalist and constructivist approaches more common than social constructionist perspectives (Carroll and Levy 2010). Functionalist approaches, based on conceptual, skill-building, personal growth and feedback view identity as another tool which participants on leadership development programmes can deploy. By providing leaders with an organising structure, source of motivation and store of stories and experiences

on which to draw, increased personal and organisational performance should follow (Carroll and Levy 2010; Lord and Hall 2005). Constructivist approaches on the other hand adopt a longer-term view of development based on the belief that, having acquired certain skills and capabilities such as self-reading, self-authoring and self-revising, an individual can move along their personalised pathway of identity development (Kegan 1982, 1994; Kegan and Lahey 2001). This assumes that identity construction is "predominately unitary, cognitive, linear, ordered, essentialist and internal" (Carroll and Levy 2010: 216).

In developing a transformative learning approach to leader identity development, we eschew such essentialist conceptions and recognise, as does identity process theory, that social context is central to identity formation. As identities are shaped by social interactions, they require enactment in social settings to be sustained (Petriglieri 2011a). This, in turn, necessitates the continuous development of knowledge, skills and human capital (Anderson 1998; Hitt et al. 1998). Such identity work undertaken by reflexive subjects is a dynamic and iterative process that is enacted within situated contexts and shaped by the characteristics of those involved. It is a set of tactics and processes through which individuals shape, develop, revise and maintain their identity (Sveningsson and Alvesson 2003). Understanding these processes has important implications for our knowledge about actions. An individual's specific pattern of identity work, that is, the processes of identity formation, may also be associated with specific actions, behaviours and meanings. Given this, the analysis of identity work is complex: first, it is processual and ongoing; second, it is dynamic, involving two-way interactional relationships between identity work on the one hand and actions on the other; and third, it is contextual, being intimately and inextricably embedded in a wider dynamic social milieu.

This complexity is matched in leader development, where leaders' needs "have become much more complex as our organizations, our workplaces and our global challenges become more interrelated and unpredictable" (O'Connell 2014). Becoming a leader is not just a matter of acquiring a body of knowledge and practising a requisite set of skills. Instead, in calling for the integration of identity into leader development, scholars recognise the value of deep personal work (Lord and Hall 2005; Petriglieri and Stein 2010; Shamir and Eilam 2005). This involves acquiring a clear sense of one's leader identity and aligning it with one's personal values, history and purpose. Thus, individuals need to examine and revise the ways in which they make meaning of, respond emotionally to and act on experiences, situations and aspirations (Petriglieri 2011a; Petriglieri et al. 2011). Central to this is the narrative of one's life story:

reflecting on this helps to orient one's understanding of, and actions in, the world (Kegan 1982). As such, "it is a combination of reflexivity and contextual instability that propels social actors into experiences of active and even intense identity work such as leadership development courses" (Carroll and Levy 2010: 212). Acquiring and maintaining an identity is not a one-off event but a practice over the course of a leader's career and lifetime (O'Connell 2014).

Much of the leader development/identity literature has focused on (large) in-company leader development programmes or full-time MBA programmes (Ely et al. 2011; Petriglieri et al. 2011). On this basis learning in organisations has been described as an identity-based phenomenon (Gherardi et al. 1998). However, in practice, lifelong learning does not occur only in planned interventions and courses but is more multifaceted, drawing on the opportunities which everyday life presents for the learning of individuals (Bennetts 2003). In the remainder of this chapter, we explore these issues in the context of leader identity formation in a family business context.

Methodology

As context is so important in shaping identity formation (Sveningsson and Alvesson 2003; Watson 2008), we explore identity as a fluid, complex and multifaceted process in which both the external (representation of self) and internal (biographical, lived experience) perspectives are important. Following Sveningsson and Alvesson (2003: 1170), who argue that "identity issues call for considerable depth and richness, we employed a single longitudinal case study research design" (Watson 2008; Marlow and McAdam 2012; Goss et al. 2011). If leader identity work is viewed as a key feature of contemporary social organisation with its own institutional logic, then a case study approach provides an example of the complex microdynamics of identity formation as a transformative learning process. Equally, if identity is conceptualised in terms of the narratives people craft and enact to achieve social relevance and comprehensibility and coherence over time and identity change occurs through the renegotiation and restructuring of narratives (Breakwell 2012; Coyne and Murtagh 2013), then a longitudinal approach allows the researcher to access both the respondent's understandings of their identity processes (e.g., from retrospective self-report data) and the actuality of these. In applying a micro-foundations perspective, we employ the entrepreneurial journey framework (George and Bock 2009; McMullen and Dimov 2013; Selden and Fletcher 2014), which provides an experiential, constructivist approach to entrepreneurial behaviour.

Research Context and Data Collection

The context for the case is a family business established in a traditional, manufacturing sector in a socially conservative region (Northern Ireland) by three founders (father [James], son [Sam] and daughter-in-law [Mary]). In illustrating the process of identity formation, we concentrate on Mary's narrative. Despite lacking an entrepreneurial background and any technical or industry knowledge, she has emerged as the driving force within the founding team. Furthermore, she has participated in an entrepreneurial leader development programme. Thus, her experiences provide a particularly rich and rewarding opportunity to investigate the shifting and fluid process of leader identity construction.

A longitudinal case study offers a valuable opportunity for the real-time study of identity in process, avoiding the dangers of relying only on retrospective, (re)-constructed accounts and providing a context for understanding and interpreting interview-based material (Duxberry 2012; Mallett and Wapshott 2012). Data were collected through unstructured open-ended interviews and informal conversations over an 18-month period. First, key elements in Mary's life history were explored (Marlow and McAdam 2012), eliciting a retrospective, auto-biographical narrative of various lived experiences that illuminate how she had arrived at her current role and position as a business leader (Haynes 2006). Second, in ongoing, real-time interactions with her, the temporal unfolding of her identity construction within the context of personal, family and business circumstances was observed and discussed. Our intention throughout this process was to be open to "gaining an insight into the experiences, concerns, interests, beliefs, values, knowledge and ways of seeing, thinking and acting" of Mary (Schostak 2006: 10). This reflects case study research as a narrative genre in which there "is not, outside the realm of human discourse itself, a level of facticity that can guarantee the truth of this or that representation" (Beverley 2000: 561). All interviews were recorded and transcribed verbatim to provide a text for analysis.

Data Analysis

Given that identities are not just located in individual psyches but are negotiated in social relationships, the process of identity formation through identity work can be studied "through naturally occurring data generated in identity-relevant settings" (Coyle and Murtagh 2013: 45). Narrative analysis is routinely used in self- and identity studies (Crossley 2000). This views

identity in terms of the narratives crafted and enacted by people about themselves to create coherence over time, and views identity change as taking place through the renegotiation and restructuring of narratives (Breakwell 2012; Howitt 2010).

The analysis followed the protocols of grounded theory (Strauss and Corbin 1998; Glaser and Strauss 1967). This uses different modes of analysis, notably variable analysis (associated with quantitative analysis) and naturalistic enquiry (rooted in the symbolic interactionist qualitative research tradition) (Dey 2007). Less common in grounded theory is the focus on narrative, notwithstanding the emphasis on core category identification and coding following from, rather than explicating, a storyline or descriptive narrative of the central phenomenon of the study (Strauss and Corbin 1990: 116–117; Dey 2007: 184). As Dey (2007) highlights, in narrative explanation, the emphasis is on retrodiction, the intelligibility of the conclusion, rather than prediction. This is based on the coherence of the narrative as a matter of synaptic judgement, or configurational comprehension in Polkinghorne's (2010) terms, in which things are understood as elements in a single and concrete complex of relationships. As such, narrative is the basic manner in which we make sense of and structure experience, and draws attention to process in terms of temporality via the stages and sequences of events and the evolution of conditions, interactions and consequences (Dey 2007: 184–185).

Given that our research makes knowledge claims, not about some objective reality but about how individuals interpret that reality (Fendt and Sachs 2008), we adopted a constructivist approach to grounded theory (Mills et al. 2006; Wertz et al. 2008). Narrative analysis is an interpretative approach involving the subjectivities of both researcher and participant and uses a prior conceptual framework to analyse texts. Constructivist grounded theory, on the other hand, while focused on intersubjectivity, aims to develop the conceptual framework from the research data (Charmaz 2011: 300). Our starting point is that our research participant(s) are linguistic meaning makers and that meaning making is a performative process that is "at once embodied, cognitive, practical, emotional, interpersonal, social, cultural and temporal" (Wertz et al. 2011: 330).

In terms of the research process, combining the narrative approach with constructivist grounded theory (Mills et al. 2006; Burck 2005; Floersch et al. 2010) has a number of implications (Wertz et al. 2011: 330–331). First, it requires reading the (written or oral) verbal data as a whole, paying attention to their internal organisation, content, modes of meaning construction and contexts. Particular attention was paid to the situation in which the data were

collected and the wider life history and socio-cultural backdrops to them. Second, this research is relational, in that as researchers we became personally involved with the text, understanding the material in the light of the resonances between our human experience and meanings and the expressions of the participant. Third, notwithstanding this empathetic relational identification with the participant, as researchers, we also stepped back and saw her as other, maintaining a distance that allowed us to focus on the ways in which she constituted, organised and lived her identity making. Finally, this research is radically empirical and data based, the results of which are emergent rather than projected or imposed; as such it highlights "the emergent qualities of the method and … its potential for sparking new theoretical analyses" (Charmaz 2008: 168).

Findings

In this section we present the narrative of how Mary's identity has been constructed based on her reflections on, and interpretations of, her evolving role in the business. Three overarching themes emerge (Table 25.1): first, identity construction comprises her previous knowledge, expertise and experience, personal attributes and capabilities, including references back to the situational specific implications of her formative years and learning; second, leadership development reflects her growing awareness of being a business owner; and third, organisational context comprises both the dimensions of the business itself and the dynamics of the family/business interface.

Identity Construction

In terms of her identity, Mary has been on a journey from a position where she did not know what she was doing at the inception of the business to one where she described herself with some degree of self-confidence as a business owner (Table 25.2: A1; F1). At the outset, the founders faced a steep learning curve in that while James had some knowledge and management skills, he had no wider commercial and business development experience and Sam's expertise was restricted to technical and operational aspects (A2–A3). In the absence of any other management team, this meant that Mary did not have access within the business to coaching, mentoring and role models to help her grow into the role of director/owner (A4).

Table 25.1 Inductive analysis and data coding: the case of Mary

Open coding (concepts/codes)	Axial coding (categories)	Selective coding (themes)
Knowledge and expertise	Knowledge, expertise and experience	
Lack of knowledge		
Experience		
Acquisition of knowledge		
Job role and skills		
Confidence	Personal attributes	**Identity construction (IC)**
Naivety		
Self-awareness		
Self-confidence		
Initiative		
Adaptability		
Influencing		
Differentiating characteristics		
Managing change		
Fear		
Formative years		
Personal attributes		
Self-reflective		
Gender		
Delegation		
Self-efficacy		
Learning dimensions	Learning and development	
Training		
Leadership development		
Peer learning		
Learning orientation		
Leadership	The practice of leadership	**Leadership development (LD)**
Developing awareness of being a business owner		
Relationship between leader and business		
Role and leadership		
Contingency of entrepreneurial leader role		
Legitimacy		
Partnership roles and mutual dependence		
Nature versus nurture (born not made)		
Formal title versus role played		
Discipline		

(*continued*)

Table 25.1 (continued)

Open coding (concepts/codes)	Axial coding (categories)	Selective coding (themes)
Funding	Business issues	
Investor relations		
Recession and economic climate		
Competitors		
Customer benefits		
Commercial awareness		
Overview of business		
Change		**Organisational context (OC)**
Survival of business		
Serendipity	Family business dynamics	
Owner-manager		
Succession planning		
Business as child		
Maternalistic nurturing		
Family dynamics		

Initially Mary was uncomfortable in the new venture, which is displayed in her frequent allusions to a lack of confidence, fear and concerns about her ability to effectively carry out her role (B1). Much of this appears to be situational. In our first interview with her, she reflected on her earlier move from a machinist in the textile industry to becoming an engineer's assistant in electronics assembly (B2). However, the confidence engendered by this move was not transferred into the new venture. Mary did not identify herself as a director, owner or leader; indeed, she did not even consider herself capable of being a competent bookkeeper.

Despite initial growth in sales and employment, the company experienced significant problems. In the first year, James made an expensive error in materials ordering which almost led to bankruptcy. This was compounded by his poor managerial skills, particularly supervising the shop-floor employees. To address the financial shortcomings, the venture's investors had to re-finance to a larger extent than had been anticipated, taking a 50 per cent stake in the business. Also around this time, as it became increasingly clear that the commitment required to launch and grow a successful business far exceeded his expectations, James indicated that he would like to retire.

These events represented a turning point for Mary, which stimulated her to consider formal learning and development opportunities (C1). On the suggestion of an external business development advisor, she decided to attend a leadership development programme targeted at leaders/owners of new and

Table 25.2 Entrepreneurial identity construction

Identity construction (IC)	Leadership development (LD)	Organisational context (OC)
A: Knowledge, expertise and experience	C: Learning and development	D: Business issues
A1: I had no experience at all, I had absolutely no experience in business or bookkeeping or anything, I had spent my whole life on a shop-floor… [this was] a massive step… but because I put some money in, James made me a director of the company, which again was a huge, great big step and I felt as if I was totally out of my depth at that point, I didn't know what to do.	C1: We thought, he's [James] the only one that's got any management experience here, what on earth are we going to do?… [so] we started looking into what training we needed to take the company forward if James left.	D1: I think if anybody can get themselves through this [the recession], then they have got the right to call themselves a business person because it's taken some very, very hard decisions and some real, real tough measures to get us to this point.
A2: James was the only one that had any management experience, he had no business experience, he still doesn't but he had a bit of management experience, so it was him and I that did the [initial shop-floor recruitment] interviews and we picked all the wrong people, you know, we just didn't have a clue, we sort of went on a wing and prayer.	C2: When [programme director] was here telling me about the course, I was very enthusiastic about it and then I got cold feet with the price of the course and I thought "am I worth spending that kind of money?"	
A3: For the first year and a half I would say, Sam worked on the shop-floor, until his back was that bad that he couldn't do anymore and he had to start on lighter duties.	C3: We had a bit of a discussion about it and we decided that yes, I should do it anyway… I need to do something to get me to the level I need to be at. It's something that needs to be done.	
A4: I don't have business experience, I don't have role models to learn from, I've not been brought up in business, I've just been flung in—I need to know that I'm doing the right things.	F: The practice of leadership	
	F1: Belief in myself. I think I can quite honestly hold my head up now and say I'm a business woman. I would never have done that before.	
	F2: It was finding out that I wasn't a million miles away from where I needed to be, that I was instinctively doing the right things. Before that I had been very, very doubtful about whether I was doing things right or not…. [Now] I know I've got something about me that a lot of people don't have. I don't even think its ambition, so I don't know what it is. I call it initiative, I've got a lot of initiative, I can go into a situation and I can see what needs to be done and I can get on with it… there's not an awful lot of people that have that.	
	F3: I'm saying I don't see myself as a leader… maybe I've lost my definition of what a leader is… because the more I'm talking about it the more I'm thinking I probably make an awful lot of decisions and not force a lot of things to be done… [for example] if we're needing to cut costs and things like that, the initial ideas or the initial thing would be for me to say this is what the state of the company is and we need to do something about it.	

B: Personal attributes

B1: No, I was frightened. I'm still the same, it feels that I've been frightened all my life and I'm thinking: no, I'm going to do it now.

B2: I loved that job, it was very interesting. So, I suppose that gave me a wee bit of confidence in myself that I was capable of doing an awful lot more than what I had done in the past.

B3: The grammar group who were all her favourites and she wanted to teach them because she thought that they would go far and… the group where she couldn't be bothered with the pupils… So we were left at one side of the room with a book to read, you know, left to get on with it ourselves.

B4: She went, you must be joking, she said you think I'm going to waste my time teaching you, she said you will never amount to anything in your life. And that has stuck with me forever.

B5: I thought I would feel like an interloper when I went there, I was absolutely terrified… I can remember thinking before I went there they're going to see right through me, they're going to know that I am no good at anything and that there's no way that I am a business person and I shouldn't be there.

B6: I'm much more confident in myself. Things are changing slowly. I've taken more of a leadership role. (observation notes)

E: Family business dynamics

E1: This is our baby… this is our child, this is for us to nurture and bring it up. I think if Sam had retired instead of James, I don't think the business would have survived, if I had retired and either of them had stayed I don't think the business would have survived. I think it needed what happened to happen.

growing businesses. This opportunity for learning emerged more as an enforced response to circumstances than a manifestation of a growing awareness of leader identity (C2). The lack of self-worth this highlights relates back to a specific incident from Mary's primary school education, when at 10 years old she was assigned to the 'non-academic' stream in her class (B3). The teacher's response to Mary's challenge to this decision had major consequences for her self-esteem (B4).

Leadership Development

While the negative consequences of this stigmatisation continue to show in Mary's lack of self-confidence, she perceives that, nevertheless, it drives her to achieve. In the context of the current narrative, her decision to participate on the leadership programme was her response to what she saw as another challenge, to become confident in making decisions (C3). It is not that she did not make decisions or that they were not the correct ones but that she was not always assured that they were right. As she put it on the first day of the programme, she did not have business experience or role models against which to anchor her sense of leader identity (A4).

However, by the end of that day, she realised that she was not the only participant lacking self-belief in their capabilities. More specifically, she began to appreciate that problem solving and decision-making abilities do not come naturally to many individuals, including those she considered to be successful business leaders, prompting an appreciation that she has these natural capabilities. At the end of the programme, she was able to reflect more expansively on what she had learned, in terms of her developing confidence in her ability and a growing sense of identity as a legitimated business owner (F2). For Mary the structured learning and development process provided by the programme played a central role in the construction of her identity. Not only did it stimulate her to revaluate incidents in her formative years and their impact on her sense of self, it also provided a framework for conversations with her peers, coaches and facilitators, which led her to reconsider who she was. She summarised this change as a shift in her sense of identity from imposter to legitimate business owner (B5) who takes more of a leadership role (B6). This was very much a learning process, re-emphasising that a critical outcome of ostensibly business development programmes for owner-managers is personal rather than business development per se (Leitch et al. 2009).

Organisational Context

Mary's articulation of her developing sense of identity is couched in her more developed business and commercial awareness as well as her belief that increasingly she is displaying a number of key leadership behaviours. In terms of business awareness, she attributes the survival of the business through the recession to the guidance she and Sam have provided (D1). However, Mary has not incorporated a sense of being a leader into her emerging identity, notwithstanding the fact that she participated on a leadership development programme. Indeed, she explicitly rejects the leader identity in favour of one based on the day-to-day, operational activities in which she actually engages (F3). This no doubt reflects the particular socio-cultural context in which she is embedded: as a woman in a traditionally male-dominated industry located in a conservative patriarchal-dominated region, this is likely to help reaffirm her insecurities as a leader, constraining how and to what extent she looks like and is perceived as and perceives herself as a leader (Stead 2014; Hamilton 2014).

Whether in terms of viewing herself as a business owner or leader, Mary's constructed identity is partial, fragmentary, in a continuing state of evolution and emergent in the process of conversation, including those with the researchers. One particular incident crystallises this. As noted above, Mary, Sam and James had brought investors into the business to fund their planned expansion. However, when James retired, the investors sought to move her and Sam into different, non-core operational roles and employ a professional manager to run the company. For Mary this was anathema and presented one of the clearest expressions of her emerging identity as a legitimate business owner (E1). Although she did not have the designation of CEO, as she was prepared to continue to recognise this as Sam's formal job title (in a manifestation of conservative patriarchy), Mary acknowledges that in this instance it was she who drove the negotiations to exit the investors and restore full control of the business to the family.

Discussion: Transformative Learning and the Construction of Identity

Based on our case analysis, in this section we develop a transformative learning framework for understanding identity work in leader development that arises from and makes sense of the narrative and provides a basis for the

development of effective leader development programmes. The case narrative highlights the interconnected relationships among the three themes: identity construction occurs in a process of dialogue between personal attributes and knowledge, expertise and experience, within the particular confines and opportunities of an organisational context, as a process of leadership development. Together, these reflect transformative learning in action as an extended learning arena in which transformative learning pedagogically underpins the other three elements (Fig. 25.1).

Specifically, the transformative learning process linking identity construction, leadership development and organisational context can be thought of as comprising six interdependent processes which provide the principles for leader development programme construction (Fig. 25.2). Specifically, this transformational learning process can be thought of as a type of identity work through which identity is shaped in response to challenge and threat. Identity as a process in turn shapes and is shaped by cognitive identification and identity enactment, which are, respectively, the manifestation of the identity principles of meaning, continuity, distinctiveness and self-esteem, and efficiency, belonging and self-esteem.

As described above, transformative learning begins with individual experience, the development of experience and reflection and generation of new ideas and understandings of oneself and his/her surroundings. In this, as Mary's case demonstrates (e.g., in her recollection of significant school

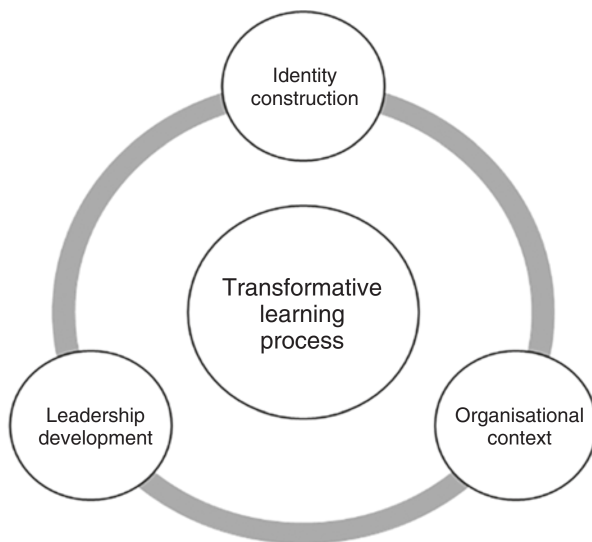

Fig. 25.1 Transformative learning and the narrative of identity construction in the family business

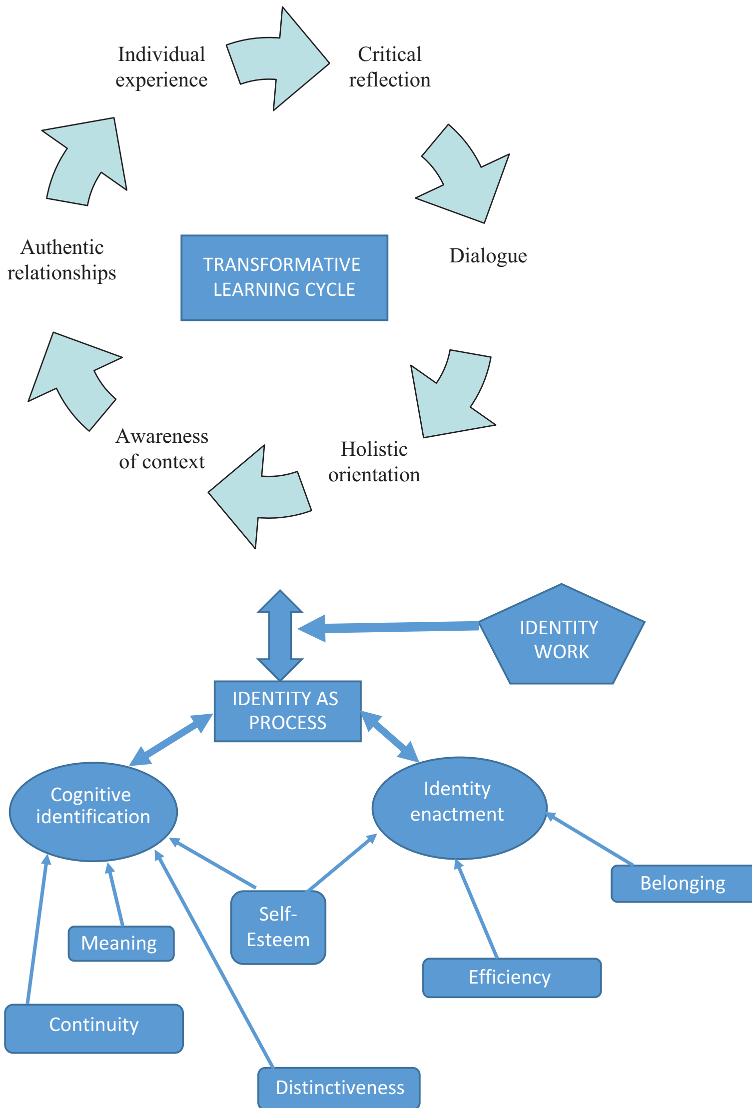

Fig. 25.2 Processes of identity formation, identity work and transformative learning

days' experiences), the life experiences of individuals are central to the learning process. This is, of course, something individuals bring into the learning process and through that into the process of identity construction. However, this requires critical reflection to be effective: it was only as Mary began to critically reflect on her experiences at school, in her previous working life and in the business that she could incorporate these experiences into her identity work. This reflection concerns not just the content

(meaning perspectives) itself but also the process (how the content is received and elaborated) and the premises (the underlying assumptions and conditions behind the content and process). The emphasis on individual experience and critical reflection in transformative learning reflects to some extent a view of identity as "the self reflexively understood by the person in terms of his or her biography" (Giddens 1991: 53). In this, Giddens' concept of ontological security—the fundamental experience of having a coherent existence that implies some sense of self-aware stability in identity—sits opposite that of existential anxiety. Mary's experience in critically reflecting on her experiences is very much couched in terms of the absence of ontological security. This is reflected in the presentation of herself as unsure and uncertain, unable to provide an adequate response to herself and others as to who she really was. From an identity process theory perspective, this reinforces the importance of self-esteem as an identity principle in both cognitive identification and identity enactment. This identity insecurity arises in part from her position as a woman in a male-dominated industry and region, inclined to measure herself against others and find herself wanting, a deficit mind-set characteristic of the pressure, particularly in typical male industries, to 'restore the gender order', in which she needs a man to enhance her legitimacy (Marlow and Ahl 2012).

One response to this existential anxiety, and the third element of the transformative learning process, is dialogue, the process of social interaction with self and others. This serves three purposes in a transformative learning approach to identity formation. First, dialogue provides the basis for drawing on and responding to experience and critical reflection, through what Habermas (1981) refers to as communicative learning or discourse, oriented to best judgement, as opposed to instrumental learning focused on generating truth claims. Second, dialogue provides a basis for discovering, challenging and exceeding the boundaries of the individual. Third, in so doing, it goes beyond analytical discourse to involve direct attention on the attitudes, emotions, personalities and values of the individuals. As Mary's narrative makes clear, her participation in a formal leadership development programme provided opportunities for such dialogue that fundamentally challenged both her sense of identity and her sense of what was possible. As such, experience becomes more of a text than raw material, the personal meanings of which are triangulated "alongside the meanings of engaged others and the presence and influence of different contexts and different discourses" (Usher 2009: 183). Experience, in other words, is always a site of struggle where the meaning and significance of that experience as it is cultivated and reflected on in a learning

context is contested. Thus, experiential learning, and identity work, must be seen in terms of the institutional and socio-cultural contexts within which they function and from which they derive their signification (Usher 2009).

This approach to dialogue as a critical reflection on experience requires a holistic orientation in the learning process with cognitive, emotional and social dimensions. Given that experiential learning as a central element in this framework is necessarily a holistic process, culturally and socially constructed and influenced by its socio-emotional context (Boud et al. 1993), identity construction through transformative learning involves affective learning in which emotions make the learner question their central assumptions and convictions (Taylor 2009). In extremis, this may lead to a view of identity as a fractionalised, unstable and fluid social construction formed out of interaction and social relations (Gergen 1991). As Mary's narrative suggests, engagement in expressive ways of knowing and working, including the rituals of a leadership development programme, community building within the business and empathetic connections with family, business colleague and programme facilitators becomes a response to this fragmentation.

While role enactment, particularly in the family business context, is closely associated with identity construction (Turner 1999), in that "through the enactment of role, individuals learn about themselves, and create their identities" (Hall et al. 2008: 258), Mary's narrative makes clear that this is an episodic, incomplete and often implicit process. Her initial concern about her lack of knowledge, expertise and experience is associated with her personal attributes and, in particular, the negative dimensions of lack of confidence, fear and naivety as they relate to her perceived ability to perform a role in the business. These, together with the more positive personal attributes, for example, initiative, adaptability and influencing skills, in turn underlie the commitment she has shown to learning. Mary's narrative demonstrates that this process is only gradually reflected in a clearly articulated sense of self-identity (Watson 2008). In Mary's case she arrives at a sense of self-identity as a 'business woman' rather than as an 'entrepreneur' or a 'leader', which is at odds with her identity as ascribed by others.

Identity construction through transformative learning is also a function of the awareness of context, not least the appreciation and understanding of personal and socio-cultural conditions and their implications. Insofar as it is possible to interpret a given situation as coherent and congruent with one's meaning perspectives, this defines a mental comfort zone within which a sense of identity is unchallenged (Mälkki 2010: 2011). However, outside or on the edges of this comfort zone, the context is less predictable, the situation

can no longer be foreseen and interpreted, and 'edge emotions' are experiences that are uncertain, even unpleasant (Mälkki 2010: 49). It follows that recent critical experiences in individual's lives are associated with a predisposition to change. In Mary's case, this includes business-based experiences such as the problems with James and the external investors, both of which prompted her to reconsider her role and identity and her initial disorienting experience on the leadership programme. It is clear from her narrative, however, that the programme provided her with time for reflection and dialogue, allowing her to move beyond resistance to the pressures forcing reconsideration of her identity. This occurred through a form of identity defence in which the existing sense of identity was preserved (for Mary, this was predominantly defined in the negative sense of what she was not, with respect to the dominant discourse) to struggling through edge emotions to a place of acceptance, at least in part, of a new identity. Previous research has shown that safe and supportive authentic relationships, notably with facilitators in learning interventions, play an important role in the learning and identity development process (Brookfield 1993, 2000). Learning is a purposive and heuristic process through which patterns of understanding and behaviour change (Taylor 2009). As Mary's narrative demonstrates, the facilitator plays an important role both in legitimating her participation through initial confidence building and in supporting her learning journey by acting as the locus of swift trust (Leitch et al. 2016) that bridged her participation in and integration into the programme.

Conclusion: Implications for Leader Identity Construction in the Family Business

Mary's narrative of identity construction demonstrates the applicability of a transformative learning perspective that emphasises individual experience, critical reflection, dialogue, a holistic orientation, an awareness of context and authentic relationships. Her case reveals the dynamic interconnectedness of experience (identity construction), knowledge (learning and leadership) and organisational context. From this, three overall conclusions emerge. First, in discussing identity, there is a disjoint between the generic socially accepted view and the individual's self-image. For Mary this was clearly and consistently articulated throughout the entire research process. She expressed a view of entrepreneurs, business owners and leaders that was very much at odds with her self-perception, to the extent that for much of the time we interacted with her she saw them as 'other'. This reflects a more general issue

that there is more often than not a mismatch between the categories researchers use to re-present the lived experiences of the participants in their research and those used by the participants themselves, resulting in participants articulating identity descriptors that are not in fact part of their own cognitive map. A deeper awareness of their native categories that is the fundamental concepts that people use to identify and explain to themselves what is happening to them (Buckley and Chapman 1997) is required. These native categories are sufficiently elemental to carry cultural weight and sufficiently familiar to be used constantly and intuitively. The issue here is that the native categories constructed by us in a research community do not necessarily mesh with those in the society or social group we seek to research. In other words, they have connotations, nuances and shades of meaning that are understood in one but not the other, and there are no obvious interlocutory or translation mechanisms between the two. It is for this reason that we have sought to demonstrate the relevance of in-depth, case study research to give voice to our main subject and to explicate identity construction in her own terms and categories.

Second, identity work emerges from our analysis as something implicit, a conclusion at odds with the emphasis in much of the contemporary literature that the construction of identity is deliberately, systematically and explicitly engaged in. At no point in the research did Mary give any indication that she was purposively seeking to construct a particular identity, and to the extent that she can be construed to be engaging in identity work through her professional and personal relationships, conversations, engagements and role enactments; this is not with a view to the self-consciously aware creation of a particular identity. For future research on leader identity, this implies that we need a more subtle understanding of the dynamic interrelationships between the discourses of social identity and the appropriation of these by individuals to themselves. Current research, including that drawn on in this chapter, assumes that individuals consciously and deliberately identify and take on elements of desired, perhaps aspirational, social identities that they then use to represent themselves to the world. The evidence from our research suggests, however, that this process may not be deliberate, explicit and intentional. As a result we will need to rethink the manner in which self-identity is constructed by the individual and socially constructed by the wider community to which they belong (Wenger 1998).

Third, the development of leader identity is driven at least in part by a desire for social legitimacy and acceptance, in an ongoing process of discourse between self and other. For Mary there is a strong connection between key events in her life history (early school, experience, work history, family reloca-

tion) and her desire to succeed in a business venture in which she had no confidence in her ability to lead. Through a series of conversations, including those with the leadership development programme team and the research team, she progressively established herself in her own mind as a legitimate and accepted member of the entrepreneurial, owner-manager community, or affinity grouping (Gee 2000). This is seen, for example, in her acceptance by the end of the research process that she would find it appropriate and unexceptional to join relevant business networks, something that was alien to her at the outset. For future identity research, this continuous process of discourse between self and other in identity construction raises a methodological challenge, to be aware that the presence of the researcher can influence what they observe or are told. If, as Watson and Watson (2012) argue, there is an identity work component to practically every conversation, we see that in the course of interviews and conversations the participants' notions of who they are being rehearsed and developed in the dialogue of the interview.

Finally, our detailed longitudinal case study narrative makes six contributions to the emerging literature on leader identity. First, we have demonstrated the relevance of a transformative learning perspective on identity construction that sees this as an ongoing negotiated discourse. Second, we conclude that in discussing identity we should follow the thrust of the new mobilities' paradigm in social science (Sheller and Urry 2006) and focus less on states (things as they are) and more on processes (by which things come into being). Third, we move beyond the "rather thin notion" (Sveningsson and Alvesson 2003: 1165) of identity in the modernist tradition, in which identity is viewed as objective, measurable and real emphasising a static analysis to focus on the shift from the static analysis of identity to the process of identity construction. In so doing, we shift, from analysing social identity to understanding self-identity as a social construction and from identity per se to the discourse of identity work. Fourth, we extend the discussion of identity work and leader development to the entrepreneurial domain and demonstrate the relevance of both organisational and socio-cultural context to this. Fifth, the development and presentation of a thick longitudinal case narrative, within a transformative learning framework, of how identity is constructed in a complex and changing business environment provides a stimulus to this growing and productive area and a basis for the development of new theoretical and empirical knowledge. Finally, in setting out a model of the transformative learning process (Fig. 25.2), which is based on iteration around the key elements of individual experience, critical reflection, dialogue, holistic orientation, awareness of context and authentic relationships, and in demonstrating its applicability to the case analysis presented in the chapter, we have

provided a framework for the design of leader development programmes that can effectively support participants' leader identity work through an ongoing process of transformative learning.

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26

The Socio-psychological Challenges of Succession in Family Firms: The Implications of Collective Psychological Ownership

Noora Heino, Pasi Tuominen, Terhi Tuominen, and Iiro Jussila

Introduction

Research has shown that most of the businesses that are categorized as family businesses, fail during or after succession attempts (Duh et al. 2009), as only 30 percent of businesses are transferred to the second generation, and 10 percent from the second to the third generation (Bechard and Dyer 1983). According to Miller, Steier, and Le Breton-Miller (2003), there are many reasons why successions fail; these include such as unclear succession plans, incompetent or unprepared successors, and family rivalries. In more detail, problems related to succession can be divided to successor-related challenges (e.g., lack of motivation, low ability), incumbent-related challenges (e.g., reluctance to share control and/or to let go due to personal sense of attachment to the business), relational challenges (e.g., conflicts between family members and/or employees), financial challenges (e.g., tax burden), contextual challenges (e.g., changing business performance, loss of key customers/suppliers), and process-related challenges (e.g., unclear roles of the incumbent and the successor) (De Massis et al. 2008).

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E. Memili, C. Dibrell (eds.), *The Palgrave Handbook of Heterogeneity among Family Firms*,
https://doi.org/10.1007/978-3-319-77676-7_26

The recognition of succession as a challenge for family firms (Duh et al. 2009; Lam 2011) has inspired a wide array of research especially on economic and formal (planned) aspects of succession (Brown and Coverley 1999; Harveston et al. 1997; Tatoglu et al. 2008). In this context, some scholars have recognized that rationality, orderliness, and stability may have been overemphasized in family business succession literature (Lam 2011), and only few studies have focused on socio-psychological dimensions of succession (e.g., Levinson 1971). However, during the recent years, succession research among family businesses has shifted to investigate also the emotions and attitudes of family and non-family members (e.g., Mahto et al. 2014; Ramos et al. 2014). This is because the succession is seen as highly emotional process (Kets de Vries 1993), involving several human actors, who interact with each other and in relation to the family business in a dynamic context. Despite the increasing interest in family business succession, there remains a lack of understanding of the associated socio-psychological dynamics (Handler 1994; Lam 2011). Thereby, Sund, Melin, and Haag (2015), for instance, have recommended a combination of legal and psychological perspectives on ownership to advance our understanding, and suggested a preparatory approach to succession.

Based on research so far (e.g., Malinen 2004; Morris et al. 1996), as well as on our frequent discussions with family business leaders, we see that the human facets (e.g., relationships, interaction) are often experienced as more problematic than the formal ones (e.g., legal, taxational, economical) in family business succession. According to Miller et al. (2003), and Molly et al. (2010), it is management succession in particular, which is often a source of conflict and tension within the family, and can have significant influence on the future success of the family business. However, until now, relatively little is known about why "emotions spark" between the actors (e.g., incumbent, successor, siblings, employees) in the succession processes. Even though research thus far has found that there are many challenges related to succession, the reasons as well as the means to overcome these challenges have received less attention.

The purpose of this study is to start filling the above presented knowledge gap. We follow Pieper's (2010) guidance to use a psychological approach to investigate family business phenomena, as socio-psychological dimensions of family business will influence other business dimensions within that business (Goel et al. 2012). Mahto et al. (2014) have proposed that a successor's individual psychological ownership ("a state in which individuals feel as though the target of ownership (or a piece of that target) is theirs) (i.e., it is 'MINE'," Pierce et al. 2003, p. 86) of family firm is positively associated with his/her commitment to the firm. In addition, Savolainen and Kansikas (2013) have

found that psychological ownership among non-family employees creates challenges to succession, as employees resist the succession process, as they consider changes of succession to create threats toward them and toward the continuity of the company. We also see that the incumbents' reluctance to let go of control and authority (de Pontet et al. 2007) may stem from strong sense of individual psychological ownership. Thereby, although we see that individual psychological ownership can have positive effects on family business succession, it can also have several negative effects. However, shifting emotional mind-set from individual level to collective level might help to overcome these negative effects. Therefore, in this chapter, we introduce collective psychological ownership as a tool to understand and overcome above presented and more challenges related to family business succession. With our focus being on socio-psychological challenges, other challenges, such as the financial ones, are out of the scope of this paper.

Collective psychological ownership (CPO) is the "collectively held sense (feeling) that this target of ownership (or a piece of that target) is collectively 'ours'" (Pierce and Jussila 2010: 812). This collective state of ownership has been used to predict motivations, attitudes, and behavior on a group level, and has both positive and negative effects on both individual and group levels (Pierce and Jussila 2010). Noteworthy, Henssen, Voordeckers, Lambrechts, and Koiranen (2014) suggest that both individual- and collective-oriented psychological ownership can be seen as antecedents of CEO stewardship behavior, and on the other hand, Giudice, Peruta, and Maggioni (2013) have previously suggested that stewardship behavior can operate as an effective governance mechanism for family businesses in specific change management situations related to the process of generational turnover. Thus, it can be argued that the degree of both individual and collective psychological ownership is also likely to affect the successful succession of family business firms.

Our work has many important contributions to the knowledge of family business succession. First, we focus on the social and psychological nature and dynamics of succession (e.g., Handler 1994; Lam 2011; Levinson 1971). Second, we apply CPO to deepen understanding on the phenomenon of family business succession and its socio-psychological challenges. Third, we shed light on the complex dynamics that affect the success or failure of the succession process with CPO. Fourth, we add understanding of why individuals and groups think and behave as they do in the succession process (cf. Lam 2011). Fifth, we highlight family and other groups as social units with unique features that need to be considered in the research of CPO. These contributions can be seen as having significant value to both future research and practice of family business.

The chapter is structured as follows. First, we introduce the theoretical foundations of our study and discuss the family business succession and those socio-psychological challenges that family businesses face during succession process. Second, we introduce the theory of psychological ownership, discussing both individual- and collective-level definitions. We also discuss the primary reasons for the existence of individual and collective psychological ownership, and routes through which they come to emerge. Third, through several propositions, we present collective psychological ownership as a tool to overcome some of the problems of family business succession. Finally, we discuss in detail the value of our theorizing to future research and practice of family business.

Theoretical Overview

Family Business Succession: Definitions and Actors Involved

For decades (see Miller and Rice 1967), the involvement of an entrepreneur's family members in business has been an important way to define a family business (Solomon et al. 2011; Randøy and Goel 2003; Sharma 2004). At the heart of this relationship between the family and the enterprise are family dynamics (Neubauer 2003). The founder is seen as having a major influence on the business (Wright and Kellermanns 2011), while multigenerational family involvement and traditions are also seen as shaping the operations of the firm (Malinen 2001). Thus, succession plays a key role in maintaining a business a family business, as it is seen as the transfer of ownership rights and governance as well as leadership positions from the incumbent to the successor (e.g., Duh et al. 2009). Of these different transfers, leadership succession is often highlighted. As Beckhard and Burke (1983) put it, succession is "the passing of the leadership baton from the founder-owner to a successor" (p. 3). The existing idea of succession can be categorized as follows (see Handler 1994; Solomon et al. 2011; Stavrou 1999): it is a multistage, complex, and dynamic process that involves a variety of actors from both business and family systems, including technical, social, and psychological features and factors, and evolving over the long period of time it takes.

In this chapter, we follow Rantanen and Jussila's (2011) definition, which suggests that a business is a family business (and remains one) to the extent the next generation (in addition to the incumbent one) gets a piece of the action (collective control, knowledge, and effort) in a manner that satisfies not

only their need for social (family) identity, but one or more of the motives for personal possessions—efficacy and effectance, self-identity, stimulation, and home—and, thereby, allows them to develop feelings of shared ownership for the business (cf. Pierce and Jussila 2011).

As it comes to actors involved in succession, the founder or the incumbent and the successor are typically seen as the most significant actors in the process (Duh et al. 2009), including CEO succession. However, also other actors, (e.g., family members, non-family members), who are a more or less permanent part of the family and/or business systems, are involved in and influenced by the succession process (Lam 2011; Le Breton-Miller et al. 2004). Noteworthy, in many cases, a successor is chosen from a pool of next-generation family members. So, not only is the next generation involved in deciding about the successor but also competing to be the chosen one. However, the successor can also be a non-family member (Bechard and Burke 1983) or an agent (Bocatto et al. 2010; Lee et al. 2003).

Socio-psychological Challenges of Family Business Succession

According to De Massis, Chua, and Chrisman (2008), many studies of succession assert that problems occur due to factors that operate at the individual level. As it comes to incumbent-related challenges, often the most significant challenge is the personal sense of attachment of the incumbent with the business. That is, for the founders or predecessors, the business represents a major part of their personal, professional, and social lives (Cadieux 2007). As stated by Sharma, Chrisman, and Shua (2003, p. 671), "many of these incumbents have devoted a large portion of their lives and careers to building up their firms and some of them may find stepping aside challenging or even frightening because they fear the loss of power, status, or personal identity." As the younger member will have control and power over the business that is inherited from an older member after the succession (Churchill and Hatten 1997), the succession may, thus, posit a steep psychological loss and reluctance to let go of control and authority (de Pontet et al. 2007). Many studies have, indeed, pointed out the unwillingness or resistance of the founders to yield control of their business (Lussier and Sonfield 2012).

However, it should be noted that unexpected, premature loss of the incumbent due to death or illness can also create major challenges to the succession process (De Massis et al. 2008). That is, the premature loss of the incumbent could alter the composition of the dominant coalition, which in turn may

lead to changes in goals, succession intentions, or outlooks on the attractiveness of succession compared to other options, for instance. Alternatively, the need for succession may occur in a time when the potential successor does not have the ability or motivation to take over (De Massis et al. 2008).

Successor-related challenges include factors such as (1) low ability of potential successor(s), (2) dissatisfaction/lack of motivation of potential successor(s), and (3) unexpected loss of potential successor(s) (De Massis et al. 2008). First, the potential successor may not have the necessary skills to take over the management of the business. This underqualification may cause the dominant coalition to reject the potential successor or the successor to refuse the position. Indeed, there are studies (Barach and Gantisky 1995; Brach et al. 1988) arguing that the ability of the successor to lead the business is positively related to successful succession. Second, Chrisman, Chua, and Sharma (1998) have noted that the willingness and commitment of the successor are needed in the succession process, as his/her dissatisfaction or lack of motivation may also lead to refusal by the successor or rejection by the dominant coalition. Third, unexpected loss of a potential successor due to death or illness (Handler and Kram 1988) may also prevent the succession from taking place as planned.

Besides challenges related to individuals, family business literature recognizes that the relationships between different individuals or groups of individuals can cause potential conflicts obstructing succession (Lansberg 1983). Relational challenges include conflicts, rivalries, and/or competition in incumbent-successor relationship (e.g., parent-child relationship) and/or among other family members (e.g., siblings). Additionally, lack of trust and/or commitment in the potential successor(s) by family and/or non-family members may cause difficulties. Moreover, conflicts between incumbent/potential successor(s) and non-family members can cause tensions (De Massis et al. 2008). Finally, changes in family relations, such as incumbent's divorce, remarriage, or new children may also create challenges to succession (De Massis et al. 2008).

One of the most important relationships in the succession process is the one between the incumbent and the successor (Morris et al. 1996; Venter et al. 2003). For example, there may exist identifying and idealization at the same time with competition and jealousy (Kets de Vries 1996), and along with the process comes possible overlap and problems in transition from one role to another (Cadieux 2007; Handler 1990). Levinson (1971) has also presented that the successor often frustrates to the incumbents' interfering, boasting, and disdaining. As a consequence, many incumbents find it difficult to progress from the partnership stage to the power transfer stage of succession.

Davis and Harveston (1999, p. 311) refer to this as an incomplete succession as it represents "a prior generation's excessive and inappropriate involvement in an organization, possibly causing social disruptions in the organization." Often there are also challenges resulting from bad communication between the incumbent and the successor, which can be a hindrance for a smooth successful succession to take place.

When it comes to the relationships between the incumbent and other family members, there may exist competition and confrontation, especially if there are several (potential) successors and their relatives and spouses involved (Levinson 1971). For example, the way the succession process is handled, how expectations are managed, and how the final choice of the successor is made can cause hostility between siblings in the family (Jayantilal et al. 2016). Additionally, a problem to the family harmony (Churchill and Hatten 1997) and consequently to succession may be the siblings' willingness to establish their own place in the business, where the others have no authority (Levinson 1971). Also conflicts and rivalries between the incumbent, the potential successor, and non-family members can be a barrier to succession (Bruce and Picard 2006). Noteworthy, the competing situation in succession between family and also (in some cases) between non-family members can be quite emotional and vulnerable for numerous conflicts in family businesses. Conflict can be considered as a relevant emotional cost for all involved (Jayantilal et al. 2016).

Lack of trust and/or commitment in the potential successor(s) by family members can be a source of major problems in succession. In order to be considered as a legitimate leader, the successor needs to be trusted by the family members, and they need to be committed to the successor. Otherwise, the successor is not given a possibility to demonstrate his/her abilities nor is he/she likely to gain the dominant coalition's confidence (De Massis et al. 2008). These challenges can also occur between the successor and non-family members such as non-family employees.

Psychological Ownership: Definitions, Motives, and Routes for Its Existence

There is a growing body of literature shedding light on ownership as a psychological phenomenon (Pierce and Jussila 2011). Psychological ownership (PO) can exist at both the individual level (see Pierce et al. 2003), and the collective level (see Pierce and Jussila 2010), and can be used in explaining multiple

motivations, attitudes, and behaviors of individuals and groups (e.g., Pierce and Jussila 2011; Pierce et al. 2009). Pierce, Kostova, and Dirks (2001, 2003) first introduced psychological ownership as an individual-level construct (individual psychological ownership, IPO) and defined it as "a state in which individuals feel as though the target of ownership (or a piece of that target) is theirs"(e.g., "This firm is MINE and belongs to ME"). Later on, Pierce and Jussila (2010) have proposed that feelings of ownership can also exist on a group level as a collective phenomenon, suggesting that collective psychological ownership (CPO) is the "collectively held sense (feeling) that this target of ownership (or a piece of that target) is collectively 'ours' p. 812) (e.g., This firm is OURS and belongs to US (the group) as a whole"). Psychological ownership on both levels is a state of mind experienced by the individual or the group holding a feeling of possessiveness, and under certain conditions discussed below, the feeling can develop toward any target—tangible or intangible (Pierce and Jussila 2011).

According to Pierce et al. (2001, p. 300), psychological ownership emerges because it "satisfies certain human motives, some of them genetic and others social in nature." Overall, feelings of ownership arise under certain conditions: IPO has been recognized to serve four fundamental human needs: (1) efficacy and effectance (e.g., Furby 1980; Isaacs 1933; White 1959), (2) self-identity (e.g., Dittmar 1992; Mead 1934), (3) belongingness (e.g., Ardrey 1966; Darling 1937, 1939; Duncan 1981; Heidegger 1967; Polanyi 1962), and (4) stimulation (e.g., Jussila and Tuominen 2010; Pierce and Jussila 2011). Efficacy and effectance refer to a basic need to feel capable in a given domain as possession of certain objects can enhance feelings of efficacy as they can provide sense of power, control, or influence (Pierce et al. 2003). Possessions can also reflect an individual's self-identity (symbolic expressions of the self that entail core values of that individual), and a sense of place of belongingness provides feelings of comfort, pleasure, and security (see Dawkins et al. 2017). Additionally, ownership serves yet another human need: the need for stimulation (activation or arousal). The targets of ownership serve as "the storehouses of life's meanings" (Pierce and Jussila 2011).

Pierce and Jussila (2010) point out that one additional motive—(5) the need for social identity—needs to be present for CPO to develop. The meaning and motivation for collective possession are found in the sense of social identity (Furby 1980; Tajfel 1982), because collective possessions (extensions of "us") provide individuals with such cues and help orient them to contexts, give meanings to experience, and guide their action as collective entities. However, while collective possession is intersubjective, the motivation for collective

possession cannot be found in social identity alone, and it needs to be coupled with one or more of the other motives for possession (efficacy and effectance, self-identity, belongingness, or stimulation) (Pierce and Jussila 2010).

Further, the abovementioned motives are not the direct cause of individual or collective feelings of ownership. As the primary reasons for psychological ownership and the associated psychological states, these motives simply facilitate the action that leads to the emergence of IPO and CPO (Pierce and Jussila 2010, 2011). Three routes have been identified as leading to psychological ownership (Pierce and Jussila 2010; Pierce et al. 2003). On individual level, these routes consist of (1) controlling the target (e.g., "I make decisions concerning my work"), (2) coming to intimately know the target (e.g., "I process information concerning my work"), and (3) investing the self into the target (e.g., "I invest myself in my work") (Pierce et al. 2001).

On collective level, the routes are (1) collectively recognized shared control over the target of ownership (e.g., "We (my teammates and I) make decisions concerning our work together as a group"), (2) collectively recognized shared intimate knowledge of the target and/or (e.g., "We (my teammates and I) interactively process information concerning our work to develop a shared understanding of it"), and (3) collectively recognized shared investment of the different group members' selves into the target of ownership (e.g., "We (my teammates and I) invest ourselves in our work interdependently, making it a collective creation") (Pierce and Jussila 2010).

Noteworthy, this collective state can only manifest itself in an intersubjective context, as it represents a collective-level phenomenon, and thereby, it is not enough that an individual sees oneself and wants to be seen as a part of a group or certain social entity. Instead, a group must become aware of its existence as a group in which its members experience a sense of "us" and develop a collective cognition. Additionally, for CPO to develop, each member of the collective must recognize that there is a clearly defined "us" that acts as an interdependent collective (Rantanen and Jussila 2011). A precondition is that an individual must see him/herself and wants to be seen as part of a particular group (see Pierce and Jussila 2010). In other words, the group members must be able to answer the question "who are we?" as Pierce and Jussila (2010: 817) declare: "the answer to this question, at least in part, lies in a collective understanding that we are one, bound and interdependent on one another for some purpose that is larger than the self."

There also are following boundary conditions for the existence of CPO: (1) individualism/collectivism (as an aggregate group orientation), (2) interdependence (e.g., task, goal), (3) collective (group) identification, (4) collectivistic

values, and (5) team cohesion and chemistry (Pierce and Jussila 2010). CPO is also likely to increase when team self-management increases, when all members are well informed about the group's activities, and when there is increasing skill variety and an increase in the number of tasks performed (Pierce and Jussila 2010).

In sum, traveling down the routes to CPO by collectively exercising the shared control over the business, collectively interacting with the business in order to develop a shared intimate understanding of it and collectively making investments, group members can satisfy their needs for efficacy and effectance, self-identity, place to dwell, stimulation, and social identity. This way, they can develop a strong mutually held feeling of "US" and "This is OUR business."

The Effects and Consequences of Collective Psychological Ownership

Collective psychological ownership produces effects at both individual and group levels. The individual level effects include several attitudinal and motivational consequences, such as job satisfaction and organizational commitment (Avey et al. 2009; O'Driscoll et al. 2006; VandeWalle et al. 1995; Van Dyne and Pierce 2004), loyalty, trust and responsibility (Pierce et al. 2001), organization-based self-esteem and self-identity (Van Dyne and Pierce 2004), low levels of alienation (Van Dyne and Pierce 1993), low intention to quit (Avey et al. 2009), and psychological empowerment (Avey et al. 2009). Also behavioral consequences such as quality in-role performance (Brown and Crossley 2008; Kostova 1996; Van Dyne and Pierce 2004), intragroup sharing (Pierce and Jussila 2010), acts of a good citizenship (O'Driscoll et al. 2006; VandeWalle et al. 1995; Van Dyne and Pierce 2004), personal sacrifice, and stewardship behavior (Pierce et al. 2001) emerge. At the group level, collective psychological ownership is manifested as work-related attitudes, motives, and behaviors such as psychological safety (Edmonson 1999), organization-based social identity (Pierce and Jussila 2010), group learning (Druscat and Pescosolido 2002; Pierce and Jussila 2010), group effectiveness, and group potency (Druscat and Pescosolido 2002; Guzzo et al. 1993; Hackman 1987).

According to Pierce and Jussila (2010) and Brow, Lawrence, and Robinson (2005), collective psychological ownership also promotes territorial behaviors, including control-orientated and identity-orientated marking and anticipatory and reactionary defending in both individual and group levels (see also

Brown and Crossley 2008; Jussila and Tuominen 2008). At the individual level, territoriality may result in resistance to organizational changes, selfishness, reluctance to share, not letting go, and obsession with control (Brown et al. 2005; Pierce and Jussila 2010). Although territoriality often has a negative connotation, it may also improve organizational functioning and lead to increased performance and retention, both individual and group levels. Control-orientated marking helps maintain system viability due to the fact that marking promotes clear manifestation of the boundaries and nature of territories, and therefore, according to Brown et al. (2005), "can create a shared social map that will subsequently lessen the degree of process conflict" (p. 587). Potential invasions are thereby seen to threaten the individual family member's or the family's sense of self-/group efficacy, one's/group's ability to express one's/group's identity, and one's/group's sense of security. Territoriality can be beneficial in clarifying and simplifying social interactions among family members, which might reduce conflict and enhance effectiveness. However, it might also lead to negative effects, such as not letting go, refusal to share, as well as hiding (hoarding of information) in relation to others.

The Utilization of Psychological Ownership in Family Business and Succession Studies

In general, the construct of psychological ownership and its behavioral, attitudinal, and motivational consequences have been mainly investigated in studies of organizational behavior (e.g., Dawkins et al. 2017; Han et al. 2015; Pierce and Jussila 2011; Pierce et al. 2001, 2009;), and psychological ownership is used to explain and predict the behavior of individuals and groups, their motivations, and attitudes in workplaces (e.g., Pierce and Jussila 2011; Pierce et al. 2009). Recently, psychological ownership has also been applied in contexts such as marketing studies in order to explain customer satisfaction, loyalty, word of mouth, and willingness to pay (e.g., Jussila et al. 2015), and as an explanation on how preferences for domestic brands are formed (Gineikiene et al. 2017). Additionally, theory of psychological ownership has lately been utilized in consumer behavior studies to explain the endowment effect (Shu and Peck 2011). On a more general level, psychological ownership has also been investigated in the studies of experimental economics (e.g., Kirk et al. 2015), social media studies (e.g., Zhao et al. 2016), territorial behavior studies (e.g., Brown and Zhu 2016), and environmental psychology (e.g., Matilainen et al. 2017), and in the studies of cognitive psychology (e.g., LeBarr and Shedden 2017).

During the recent years, theorizing of psychological ownership has been used to capture certain essential features of family business (see Bernhard and O'Driscoll 2011; Ramos et al. 2014; Rantanen and Jussila 2011). On the individual level, psychological ownership has been utilized to examine non-family (e.g., Atalay and Öztler 2013; Bernhard and O'Driscoll 2011; Sieger et al. 2011) and family and non-family (Mustafa et al. 2015; Ramos et al.; 2014) employees' workplace behavior in family businesses. In addition, Ikävalko, Pihkala, and Jussila (2008) have studied family business owner-managers' ownership profiles from psychological ownership perspective, and López-Vergara and Botero (2015) have analyzed the role of non-economic goals in the formation of IPO. Moreover, Zhu, Chen, Li, and Zhou (2013) have studied professional managers' psychological ownership and suggested that it is positively related to managers' stewardship behavior and intention to stay in the company. On the collective level, Rantanen and Jussila (2011) have suggested that CPO could be used as an indicator of actual family influence and to explain how and why family involvement affects strategic processes that lead to competitive advantages (as well as disadvantages).

As it comes to succession, Mahto et al. (2014) have recently applied psychological ownership theory and argued that a successor may concurrently develop psychological ownership toward multiple targets, including the family firm. However, the development of IPO of other target(s) can conflict with their attachment to the family firm which may influence their turnover intention and commitment to the firm. Savolainen and Kansikas (2013) have analyzed non-family employees' perceptions on psychological ownership during the family business succession process. They argue that non-family employees are participating on the small family business succession and they often do possess a strong psychological ownership toward the family business, their own work, and the founder generation. In addition, non-family employees recognize the changing management and leadership in successions, and that non-family employees' psychological ownership increases in succession which influences their commitment and well-being. However, Savolainen and Kansikas (2013) also found that psychological ownership among non-family employees created challenges to succession, as employees resist the succession process, as they saw changes created by succession to threaten them and the continuity of the company. Finally, Sund et al. (2015) have proposed a proprietary approach that establishes requirements to fulfill before the succession takes place. They suggest that both the legal/financial and the psychological aspects of ownership improve intergenerational ownership succession and the post-succession prosperity of the firm.

The Implications of Collective Psychological Ownership in Family Business Succession

In this section, we discuss the socio-psychological challenges in succession and the main factors related to them, and how CPO affects this relationship. We will also present propositions considering CPO and each of the challenges discussed.

It is widely known that the incumbent's personal sense of attachment with the business is the most cited barrier to effective succession since typically the incumbent is reluctant to let go of control and authority (de Pontet et al. 2007; Lussier and Sonfield 2012; Sharma et al. 2003). This resistance may stem from incumbent's role loss, for example, as it is stated that leaders face a steep psychological loss in retirement since their work role has offered them control and authority to make all the decisions (de Pontet et al. 2007), great emotional and personal value (Jayaraman et al. 2000), and a level of respect and admiration they may not easily find elsewhere (Kets de Vries 1993). These territorial behaviors—resistance to organizational changes, selfishness, reluctance to share, not letting go, and obsession with control (Brown et al. 2005; Pierce and Jussila 2010)—can be seen as consequences of IPO. However, if instead of personal sense of attachment, the incumbent would share collective feelings of psychological ownership (CPO) with other family members, it would be easier for him/her to share the control and knowledge of the business even before the succession and the transfer of leadership actually take place. With CPO this should actually come quite naturally, as shared control over the target ownership, shared knowledge of the target of ownership, and shared investments made to the target of ownership are the routes to reinforce the collective feelings of ownership. Thereby, increase of CPO is accompanied with a decrease in the incumbent's sense of individual (exclusive) possession, which in turn reduces his/her negative territorial behaviors such as reluctance to share and let go of control and authority. Thus, we propose:

Proposition 1: CPO has a positive effect on succession through incumbent's reduced personal sense of (exclusive) possession and associated negative territoriality.

Low ability of the potential successor is one of the successor-related challenges of succession (De Massis et al. 2008). The successor may lack the necessary skills to take over, and this can cause the rejection of him/her by the dominant coalition or the successor to refuse the position. However, an important question is that what is meant by low ability? Does it refer to lack

of education, experience, management skills or knowledge of the family business, and so on? If low ability is related to such skills and abilities that can be developed by participating to the operation of the family business, we see that these challenges may be overcome in the presence of CPO. According to Pierce et al. (2009), "complex jobs call upon more of the employees' skills, provides opportunities for them to exercise discretion and make more decisions which results in their having a larger impact which ultimately results in the finished work being a reflection of the individual (p. 483)." An increase in demand for skill variety requires that individuals perform a number of different activities using a broader array of skills and talents. While the formation of CPO requires shared control, knowledge, and investment, we see that this provides the potential successor an opportunity and tools to develop his/her skills and abilities. That is, learning at the organizational level is no longer an individual phenomenon but becomes a collective action (e.g., Brown and Duguid 1991; Fiol and Lyles 1985; Hayes and Allinson 1998) and reflects both processes and outcomes of group interaction activities through which individuals acquire, share, and combine knowledge (Argote et al. 1999). Accordingly, members of family businesses invest time and effort into learning communication skills to expedite the transfer of experiences and knowledge (Miller and Le Breton-Miller 2006). Thereby, CPO is positively associated with the potential successor's abilities which in turn make it easier for him/her to take over the position and to be accepted by the dominant coalition. Thus, we propose:

Proposition 2: CPO has a positive effect on succession since it is associated with increased successor-abilities that positively affect both take-over and acceptance.

Dissatisfaction and lack of motivation and/or commitment of the successor are also often listed as significant problems related to succession (Chrisman et al. 1998; De Massis et al. 2008) as they may lead to refusal of the position by the successor or his/her rejection by the dominant coalition. However, CPO is likely to produce positive individual-level attitudes and motivations, such as organizational commitment, organization-based self-esteem, personal sacrifice, and risk, since it is likely to satisfy the successor's needs for efficacy and effectance, self-identity, stimulation, social identity, and having a place (Henssen et al. 2014; Pierce and Jussila 2010) as he/she too (together with the incumbent) is given control over the business and the opportunity to develop intimate mutual understanding of the business and to join interdependent investment of selves in the business. Accordingly, this organizational

commitment reflects group members' sense of responsibility for the business, willingness to stay and maintain their roles in the business, and their desire to preserve and continue the business as a family business (Davis et al. 2005). It can also be seen as the strength of emotional attachment to the organization based on positive attraction and a sense of belonging (Meyer and Allen 1991). Since feeling a sense of attachment and belonging are the essence of both organizational and family commitment, it seems reasonable to predict a positive relationship between CPO and both organizational and family commitment. In other words, feeling collectively possessive toward the organization and maintaining such a state through continuous family interaction (with the business) should lead to high levels of commitment among family members. Thereby, we argue that both individual- and collective-level commitment are outcomes stemming from the presence of CPO. As the family and business become inseparable, family members are likely to make positive cognitive evaluations of the business and intend to (continue to) contribute to the business and its success (cf. Pierce and Jussila 2011). Thereby, CPO is positively associated with certain attitudes and motivations of the potential successor that contribute both to his/her decision to take over and dominant coalition's acceptance of the successor. Thus, we propose:

*Proposition 3: CPO has a positive effect on succession since it promotes successor's positive attitudes and motivations (*e.g., *organization-based self-esteem, organizational commitment, personal sacrifice, and risk) toward the family business that positively affect both take-over and acceptance.*

Another challenge related to succession is the possible premature loss of the incumbent, which could alter the composition of the dominant coalition, which in turn may lead to changes in goals, succession intentions, or outlooks on the attractiveness of succession compared to other options. In addition, the unexpected loss of the potential successor due to death or illness (Handler and Kram 1988) may also prevent the succession from taking place. However, if there is a closely knit social group, social interactions among the members of that group will result in shared learning, understanding, and consensus far greater than in groups that are more loosely connected (Davis and Harveston 2001). Accordingly, cooperation and collaboration as joint action are seen as the interaction between members directed toward a common goal, which is mutually beneficial. These shared goals are recognized and determined to reach, and usually achieved by sharing knowledge, group learning, and building consensus (Marinez-Moyano 2006; Simpson and Weiner 1989). We see that these elements and commitment to common goals may be a result of

CPO. Accordingly, these elements and commitment to common goals can increase collaboration or at least set the tone for collaboration, cooperative behaviors (e.g., collective planning and decision-making), and other interpersonal interactions (Danes et al. 2002; Habbershon and Astrachan 1997; Sorenson 1999), also in the case of the premature loss of the incumbent or the successor. That is, due to the close connection between the target of ownership and group members, we expect that those that experience a strong sense of CPO will engage in behaviors, which improve the group's internal functioning and the attainment of future group outcomes in crises. Thereby, CPO is positively associated with group's consensus, commitment to common goals, and cooperative behaviors, which in turn eases the survival from the premature loss of the incumbent or successor. Thus, we propose:

Proposition 4: CPO has a positive effect on succession since the resulting consensus, commitment to common goals, and cooperative behaviors among the family make it easier to survive the premature loss of the incumbent or the successor.

The problems related to relationships between different individuals and groups (e.g., incumbent and successor, potential successors, relatives, and spouses) are among the main challenges of succession (Levinson 1971; Morris et al. 1996; Venter et al. 2005). Such problems can include competition and jealousy (Kets de Vries 1996), bad communication (Davis and Harveston (1999), and difficulties in role and power transfer (Cadieux 2007; Handler 1990). For example, handling of the succession process, management of expectations, and the final choice of the successor can cause tensions between individuals and/or group members (Jayantilal et al. 2016). However, Pierce and Jussila (2010) suggest that CPO will lead to a pride in intragroup sharing (e.g., ideas, time, and energy) which emanates from the individual's elevation of the team's goals and success to a higher plane than one's own personal interests. CPO also promotes the emergence of group potency and group effectiveness, which require good interpersonal skills, including open communication, and mutual sharing and support (Seymour 1993). Considering group potency as an outcome of CPO, it might be reasoned that once individual feelings of ownership become collective and shared with others, the group develops a collective belief that "together we can accomplish much more." This is likely to increase group harmony and decrease competition between individuals also in the case of succession. Thereby, we argue that conflicts and rivalries are likely to emerge in the absence of CPO, in other words, in cases when the group has not developed strong sense of "US" and that "this is OUR business." In contrast, when there is strong CPO, there should be low levels of

competition and tensions between group members as the target of ownership is shared as well as the territories linked to it. Thereby, CPO has a positive effect on group dynamics, which in turn reduce problems related to relationships between different individuals and groups. Thus, we propose:

Proposition 5: CPO has a positive effect on succession, since it promotes positive family dynamics that decrease tensions among family members.

Family's desire to maintain power and authority and family and non-family members' hostility toward new family members or potential outside successors, for example, both reflect the natural desire to protect one's/group's territory (their little world) from all the forces that dominate the environment (see Kets De Vries and Miller 1984). Brown et al. (2005) argue that it is the infringement and/or the fear of infringement into one's territory that is likely to trigger protective (and defensive) behavior. Additionally, in most cases, defensive behavior seems to occur, when change is externally imposed; the family with a strong sense of possession may feel threatened and may try to protect their "turf." The fulfillment of the basic needs of efficacy, self-/group identity, having a place, and stimulation means that the territory in question has stronger psychological value to the family, motivating them to communicate with each other (through marking) and to protect and keep (through defending) it as their own. Potential invasions are seen to threaten the family's sense of group efficacy, group's ability to express group's identity, and group's sense of security. When outsiders come into contact with the family business, and if the anticipated or experienced relationship is evolutionary, additive, and collaborative in nature, it is likely that promotive territorial behaviors come to materialize (see Dirks et al. 1996). Thereby, CPO can be seen to promote a set of orientated territorial behaviors such as caring and protective behaviors directed to the target of ownership (Pierce and Jussila 2011; Brown et al. 2005). Thereby, CPO is positively associated with group's desire to maintain power and authority, which in turn increases groups' positive territorial behavior. Thus, we propose:

Proposition 6: CPO has a positive effect on succession since it increases family members' positive territorial (caring and protective) behavior toward the business.

Lack of trust and/or commitment in the potential successor(s) by family and/or non-family members can be a source of problems in succession. As presented earlier, commitment to the business and to the group represents a

form of psychological involvement and emotional attachment that contributes to identification with the firm (Zahra et al. 2008), a strong organizational identity (Milton 2008), and culture (Astrachan et al. 2002) around which the group members can build enduring relationship. It is argued that when one member of the group (e.g., the successor) experiences and behaves in a committed way, it increases the probability that other group members will experience commitment also (Barsade 2002, Rhoades and Eisenberger 2002). Thereby, we argue that since feeling a sense of attachment and belonging are the essence of both organizational and family commitment, it seems reasonable to predict a positive relationship between CPO and both organizational and family commitment. In addition, kinship family ties promote trust through the greater information sharing and shared sense of purpose that result from a tightly knit social structure (the family). Thereby, CPO has a direct impact on collective feelings of a sense of attachment and belongingness (which in turn increase trust and commitment). In other words, we argue that CPO promotes both trust and commitment to the successor and among group members in general. Thus, we propose:

Proposition 7: CPO has a positive effect on succession, since it fosters trust and commitment among family members.

In the next chapter, we will provide a summary of the implications of CPO to succession in family firms. We will also discuss the contribution of our work and provide further research avenues as well as practical implications.

Discussion

In this chapter, we have introduced collective psychological ownership as tool to understand and overcome the socio-psychological challenges related to family business succession. When analyzing the main socio-psychological challenges related to family business succession (see De Massis et al. 2008), it can be argued that many of the positive effects related to CPO (see Pierce and Jussila 2010) can help to overcome these challenges. In other words, it is likely that many of these challenges are more likely to arise in the absence, than in the presence of CPO. Fig. 26.1 illustrates the conceptual model of the proposed relationships.

By traveling down the routes of CPO by collectively exercising shared control over the business, by collectively interacting with the business in order to develop a shared intimate understanding of it, and by making interdependent

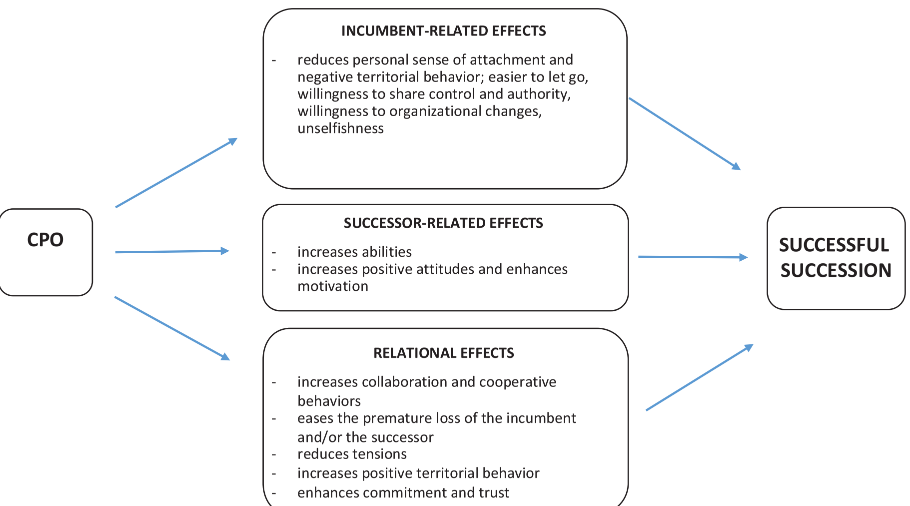

Fig. 26.1 Conceptual model of the proposed relationships

investment of selves, group members can satisfy their needs for efficacy and effectance, self-identity, place to dwell, stimulation, and social identity. We propose that group members are likely to develop collective feelings of ownership toward the business that they together operate. We propose that this fusion, as a socially constructed shared mind-set between the collective as a social system of individuals and business as both physical and social entity, determines the nature (loose, tight) of the collective (cf. Rantanen and Jussila 2011) and more fully explains motivations, attitudes, and behaviors of the individuals and groups (Pierce et al. 1991, 2001).

CPO reduces incumbent's personal sense of attachment and negative territorial behavior making it easier for him/her to share control and authority, for instance. Additionally, CPO increases successor's positive attitudes and abilities and enhances motivations. As it comes to the relationship between siblings (or other potential successors), we argue that CPO is likely to decrease tensions among group members. That is, due to CPO, the group members are likely to commit themselves to group goals (e.g., continuity of the family business after the succession), put aside their personal interests (e.g., to hold a certain managerial position in the business), and set tone for collaboration and cooperative behaviors. Noteworthy, CPO is likely to make it easier to survive from the premature loss of the incumbent or the successor, as the group has common objectives. CPO is also likely to diminish group members' need to establish their own personal (exclusive) place in the business where the others have no authority, which might also be beneficial for the company as well as the succession. CPO also enhances commitment and trust among the group members.

We argue that there is a reciprocal relationship between CPO and its effects. For example, CPO can be seen as a predictor of commitment since it reflects group member's emotional attachment to both, the organization and the group. Additionally, commitment has potential to promote the development of CPO, which in turn (when existing) may contribute back to commitment. In other words, the positive effects of the family that result from collective feelings of ownership among family members have the potential to promote the development of CPO, which in turn (when existing) may contribute back to and reinforce the effects.

Our work has many valuable contributions to the knowledge of family business succession. While the economic and formal (planned) aspects of succession (Brown and Coverley 1999; Harveston et al. 1997; Tatoglu et al. 2008) have been emphasized in family business succession literature (Lam 2011), our first contribution is that we focus on the social and psychological nature and dynamics of succession (e.g., Handler 1994; Lam 2011; Levinson

1971) that have received only cursory attention in previous literature. Second, while the concept of psychological ownership has been applied to the context of family firms in general (Bernhard and O'Driscoll 2011; Mustafa et al. 2015; Ramos et al. 2014) and succession in particular (Mahto et al. 2014; Savolainen and Kansikas 2013, Sund et al. 2015), it is noteworthy that this research has remained on the individual level. Thereby, our contribution is that unlike any earlier study we are aware of, we apply CPO to deepen understanding on the phenomenon of family business succession and its socio-psychological challenges. Third, while the succession is seen as highly emotional, dynamic, and challenging process (Kets de Vries 1993), we shed light on the complex dynamics that affect the success or failure of the succession process with CPO. Fourth, with the introduction of CPO, we add understanding of why members of family business think and behave as they do in the succession process (cf. Lam 2011). Fifth, we enrich thinking of CPO (Pierce and Jussila 2010; Rantanen and Jussila 2011) by bringing in family and many other possible groups related to succession as social units with unique features that need to be considered with regard to the subject of ownership. These contributions can be seen as having significant value to both, future research and practice of family business, since they help us think of, articulate, and manage complex processes that have previously been a mystery to both families in business and academics studying them.

Limitations and Implications for Future Research

It should be acknowledged that this chapter is theoretical in nature. Therefore, our propositions should be verified empirically. Moreover, we would like to note that even though CPO can be seen as a predictor of certain motivations, attitudes, and behaviors that are related to successful succession, it does not guarantee it. That is, the existence of CPO per se does not guarantee that group members' actual behavior is favorable for succession, as other socio-psychological factors may exist and affect individual and group motivations, attitudes, and behavior, which in turn affect succession. Thus, future research should take this into account and provide with empirical evidence in order to test our proposals, and also provide rich contextual accounts to enrich the picture. Additionally, CPO among group members is likely to increase territorial behaviors against outsiders, which may cause difficulties if the potential successor is someone outside the group. This may lead to resistance and have a negative effect on succession and should be taken into account in future investigations.

Moreover, it should be acknowledged that economic, formal (e.g., legal), and socio-psychological dimensions all affect succession, and the eventual outcome of the succession is formed in the interaction of these dimensions. Therefore, socio-psychological factors including CPO can only be isolated from the other dimensions in theoretical level in order to illustrate its effects. Therefore, attempts to manage the socio-psychological dynamics including CPO alone do not guarantee successful succession, but they can create favorable conditions for succession by mitigating some of the challenges. Thus, future research should address the following questions: what are the effects of different factors to succession? What are the interrelationships between these factors (e.g., do they reinforce or diminish each other)? As an example, do well-functioning formal processes in the family firm assist the formation of CPO? Or how does the history of the firm (e.g., has the company undergone many successions vs. is it the first succession) affect the formation of CPO?

As pointed out, our research opens up several avenues for future research. So far, research on CPO has not thoroughly addressed the fact that the collectives in which the formation and existence of CPO takes place, are not homogenous. That is, research on family businesses has illustrated that family firms have special features as it comes to organization culture, values, history, commitment, and so on. Therefore, the impact of these distinctive features is likely to vary in different contexts. Additionally, it should be acknowledged that there are many possible groups related to succession and among whom CPO can develop. As an example, the possibilities to overcome challenges related to succession may vary depending on among which collective CPO comes to exist (e.g., incumbent and the selected successor, incumbent and group of potential successors, siblings, other family members, non-family members, both family and non-family members, etc.). Thus, these features of different collectives and contexts should be acknowledged in future studies in order to gain more specialized knowledge on the phenomenon. That is, research on CPO should address and treat families as distinctive social units. Thereby, we strongly encourage researchers to further investigate CPO in family business context and succession settings in order to develop comprehensive understanding on the phenomenon.

Practical Implications

Our work has also many practical implications. We argue that CPO makes it easier for the group members to share control of the business, which has a positive effect on succession. Thus, it is important that the leaders of family

businesses pay attention to the development of CPO already before the succession actually takes place. While CPO is not likely to emerge unless the group travels down the routes of CPO by collectively exercising the shared control over the business, collectively interacting with the business (in order to develop a shared intimate understanding of the business), and collectively making investments, it is vital that the incumbent encourages the successor (or the group of potential successors) to be involved and take responsibility over the business in early stages of the succession process.

As a practical example, potential successors can participate in different types of development projects and take different roles and positions in the organization and its committees in order to develop a sense of attachment and belonging to both the group and the company. This way, the potential successor is offered possibilities to improve his/her abilities, use his/her voice both individually and together with the incumbent, and show to the family and dominant coalition his/her ability to take responsibility and cooperate. This may also improve the motivation and commitment of the (potential) successor toward the taking over of the business. Thus, when eventually taking over the business after succession, the potential successor is both skilled business manager and trusted and committed part of the group. Thereby, acceptance from other group members may also come more easily. Additionally, the shared control, collective interaction, and collective investment to the business make it easier for the incumbent to let go of the business, and his/her personal sense of attachment is not likely to cause such severe problems.

Conclusions

While the importance of socio-psychological dimensions in succession has been acknowledged in previous research, less attention has been given to the means to overcome these challenges. In this study, we have introduced CPO as a tool to overcome socio-psychological challenges related to family business succession. We have also provided propositions for future research to test. We argue that CPO has many implications to the attitudes, motivations, and behaviors of individuals and groups, which in turn have positive effects on succession. With this study, we have also offered avenues for future research and provided family business practitioners with practical implications.

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27

Family Firm Types Based on the Level of Professionalism of the Top Management Team

Giorgia M. D'Allura and Mariasole Bannò

Introduction

The study of family companies traditionally includes an understanding and analysis of the differences in management, organization, and results between family and non-family businesses (Daspit et al. 2017; Wang et al. 2017). There has been a prominent stream of research to understand which management theories are most suitable to interpret the differences between the two categories. Typically, researchers implicitly presume that family businesses are homogenous (Chua et al. 2012). In fact, anecdotal evidence and empirical observations show us heterogeneity. Even though family businesses have some objective elements in common, such as the presence of family members in ownership and/or management positions, family values, long-term views, and the need to save the family patrimony to maintain future generations, there are differences between these businesses due to the intrinsic characteristics that these elements represent, such as composition (size, relationship, gender), history, values, and attachment to the patrimony.

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E. Memili, C. Dibrell (eds.), *The Palgrave Handbook of Heterogeneity among Family Firms*,
https://doi.org/10.1007/978-3-319-77676-7_27

Today, this knowledge is the new scientific focus for researchers of family businesses who are increasingly interested in investigating the diversity of family businesses and progressively abandoning the dichotomous models that distinguish between family and non-family companies (Chrisman et al. 2012; Lichtenhaler and Muethel 2012). Therefore, the new challenge for those who study family businesses is to identify the possible sources of heterogeneity in these businesses and subsequently investigate their effects (Chrisman et al. 2012; Nordqvist et al. 2014). Moreover, configuration scholars remind us that coherence between organizational characteristics (the presence of the family) and adopted structures and systems helps firms perform better.

The aim of this chapter is to examine the heterogeneity of family businesses by applying upper echelons theory (Hambrick and Mason 1984; Hambrick 2007) and to consider the professionalism of the top management teams as a source of heterogeneity. The methodological approach used is demographic, following the default of other variables, such as values, intent, and objectives, since they are considered uncertain tools of measurement (Hambrick 2007). On the other hand, demographic variables, such as experience and educational background, can be identified unequivocally and considered as proxies of the decisional orientation of decision-makers (Hambrick and Mason 1984; Hambrick et al. 1996). Finally, through a cluster analysis, we explore the possible categories of family businesses linked to the level of professionalism of the top management team (TMT). Through this analysis, we can explain the conflicting evidence regarding the behaviours and outcomes in family businesses.

In sum, this chapter advances our understanding of the influence of family involvement on the outcomes of family firms by presenting an enhanced theoretical examination that identifies the specific benefits and disadvantages of family involvement based on skills, competences, and experiences. In addition, it offers a comprehensive picture of the configurations of family involvement in management and the decisions regarding the inclusion of external managers that are either beneficial or adverse to firms' outcomes. Therefore, this study contributes to a deeper understanding of both the direct and contingent effects of family involvement, which are considered critical to their long-term survival and a sustainable competitive advantage (Dyer 2006), on the performance of family firms (Chrisman et al. 2012).

The chapter is organized as follows: the first part reviews the literature and defines the relevant concepts with the aim of identifying the factors that should be analysed. The second part describes a cluster analysis that identifies different types of family firms based on the TMT categories. The third part describes our characterization of family firms. Finally, the fourth section discusses the implications for future research in the field of family businesses from the adoption of the classification that emerges from our cluster analysis.

Conceptual Aspects and Review of the Literature

Heterogeneity of Family Businesses: The Family Perspective

A family business is such because a family is in command. Recently, Basco (2013) proposed to analyse the effect of the family on the performance of the business by adopting an integrated demographic approach (the presence of the family among the owners, management, and administration) and an approach that considers the essence of the family firm, which is its identity. In both cases, the heterogeneity of the business emerges that is attributable to the heterogeneity of the family. The analysis proposed by Basco emphasizes how the heterogeneity of the family makes the business heterogeneous.

A family changes over time through births, weddings, separations, and death. Each family has its own identity in terms of composition (i.e., the number of subjects, types of relationships, and education), history, and values. Hence, each family transfers its composition and identity to the board and to the business (Zona 2015). Family is the source of heterogeneity in space and time. The heterogeneity of the family does not exhaust the potential causes of the heterogeneity of family businesses (e.g., proprietary and governing structures tied to the legal system, size of the company tied to its life cycle, and sector constraints); rather, it is one of the possible sources of heterogeneity that can be seen from various points of view: composition, relations, and processes. Each of these aspects warrants attention and constitutes a starting point for further clarification, guided by the common intent to understand the family's impact on behaviour and the resulting effects on the business that it owns (D'Allura and Erez 2009).

In our work, according to the upper echelons theory, we describe heterogeneity in terms of the professionalization of the TMTs.

Theoretical Perspective

The study of family businesses has been approached from different theoretical perspectives, united by a common goal, which is to understand how theory can be adopted case by case and can deepen the distinction between family and non-family businesses (Miller and Breton-Miller 2006). Hence, the studies that applied the agency theory, for example, focused on understanding how the presence of the family acts in agency costs (Schulze et al. 2001, 2003; Chua et al. 2009). Instead, in studies that applied resource theory, the intent was to understand what resources and competencies made family businesses

different from non-family businesses (Habbershon and Williams 1999; Sirmon and Hitt 2003; Powell and Eddleston 2017). In fact, a theory applied to family businesses must be able to explain the elements of heterogeneity between family businesses, as well as those that distinguish between family and non-family businesses (Zellweger et al. 2010). In addition, studies that focus on family businesses must be able to explain the rationale for outcomes and conditions, so that they can be repeated over time.

The theory that can help us reach this objective is, in our mind, the upper echelons theory. The founding idea of such a theory, presented in the seminal work by Hambrick and Mason (1984), is that the behaviour of businesses and therefore the outcomes are expressions of the characteristics of the coalition in command. The subjects, forced to decide under conditions of uncertainty, are guided in their behaviour by demographic and cognitive characteristics. Hence, investigating the characteristics of the coalition in command gives us a clear, even predictive, reading of the behaviour of the business and consequently of its results.

The study of TMTs (understood as groups of executives and chief executive officers) originates in the organizational behaviour literature where the objects studied are committed to investigating the group dynamics and conditions of efficiency (Hambrick 2007). Nonetheless, there is literature in this field on family businesses (Sciascia et al. 2013; Pieper et al. 2008; Ensley and Pearson 2005) that allows us to capture the heterogeneity and demographic characteristics of the family under investigation with the aim of identifying the possible typologies of family businesses on the basis of the levels of professionalism that each TMT is able to express.

Top Management Team

The literature on family businesses recognizes the top management team as the best expression of the family in the business (Binacci et al. 2016). Hence, analysing the effects of the TMT on the behaviour and outcomes of the business is the same as investigating the effects of the family on the company. Therefore, investigating the TMTs means investigating the existence of various types of family businesses. In this sense, the upper echelons theory represents a fundamental interpretive key in the family business relationship. To examine this relationship, other theories must be added. But in light of the family business literature, the TMT can be considered explicative of the family business relationship.

Nonetheless, when analysing the literature on TMTs, there are two conceptual aspects that require clarification from time to time. The first is regarding the definition of a TMT, and the second is regarding the level of analysis (Nielsen 2010). With reference to the first aspect, there is no clear definition of a top management team. Some studies define the TMT as a coalition in command and others define it as groups of influence. This vagueness could be the basis for some discordant results in the relationship between the characteristics of the TMT and business results. Added to this aspect is the fact that in studies of TMTs, there are examinations of both the CEO and the command group. The second aspect is regarding the level of analysis, individual or group (Nielsen 2010). In fact, the individual analysis considers specifically the demographic aspects, while the group analysis considers the team processes and dynamics of power. The latter influence decisions and, for this reason, are taken into consideration in the measuring models of strategic choices. In our investigation, the level of analysis is the micro concept, considering both the single individual and the elements that constitute a group.

Professionalism as a Construct

In the literature on family businesses, the professionalization of a family business is often simplified by the identification of the presence of a manager who is not part of the family; this figure is seen as an element that characterizes the professionalization of the business (Dekker et al. 2013; Stewart and Hitt 2012; Songini 2006). Previously, on the construct of professionalization, a classification of family companies was created by identifying, as criteria for classification, the professionalism of the activities undertaken within the business (Dekker et al. 2013). Our task is to supply an explanation for what generates the professionalization of a business by investigating why one family business can be more professional than another. Rather than classifying family businesses on the basis of the activities undertaken, we investigate why they are the way they are by observing the professionalism of the TMT. For this purpose and task, by professionalism we mean the capacity of the subject to carry out his or her activity competently and professionally.

Measuring professionalism coherently with the aspects explained previously will be carried out through the use of demographic information. In the literature on family businesses, the family business is often defined as lacking professionalism due to the presence of too many family members whose entry into the top management team was due more to being a member of the family than

to being someone trained for the role (Zahra 2005; Sirmon and Hitt 2003; Cabrera-Suárez et al. 2001). Nonetheless, the diversity of the professionalism of the members of the TMT can be considered a source of heterogeneity.

In our work, the professionalism of the TMT is defined as a multidimensional construct in which a number of factors concur (e.g., graduation, education, work history, work experiences). To our knowledge, there are no works in the literature that classify family companies according to the professionalism of their TMT. Here, we define professionalism as the sum of two components: education and experience. Education refers to the process of teaching or learning, especially in a school or college, or the knowledge that one obtains from this experience. Moreover, we extended this definition to the process of learning or the transfer of knowledge that one obtains from the family in the role of entrepreneurs. We distinguish this second part with the label socio-emotional path. Experience refers to the individual process of obtaining knowledge or skills from doing, seeing, or feeling things (the process of growing up, foreign experience, or work background) (Fig. 27.1).

Interest in this investigation comes from the conviction that such a classification could be relevant both for explaining some conflicting results related to the performance of family businesses and for practical considerations. Regarding the latter aspect, the classification that will follow, analysing the relationship between the professionalism of the TMT and the business outcomes, could immediately support family choices when identifying individuals to bring into the TMT, as well as to support them in the training of the heirs.

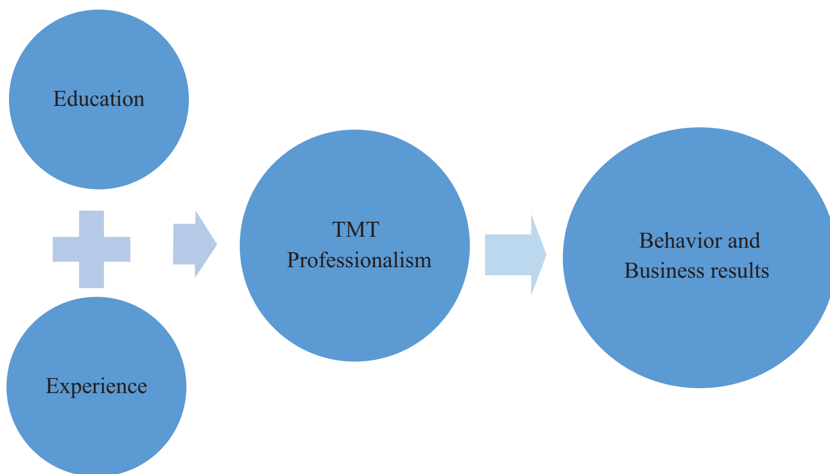

Fig. 27.1 Conceptualization of professionalism into two components: education and experience. (Source: our elaboration)

A Cluster Analysis: Measures, Data Description, and Methodology

The Prediction of the Professionalism Variables of Hambrick and Mason in the TMT

As discussed in Paragraph 1, we conceptualize professionalism as two components: education and experience. As depicted in Fig. 27.2, education is measured through a qualification degree and training completed either within the family or outside the family firm. Experience is measured through age, foreign experience, and the participation in a TMT different from the family one.

As the first factor constituting professionalism, education is measured through earning a qualifying degree and the type of training that is received (Hambrick 2007).

Qualifying Degree This variable refers to the base skills and knowledge of an individual and how these might give an indication of the strategic choices that would be used by the company. It is not easy to hypothesize the behavioural patterns of the business according to such a variable. On the contrary, it should be recalled that there is a positive correlation between the education

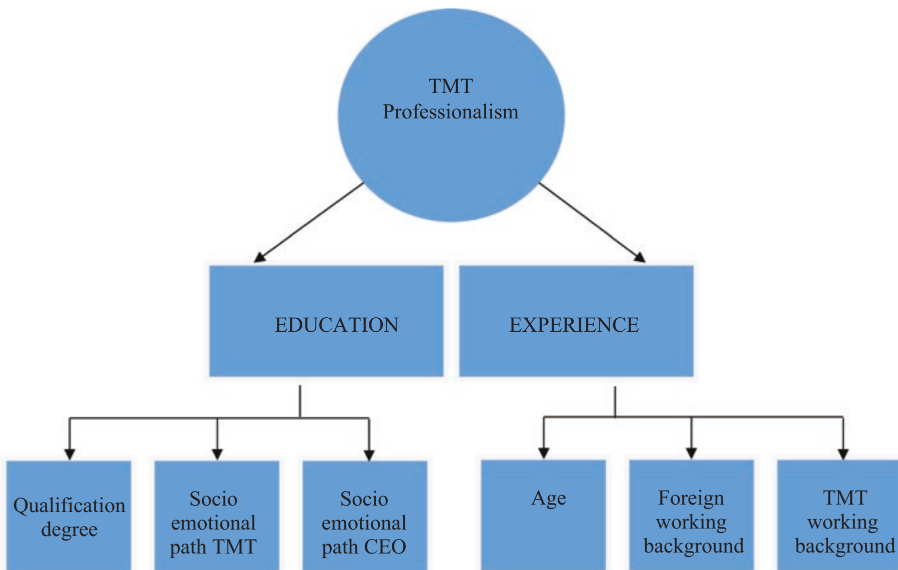

Fig. 27.2 Conceptualization of professionalism into two components: education and experience. (Source: our elaboration)

level of decision-makers and the adoption of a specific strategic decision. In this respect, the level of education of the family members involved in the coalition command can be considered as positively related to the processes of the business. Furthermore, the entry of a young generation with a higher education level prompts a stronger push for rationalization of the internal work division, which is typically followed by the delegation of tasks and functions that are usually concentrated in the hands of the founder. The entry of new generations permits the passage from a system of proxies based on personal trust to a division of labour that implies higher responsibilities for those involved and thus foresees the adoption of functional organizational models and the introduction of control systems aimed at reducing the depletion of resources and at increasing profitability.

In this regard, building on the perspective of Hambrick and Mason (1984), it is assumed that family businesses managed by an individual with an undergraduate education show different strategic approaches when compared to businesses run by an individual with higher education.

Socioemotional Path of the TMT Members This variable also refers to the base skills and knowledge of an individual and how these might provide an indication of the strategic choices that would be used by the company. We argue that the strategic choices will be different if they are provided by a member who obtained his/her experience within the family rather than external experiences.

The family managerial model, characterized by the direct involvement of entrepreneurs and their relatives in the company management, the extensive resort to direct supervision and the strong correlation between entrepreneurial insight and operative decisions, contrasts with a model based on separation between ownership and management in the parent company. As such, we argue that the presence of a manager who has experience outside the family firm can provide easier access to knowledge and capabilities useful for family firms. However, coalitions of a controlling family can include individuals who do not have any external experience because they were trained in the company. Nevertheless, when previous experience in another business or company is requested before entry, it is not possible to extend to such a coalition what Hambrick and Mason (1984) assume in distinguishing between external and internal decision-makers.

Socioemotional Path of the CEO Indeed, the CEO who enters the family business after a number of experiences in other firms might be more prone to modify the organizational structure, but he or she will be constrained by the presence of the older generation or the persistence of his or her suggestions. Furthermore, it should be noted that the employees of family businesses consider themselves to be part of the family due to the trust and esteem established over the long term and for their dedication to and personal sacrifice for the development and growth of the business. Furthermore, the family member might have been raised by such individuals, and he or she might be tied to such individuals. Therefore, the presence of family members with no external work experiences in the commanding coalition of a CEO may be related to strategic and organizational choices in other coalition commands.

The second factor constituting professionalism is experience, here measured through age, international work experiences, and general work experiences.

Age This variable refers to the behaviours that could be assumed by the business as mirroring the age of its decision-makers. In such a case, it should be assumed that the entry of a new generation—while diminishing the age of the commanding coalition—would enhance strategic innovations for the business, thus prompting, for example, innovation, development, and an appetite for risk in comparison with other coalitions with older members. In contrast, if the commanding coalition is older, the family business might show a tendency towards market stability in order to maintain the status quo of the enterprise, as those in charge of running the company may be at a point of their life in which economic certainty is more preferred than risk.

Nevertheless, in contrast with the hypotheses of Hambrick and Mason, the literature on family businesses does not always show a direct correlation between a TMT's age and a tendency towards specific strategic choices; this might be determined by other factors, such as the role played by older generations in inhibiting the innovative actions and proposals of younger generations. Therefore, this variable might be unable to appropriately predict trends when considering a commanding coalition in which older and young generations coexist. In contrast, when there is a single generation, ageing may be an important explanatory driver for behaviours.

Furthermore, the literature on family businesses shows that the entry of a new generation brings new strategic initiatives, as far as—it should be added—it is allowed to freely operate without any constriction by the founder or older generation.

International Work Experiences The social position of the decision-maker, including the social groups he/she belongs to, and the context in which he/she was raised and was educated, must be relevant. All these elements create a context that may predict the type of behaviours a decision-maker exhibits. In the case of a family business, these aspects can refer to the family and its social relationships, experiences, and environment—for example, experiences in foreign countries in the form of trips or longer periods abroad—provided by the family to its members. This variable may strongly influence the business as it traces a single path for the decision-makers of the family; it can be considered the basis of certain values that identify, in an exclusive way, each and every family and—as a consequence—the business it runs. Therefore, the analysis of the socio-economic path followed by each TMT member can be considered to be a prediction of its strategic behaviours.

In this regard, building on the perspective of Hambrick and Mason (1984), it is assumed that family businesses in which the members of the commanding coalition have a low socio-economic profile tend to pursue strategies that are not correlated with those followed by a family business with a higher socio-economic profile of the members of the commanding coalition.

TMT Work Experiences According to the model by Hambrick and Mason (1984), this variable considers that managers' decision-making processes are guided by the expertise acquired in their other business roles. In the specific case of family businesses, a reconsideration of this variable leads us to consider that managers of such enterprises rarely have experience working in other businesses. On the contrary, they gained experience inside the family enterprise. Thus, it is possible to extend to the family business the findings described above on such a variable while underlining that such a level of difference might be reached only after a number of generations. Furthermore, in the case of family businesses, this variable can be readapted and connected with the experience obtained by a single individual inside the family before entering the business. The work experiences of the managers of a family business are strongly linked to the storytelling by elder

relatives on its successes and failures, as they represent the knowledge and heritage to be exploited for the benefit of the company.

Data Description

In order to verify the existence of different types of family firms, we analysed a sample that is made up of only family firms. In particular, we considered and studied family-owned firms, when non-listed, to be those that are either majority-owned by the family or, when listed, at least 20% owned by the family (Cascino et al. 2010).

Data on the firms' family characteristics (i.e., ownership structure, composition of the TMT, and the age of every single member of the TMT) were retrieved from the AIDA (Bureau van Dijk) database. More specifically, the AIDA database reports the company name, the year it was founded, and the family name of each board member and shareholder with their respective ownership shares, thus allowing us to identify kinship relations on the basis of family names. The data on education and experience were collected from LinkedIn, Borsa Italiana, and each firm's website.

As anticipated above, the classification of the different family firms' typologies builds upon the two dimensions of education and experience and the main traits and concepts of a qualifying degree, socioemotional path, age, and work experiences. With regard to the first trait, the qualifying degree discrete subscale measures the level of education for each TMT member, while the presence of a non-family CEO is a proxy for the socioemotional path (i.e., internal to the family or external). The same is true for the socioemotional path of the TMT, which measures the presence of a majority of non-family members. With regard to the fourth trait, in order to assess experience, we introduce the age of a single member of the TMT. For the fifth trait, we introduce experience abroad as a proxy for foreign background, while working background is measured through experience in other businesses, such as participation on a board of directors different from the family firm's.

Table 27.1 describes the variables employed in our analysis, while Tables 27.2 reports those variables' descriptive statistics.

Methodology

To identify different patterns of family firms in terms of education and experience, we develop two indicators measuring these two components of professionalism as the sum of the variables described in Table 27.1. By crossing these

Table 27.1 Description of the variables employed in the analysis

Variable	Description	Source
Qualification degree	Dummy variable equal to 1 if at least a member is graduated, 0 otherwise	LinkedIn, Borsa Italiana, and firm's website
Socioemotional path CEO	Dummy variable equal to 1 if the CEO is a family member, 0 otherwise	AIDA, LinkedIn, Borsa Italiana, and firm's website
Socioemotional path TMT	Dummy variable equal to 1 if the majority of the TMT are family members, 0 otherwise	AIDA, LinkedIn, Borsa Italiana, and firm's website
Education	**Sum of qualification degree, socioemotional path CEO, socioemotional path TMT**	
Age	Dummy variable equal to 1 if the average age of the TMT is more than 50 years, 0 otherwise	LinkedIn, Borsa Italiana, and firm's website
Foreign working background	Dummy variable equal to 1 if at least one member made a foreign experience, 0 otherwise	LinkedIn, Borsa Italiana, and firm's website
TMT working background	Dummy variable equal to 1 if at least one member take part to another TMT, 0 otherwise	LinkedIn, Borsa Italiana, and firm's website
Experience	**Sum of age, foreign working background, TMT working background**	

Table 27.2 Descriptive statistics of the variables employed in the analysis for the entire sample

Variable	Min	Max	Percentage/average	Std. dev.
Qualification degree	0	1	12%	0.33
Socioemotional path CEO	0	1	43%	0.50
Socioemotional path TMT	0	1	54%	0.50
Education	**1**	**3**	**2.03**	**0.72**
Age	0	1	0.50	0.50
Foreign working background	0	1	0.44	0.32
TMT working background	0	1	0.88	0.33
Experience	**1**	**3**	**2.16**	**0.74**

two measures, we obtain from nine to four clusters characterized by different levels of education and experience. To verify whether these two aspects are correlated with the family firm characteristics (e.g., dimension, age, profitability) and strategies, we examine the correlation between the clusters obtained with the measure reported in Table 27.5.

Family Firms' Classification: A Cluster Analysis

By clustering the above two variables (i.e., education and experience), we obtained nine distinct clusters. As reported in Table 27.3, the sample is regularly distributed among all the nine clusters, even if a lower concentration is shown for both low levels of education and experience. The higher concentration is verified in the cluster with a medium-high level of both education and experience.

In order to understand the characteristics of the different types of family firms better, we combine the nine clusters into only four clusters as shown in Table 27.4.

The first cluster (Low Educated and Experienced Family Business—LEE) includes those companies that are characterized by a TMT that was not trained by the family and graduated without experience. At the opposite end, a different cluster High Educated and Experienced Family Business (HEE) includes firms in which the TMT is both well educated, made a family socio-emotional path, and has good work experience. The other two clusters have a mixed characterization. The second one (Low Educated and High Experienced Family Business—LEHE) includes firms that are managed by a TMT that did not have higher education but has good work experience. Finally, the third cluster (High Educated and Low Experienced Family Business—HELE) includes firms that are governed by a TMT with a higher education but has members on the boards who have little external work and foreign experience.

As stated, the aim of this chapter is to understand the existence and the effect of the TMT's professionalism on the strategy and characterization of the family firm. As such, in order to describe the different clusters, we made

Table 27.3 Results of the first cluster analysis

Education experience	1	2	3	Total
1	12	41	22	**75**
2	35	56	54	**145**
3	15	34	36	**85**
Total	**62**	**131**	**112**	**305**

Table 27.4 Results of the second cluster analysis

Education experience	Low	High
Low	Cluster 1 (LEE): 42	Cluster 3 (HELE): 84
High	Cluster 2 (LEHE): 50	Cluster 4 (HEE): 129

a statistical description of the firms belonging to each cluster in terms of family involvement, balance sheet characteristics, profitability, financial constraints, innovation, and internationalization strategy. The idea is to demonstrate that the different characteristics of the four clusters in terms of education and experience affect the firms in each of the previous aspects.

Table 27.5 reports all the variables employed for the description.

Concerning family involvement, the variable *Family ownership* is the percentage of social capital owned by the family. The variable *Family governance*, referring to the presence of family members with strategic roles, is measured by the percentage of family members on the board of directors (i.e., the family/board ratio). The variable *Successors* is a dummy equal to 1 if at least one younger family member has an active role in the firm and 0 otherwise. Finally, the variable *External manager* is a dummy variable equal to 1 if at least one external manager not from the family has an active role in the firm. This variable contributes to the description of the degree of managerial governance of the family firm.

In addition to characteristics that are specific to family businesses, we include variables that describe the characteristics of a firm generally. As such, our analysis includes the three proxies of organizational and managerial capacity that describe the operations of a firm. These are represented by three variables: *Age* is defined as the firm's age, *Dimension* is defined as the total sales, and *Listed firm* is a dummy equal to 1 if the firm is listed; it is 0 otherwise. Finally, we include industry dummies by resorting to Pavitt's taxonomy (1984). Four binary variables signal whether the firm belongs to a traditional sector, scale-intensive sector, specialized supplier sector, or science-based sector (the variables are *Pavitt traditional*, *Pavitt scale intensive*, *Pavitt specialized supplier*, and *Pavitt science based*, respectively). An additional variable is the geographical location dummy (*North*). Since the firms located in Northern Italy are prone to adopting international and innovative strategies, we argue that it is significant to take this into account. The dummy is equal to 1 if the firm is located in the north of Italy.

Since previous research has found different results concerning the relationship between family firms and performance (Lu and Beamish 2001), we calculated the return on equity and the return on investments (i.e., *ROE* and *ROI*) and firm profitability, measured as the profit per employees (*Profitability*), intended as the ratio of revenue to labour costs. Furthermore, the analysis considers the possibility that the firm is exposed to financial restrictions, which is a factor commonly found to be a specific characteristic of family firms, albeit with contradictory results. Therefore, we introduce the variable *Financial constraints*, represented by the homonym index and calculated as the ratio of current assets (net of inventory) to current liabilities.

Table 27.5 Variables employed for the characterization of the four clusters

Variable	Definition	Source
Categorical variable		
Cluster	Cluster 1 LEE, Cluster 2 LEHE, Cluster 3 HELE, Cluster 4 HEE	
Family business		
Family ownership	Percentage of social capital owned by the family	AIDA
Family governance	Percentage of family representatives on the board of directors (%)	AIDA
Successors	Dummy variable equal to 1 if at least one younger family member has an active role in the firm and 0 otherwise (.)	AIDA
External manager	Dummy variable equal to 1 if there is at least an external manager in the family firm and 0 otherwise (.)	AIDA
Firm characteristics		
Age	Firm age (number of years)	AIDA
Size employee	Number of employees (number)	AIDA
Size sales	Thousand Euros of turnover (Euros)	
Listed firm	Dummy variable equal to 1 if the firm is listed and 0 otherwise (.)	AIDA
Pavitt traditional	Dummy variable if the firm is in a supplier Dominated industry, 0 otherwise	AIDA
Pavitt scale intensive	Dummy variable if the firm is in scale Dominated industry, 0 otherwise	AIDA
Pavitt specialized supplier	Dummy variable if the firm is in a specialized supplier industry, 0 otherwise	AIDA
Pavitt science based	Dummy variable if the firm is in a science-based industry, 0 otherwise	AIDA
North	Dummy variable equal to 1 if the firm is located in the south of Italy and 0 otherwise (.)	AIDA
Profitability and financial constraints		
ROE	Return on equity (%)	AIDA
ROI	Return on investment (%)	AIDA
Profit employee	Profit per employee index, calculated as the ratio of revenue to labour costs (.)	AIDA
Financial constraints	Liquidity ratio, calculated as the ratio of current assets (net of inventory) to current liabilities (.)	AIDA
Innovation strategy		
Innovative firms	Dummy variable if the firms invest in R&D and 0 otherwise (.)	Espacenet
Innovation input	Percentage of R&D expenditure over turnover (%)	AIDA
Innovation output	Number of patents held by the firm (number of patent)	Espacenet

(*continued*)

Table 27.5 (continued)

Variable	Definition	Source
Internationalization strategy		
FDI	Number of FDIs (number)	REPRINT
International age	Number of years of firm presence in the international market through FDI (number of years)	REPRINT
Foreign employee	Number of foreign employee (number)	REPRINT
Foreign sales	Total foreign sales (thousand Euros)	REPRINT
Degree of internationalization	Total domestic employees over total foreign employees (.)	REPRINT
Geographical diversification	Number of different foreign countries where domestic firm has at least one FDI.	REPRINT

Additionally, in order to evaluate also the different strategic choices that different types of family firms can adopt, we analysed both the innovation and internationalization strategies. First, we identify innovative firms through a dummy variable equal to 1 if the firm invests in R&D (i.e., *Innovative firms*). Then, we consider both input and output innovation. The first feature is measured through the percentage of R&D expenditure over total turnover (i.e., *Innovation input*), while the second one is measured through the number of patents held by the firm (i.e., *Innovation output*).

Finally, we argue that the essential variables that describe a strategy of internationalization are the number of FDIs (foreign direct investments) of a firm, which, by definition, suggests international commitment; *International age* is proxied by the number of years of the firm's presence in the international market through FDI; *Foreign employee* and *Foreign sales* both represent the total commitment abroad; and the degree of internationalization measured both in terms of sales and the number of different foreign countries where the domestic firm has at least one FDI (*Degree of internationalization* and *Geographical diversification*).

Family Firms and TMT Professionalism: A Characterization

The result of our analysis is four clusters, the features of which are listed in Table 27.6. Figure 27.3 combined with Table 27.6 shows that the cluster-labelled LEE presents a major level of family involvement in terms of ownership and governance. Moreover, in this cluster, the heirs occupied strategic roles in 74% of the cases. In the opposite side of Fig. 27.3, the cluster HEE is

Table 27.6 Characterization of the four clusters: family business

Cluster	Cluster 1: LEE (%)	Cluster 2: LEHE (%)	Cluster 3: HELE (%)	Cluster 4: HEE (%)
Family ownership	91	62	92	65
Family governance	77	22	82	29
Successors	74	42	64	50
External manager	78	96	79	97

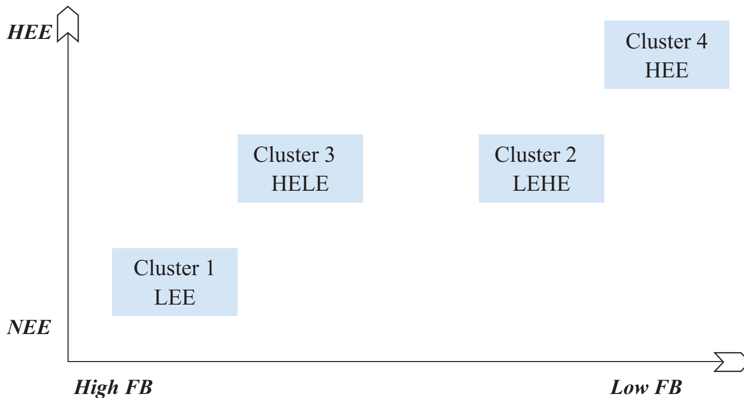

Fig. 27.3 Relationship between the degree of family control and the level of education and experience. (Source: our elaboration)

presented with the high presence of external shareholders and non-family managers. In this cluster, the composition of the board of directors has the most non-family members (only 29% are family members).

Our results show that age of the firm and industry are not relevant for the cluster definition (see Table 27.7). On the contrary, what is relevant is the size of the firms and their condition as a listed or unlisted company. In fact, in the clusters LEHE and HEE, we registered the presence of firms that are listed and are large companies. In this direction, we observed that both of these conditions are related to both a high level of education and a high level of experience. Both profitability and financial constraints are not relevant as a term of differentiation among the four clusters (Table 27.8).

Finally, looking to the innovation and internationalization strategies, we surprisingly found that the clusters with a higher level of performance were the LEHE and HELE. Those two clusters have a high level of family involvement both in ownership and in governance. In this vein, our analysis supports

Table 27.7 Characterization of the four clusters: firm characteristics

Cluster	Cluster 1: LEE	Cluster 2: LEHE	Cluster 3: HELE	Cluster 4: HEE
Age	51	59	52	58
Size employee	172	1.542	314	1.514
Size sales	223.000	665.738	149.135	626.383
Listed firm	9%	74%	12%	61%
Pavitt traditional	17%	24%	21%	17%
Pavitt scale intensive	28%	2%	27%	24%
Pavitt specialized supplier	38%	38%	37%	47%
Pavitt science based	17%	16%	14%	12%
North	93%	82%	93%	82%

Table 27.8 Characterization of the four clusters: firms profitability and financial constraints

Cluster	Cluster 1: LEE	Cluster 2: LEHE	Cluster 3: HELE	Cluster 4: HEE
ROE	5%	10%	4%	6%
ROI	6%	10%	8%	8%
Profit employee	9.000	8.648	8.796	9.053
Financial constraints	34	38	37	31

previous outcomes in which the involvement of the family positively affects the innovation (e.g., Chrisman et al. 2015; Craig and Moores 2006) and internationalization (e.g., Carr and Bateman 2009; Zahra 2003) of family firms (Table 27.9).

Discussion

The above empirical findings have significant implications. To the best of our knowledge, this work represents the first attempt to classify family firms by considering the level of professionalism of the TMT. We considered two main points. First, the composition of the TMT is under the family's control. Moreover, its composition should be related to the skills of the managers or to the blood relationship of the managers. Both conditions define the professionalism of the TMT across generations. Second, the TMT is the best representation of the family inside the business. Thus, according to Upper Echelon Theory, we should consider a firm's TMT features to understand its behaviours and results.

In this vein, we focus our attention on the level of professionalism of the TMT. Thus, our results stress that the degree of experience and education

Table 27.9 Characterization of the four clusters: innovation and internationalization strategies

Cluster	Cluster 1: LEE	Cluster 2: LEHE	Cluster 3: HELE	Cluster 4: HEE
Innovative firms	80%	87%	93%	79%
Innovation input	0.5%	1.6%	0.9%	0.4%
Innovation output	12	76	22	107
FDI	5	29	7	15
International age	16	21	17	18
Foreign employee	238	1.871	408	1.449
Foreign sales	93.593	1.211.875	608.363	371.758
Degree of internationalization	1.6	1.0	2.2	1.2
Geographical diversification	4	13	5	7

of the family is important to understanding their strategies. Our empirical results also reveal some interesting implications for the growth strategies through innovation and internationalization. Family ownership was positively correlated to both of those strategic patterns. Additionally, we considered how, in the case of FBs, differentiated patterns of growth in foreign markets and innovation in investments imply diversified training needs. Considering the positive impact of family ownership and governance on innovation and internationalization strategies, training programmes in both innovation and internationalization should be tailored to more specific features, including the level of education and experience both for family and non-family firms.

Our findings suggest that the upper echelons theory both can and should be extended beyond simple demographic characteristics to explain family firms' performance. The connection between top executives and a firm's outcomes may depend to a large extent on executives' qualities. We considered managers' educational background and experience and applied those factors to the context of family firms. Conversely to other types of firms, in family firms, family involvement can shape management's level of professionalism. Moreover, we considered that the application of the upper echelons theory supports families' decisions regarding the selection of future mangers. In conclusion, we believe that the field of family firms is now in a position to more fully explore the upper echelons theory's perspective. Such research will have the added benefit of bringing together both micro (individual skill, competences, and experience) and macro (top management team) perspectives to elucidate the effects of family involvement on the professionalism of top managers. This chapter aimed to move in that direction by providing specific theoretical linkages to the professionalism of top managers, as applied in the strategic management domains.

Limitations and Future Research Directions

As with all research, this study is not immune to limitations, and future research can expand the present analysis in several directions. The findings of our study stress the need for additional theoretical and empirical research in the area of family business, possibly addressing the impact of heterogeneity on different strategic aspects as a main challenge in order to advance our understanding of family business. The definition of the four clusters makes the heterogeneity issue the most relevant aspect to investigate within the field. The replication of the proposed analysis in a wider set of companies located in different countries could account for cross-national differences. The differentiated correlation of strategies observed for disaggregated family business clusters suggests the opportunity to extend this line of analysis to additional key features of family businesses such as other kinds of organizational experiences and cultures.

Families decide which members to include on their TMTs. Often, this decision is based on blood relations. Past evidence explains how blood relations are unique resources for family firms; our research reveals a different perspective. Our observations of the TMT, which show that there are different levels of professionalism in family firms, support a strategic reflection: how are firms' outcomes and competitive advantages explained by TMT professionalism? What are the strategic implications of the selection of managers, whether based on blood relations or professionalism (educational background, international experience)? How should family owners combine the advantage of blood relations with managers' levels of professionalism? The answers to these questions are related to firms' competitive advantages and their results in the long term.

Conclusion

In summary, the results of our research indicate that complementing the upper echelons theory with family firms' assumptions may benefit our understanding of both the advantages and the drawbacks of family involvement. Accordingly, with the application of the upper echelons theory, our findings indicate the existence of relationships between family ownership and family involvement in the TMT as well as the professionalism of a TMT. In addition, our study adds to the previous literature on family firms by showing that family involvement consists of multiple levels of education and experience that

concurrently affect a firm's performance. Finally, we provide several insights that may help family businesses understand the performance consequences of family involvement and decisions made by the TMT.

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Part V

Strategies

28

Environmental Jolts, Family-Centered Non-economic Goals, and Innovation: A Framework of Family Firm Resilience

Giovanna Campopiano, Alfredo De Massis, and Josip Kotlar

Introduction

Long-lasting family firms, such as the Henokiens and the Mittelstand, have led many scholars to see family firms as a particularly resilient form of organizations (Chrisman et al. 2011; Le Breton-Miller and Miller 2013; Wilson et al. 2013). In the wake of short economic cycles marked by more and more frequent crises such as technology breakthroughs, regulatory upheavals, and geopolitical shocks, management scholars are increasingly interested in understanding why some firms are more resilient than others (Carmeli and Markman

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E. Memili, C. Dibrell (eds.), *The Palgrave Handbook of Heterogeneity among Family Firms*,
https://doi.org/10.1007/978-3-319-77676-7_28

2011; Hamel and Valikangas 2003). With respect to other external events such as crises or catastrophes, environmental jolts can be distinguished as they could trigger responses that reveal how organizations adapt to their environment (Smith 2016). As they are unpredictable events that disrupt the status quo (Meyer 1982), firms strive to survive through their resilience capacity, that is, the set of capabilities to absorb and reduce complexity due to environmental change (Lengnick-Hall and Beck 2005).

This chapter develops a conceptual analysis of how family firms absorb and react to environmental jolts leveraging organizational slack and innovation. In particular we consider that, on the one hand, organizational slack fulfills both a stabilizing and an adaptive role by absorbing environmental variability (Cyert and March 1963) and, on the other hand, innovation offers not only an effective means to resist crises (Amann and Jaussaud 2012) but also a way to anticipate and adjust to external turbulence (Hamel and Valikangas 2003). Moreover, our analysis emphasizes the diversity of goals in family firms (e.g., Chrisman et al. 2012; Kotlar and De Massis 2013; Williams et al. 2018) and examines how goals can affect the way family firms deploy slack resources and choose their innovation strategies in order to, respectively, absorb and react to environmental jolts. Specifically, we introduce the role of family-centered non-economic goals (FCNEG) as a pivotal driver of particularistic behaviors and outcomes in family firms (Chrisman et al. 2012, 2015; Kotlar and De Massis 2013) to advance a goal-based foundation of resilience in family firms.

The proposed theoretical model, thus, contributes to further our understanding of resilient family firms, the role of FCNEG, and innovation, with both theoretical and practical implications. On the one hand, we advance knowledge toward a theory of resilient family firms and contribute to prospect theory. First, FCNEG play a pivotal role in building resilience as a capacity that can be leveraged in front of critical and sudden environmental changes. Moreover, our theoretical development informs future research on prospect theory, acknowledging the relevance of pursuing FCNEG as a reference point and thus extending the scope of the theory in the family business context. On the other hand, our model offers novel insights for practice, as family firms might consider strengthening their capacities aimed at absorbing and reacting to environmental jolts that threaten firm survival.

Resilience and Environmental Jolts in Family Firms

Defined as the ability to avoid, absorb, respond to, and recover from unexpected and powerful events that could threaten firm survival (Lengnick-Hall and Beck 2005), organizational resilience has been conceived in different

ways, ranging from organizational responses to external threats to adaptability of business models (Linnenluecke 2017). While the former mainly addresses how organizations absorb the impact of environmental jolts and adopt new practices that affect their strategic positioning and survival (Meyer 1982), the latter help explain how firms adjust, adapt, and reinvent their business models in a changing environment (e.g., Hamel and Valikangas 2003). In practice, notwithstanding the strategies arranged for crisis planning, what matters is how effective firms are in adapting behaviors during a crisis (Amann and Jaussaud 2012). Indeed, plans are not capabilities, and "until the organization is faced with an unknown situation, the organization does not know what it will be able to do" (Christianson et al. 2009, p. 858).

Resilience is particularly relevant for family firms, considered long-lasting organizations who manage to handle the business over from generation to generation, despite the proverbial saying "shirtsleeves to shirtsleeves in three generations" (Ward 2004, p. 4). As many experiences evoke, family firms confirm their dynamic nature and their ability to adapt to changing conditions in their external environments (Fernández Pérez and Colli 2013). In pursuit of longevity, family firms manage the trade-off between continuity and adaptability, being simultaneously flexible regarding the components involved in the business as well as in the family and resilient with respect to the core essence of both the business and the family (Sharma and Salvato 2013). Indeed, resilience capacity is built both in the firm and in the family, and the latter permeates the boundaries of the firm so that, in the wake of an environmental jolt, creativity and trust can be tapped and deployed to adapt the family firm to the new environment (Brewton et al. 2010).

In particular, when facing challenging situations, crises, and turbulences in the environment, family firms have to face the abovementioned trade-off. In this chapter, among external challenges and threats, we consider environmental jolts, that is, sudden and unprecedented events characterized by dramatic, disruptive, and potentially threatening aspects (Meyer 1982), which thus force action far before decision-makers can actually assess all the potential consequences (Meyer et al. 1990). Spurred on to absorb and react to environmental jolts, research has discussed how family firms commit to a behavior, so-called engagement intensification, which entails increasing levels of risk to bear (Smith 2016) or face a drastic change in their entrepreneurial orientation (Zachary et al. 2017).

Environmental jolts are perceived as threats to firm survival (Meyer 1982); nevertheless, they also offer venues to find new opportunities (Wan and Yiu 2009). Thus, resilient family firms are able not only to minimize the impact of the environmental jolt but also to cope with its negative effects and leverage

the changes in the environment. Organizational resilience can thus be conceived through a mediation perspective, which is particularly useful for understanding the intervening mechanisms between environmental jolts and family firm survival. Accordingly, we shall propose mediation effects of deployment of slack resources and innovation to reflect the twofold nature of organizational resilience, which is formed by the ability to absorb and the ability to react to environmental jolts. By doing so, we propose a conceptualization of firm resilience that serves as a basis for our deeper examination of the influence of FCNEG on family firm resilience.

A Goal-Based Foundation for Family Firm Resilience

FCNEG are defined as the pool of non-economic priorities that reflect the identity, values, attitudes, and intentions of family members in control of the firm. Among these goals, family harmony, family social status, and family and firm identity linkage are accounted as goals that are non-economic in nature (Chrisman et al. 2012) and are prioritized by the desire to protect both the family and the business given their intimate interconnection (Zellweger and Nason 2008). FCNEG are gaining prominence as a concept that provides a foundation for the emerging theory of the family firm, as scholars have shown that these goals create emotional value for the family (Zellweger et al. 2012) and are a primary driver of family firm's strategic decisions (Chrisman and Patel 2012; Gómez-Mejía et al. 2007; Kotlar et al. 2018). Moreover, prior research has shown that the saliency of FCNEG varies across family firms (Chrisman et al. 2012; De Massis et al. 2014) and over time (Kotlar and De Massis 2013). Hence, an explicit consideration of the role of FCNEG will add much to our understanding of the differences in resilience among family firms (Chrisman et al. 2015; De Massis et al. 2014).

To further elaborate these ideas, we draw on prospect theory (Kahneman and Tversky 1979), and particularly its application at the firm level (Fiegenbaum et al. 1996). This theoretical lens focuses on the consequences of firm goals for strategic choice behavior and suggests that firm goals drive the attention of managers on particular issues. Applied to the family firm context, this theory further emphasizes the importance of FCNEG for family firm ability to absorb and react to environmental jolts, hence providing the rationale for linking FCNEG to family firm resilience. Indeed, using FCNEG as a reference point for strategic choices, family firms that perceive themselves above the reference point shall see an environmental jolt as a threat, leading to

a potential loss, rigid responses, and overall a risk-averse behavior. Conversely, family firms perceiving their situation below the reference point will consider the environmental jolt as an opportunity, with possible potential gains related to a flexible response and an overall risk-taking behavior (Fiegenbaum et al. 1996; Jackson and Dutton 1988).

We highlight how FCNEG influence slack resource deployment as well as the type, in addition to the extent of innovation, in response to an environmental jolt. Hence, FCNEG are crucial to determining organizational resilience, as they affect the nature of feedback loops—either turnaround or downward—and the ultimate survival or failure of a family firm. In the next sections, therefore, we develop our model by examining the influence of FCNEG on family firms' ability to, respectively, absorb and react to environmental jolts, and we complement this model with propositions about the turnaround and downward feedback loops characterizing the twofold abilities. In doing so, we advance a goal-based perspective on family firm resilience, which is summarized in Fig. 28.1.

Family Firms' Ability to Absorb Environmental Jolts

Facing an environmental jolt, a firm can respond with either a rigid response or a resilient response: the former entails that organizations are incapable of coping with large and novel challenges, and instead conserve resources, whereas the latter is the response of organizations that are able to sustain performance

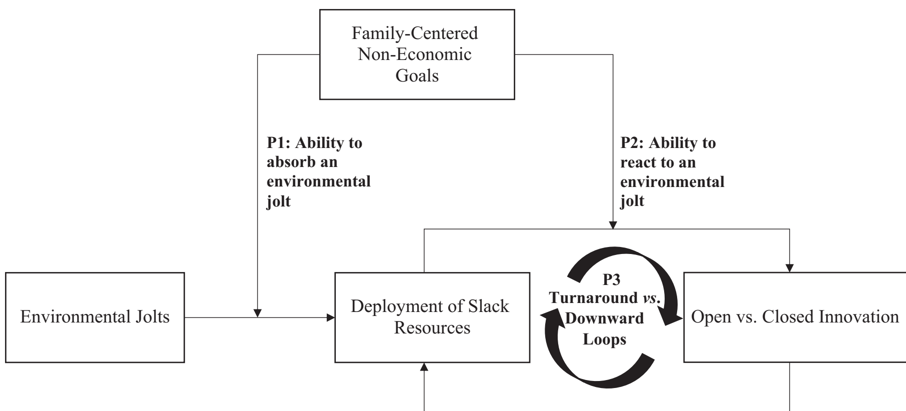

Fig. 28.1 A goal-based view on resilience in family firms

by utilizing slack resources (Christianson et al. 2009). Organizational slack is the set of resources that are in excess of the minimum necessary to get a certain level of organizational output (Nohria and Gulati 1996). A behavioral theory of the firm connotes slack resources as positive elements that allow firms to maintain their aspirations especially during periods of crises (Cyert and March 1963); however, according to a resource constraints approach and agency theory, slack resources represent inefficiencies that prevent organizations from optimizing their performance (Baker and Nelson 2005).

Considering that organizational slack is usually categorized according to its availability and discretion over its use, we can distinguish between unabsorbed slack, that is, easily accessible and deployable resources, and absorbed slack resources that are instead conceived as costs in organizations (Singh 1986). Research has shown that there is an inverse U-shaped relationship between absorbed slack resources and performance, thus suggesting that an excess of low-discretion slack is detrimental for the organization, whereas a linear relationship between unabsorbed slack resources and performance suggests the positive effect of high-discretion slack for the organization (George 2005).

Prospect theory suggests that firm goals are crucial in driving managerial attention to which organizational resources should be developed (Fiegenbaum et al. 1996). Indeed, slack resources can be diverted or redeployed for the achievement of organizational goals (George 2005; De Massis et al. 2018), and, when they are made available through goal achievement, they also encourage a search for new ends and means (Chrisman et al. 2012). In the family business context, for instance, research has discussed that the family's goals to remain independent from external capital providers lead family managers to deploy unabsorbed slack resources to explore new business opportunities, instead of remunerating shareholders driven by firm economic goals (De Massis et al. 2018; Kotlar et al. 2014a).

Considering the high relevance of FCNEG in family firms (Chrisman et al. 2012), as they are expected to reflect the perceptions, values, attitudes, and intentions of the family coalition in the business (Cyert and March 1963), we suggest that the extent to which a family firm pursues FCNEG will shape the type and amount of organizational resources in a family firm. In particular, the deployment of these resources can prove to be crucial for absorbing the negative impact of an environmental jolt and increase family firm resilience. Given the long-term nature of FCNEG, by emphasizing them, family firms may choose to operate with more organizational slack that, although potentially inefficient, increases the robustness of the firm with respect to unanticipated shocks such as environmental jolts (Van Essen et al. 2015). For instance,

in order to pursue family harmony, family firms may decide to secure jobs for family members in the business (Zellweger and Nason 2008) or to reduce the compensation risk for family managers by offering benevolent contracts (e.g., Cruz et al. 2010; Gómez-Mejía et al. 2001), although this might be inefficient. Likewise, guaranteeing the linkage between family and firm identity might require specific investments to maintain or increase reputation of the family business, so that additional resources should be stacked as a sort of goodwill to face any external shock (e.g., Godfrey 2005).

In particular, family owners' concentrated ownership position in the firm creates strong concern about firm survival (Gómez-Mejía et al. 2007). Hence, family firms will tend to minimize operational risks by maintaining higher levels of liquidity and financial slack as compared to industry averages (Carney and Gedajlovic 2002). These uncommitted, liquid resources serve as a buffer against external shocks and are crucial for firms to search and seize new emerging market opportunities triggered by environmental jolts (Cyert and March 1963). Moreover, FCNEG lead family firms to embrace a long-term orientation toward firm investments that creates patient capital (Zellweger 2007) and can contribute to keep the family's investment protected from transitory turbulences such as those induced by an environmental jolt. Finally, FCNEG also promote stability, interactions, interdependence, and closure, which concurrently facilitate the development of organizational social capital (Arregle et al. 2007). This pool of resources is critical as well to the firm's ability to absorb the potentially negative consequences of an environmental jolt (Nahapiet and Ghoshal 1998).

Taken together, these arguments align with our theory that FCNEG moderate the relationship between environmental jolt and deployment of slack resources by prompting a strong ability of family firms to absorb crisis.

Proposition 1: Family-centered non-economic goals strengthen the relationship between environmental jolts and deployment of slack resources, leading family firms that prioritize these goals to absorb environmental jolts better than family firms who prioritize other goals.

Family Firms' Ability to React to Environmental Jolts

We have argued that FCNEG can increase the ability of family firms to absorb the negative consequences of an environmental jolt, thereby deploying slack resources in order to maintain the family firm aspirations. We propose now

that FCNEG will also play a crucial role in determining the ability of family firms to react to an environmental jolt. In doing so, we consider to what extent FCNEG can affect the way deployment of slack resources affect innovation, on the one hand, and the feedback effects between them, on the other hand, emphasizing how the type of innovation (i.e., open vs. closed innovation) is key to determining whether such feedback effects will result into turnaround or downward loops, eventually determining the survival of the firm (McKinley et al. 2014).

Responding effectively to environmental jolts requires addressing the dilemma of managing costs tightly while keeping growth options alive for the future (McKinley et al. 2014). Given the scarce environmental munificence due to these sudden and unpredicted critical events (Park and Mezias 2005), how organizational slack is deployed in order to absorb the environmental jolt affects, in turn, how the organization decides to react to that. Especially during boom-and-bust economic cycles, organizational slack is fundamental to sustain long-term investment projects (Van Essen et al. 2015). Among these farsighted investments, innovation is a strategy that strongly depends on slack resources (Singh 1986). In a study that looks at the trade-off between exploration and exploitation, based on prospect theory, unabsorbed slack resources—such as financial capital—lead to explorative strategies when the organization has to confront a threat in the environment (Voss et al. 2008). Indeed, unabsorbed slack resources can facilitate investments in radical product innovation (O'Brien 2003), contingent on a threatening situation that makes firms abandon their protective stance and, rather, commit these resources to product innovation (Gilbert 2005).

In this regard, the choice between open and closed innovation strategies can be crucial (Chesbrough and Garman 2009). Internal R&D investments can indeed be extremely costly and risky, suggesting that a closed innovation strategy during tough times can drain a firm of critical resources and bring the firm to failure. Conversely, open innovation provides higher flexibility as it permits to reduce costs and risks by taking a smaller part in R&D projects and sharing costs and risks with external partners, and enables positive externalities such as innovative ecosystems and high-income licensing (Chesbrough and Garman 2009). Therefore, firms that respond to environmental jolts by adopting open innovation strategies will be more likely to revitalize their performance by the means of innovative products and processes, thus leading the firm to react to the environmental jolt and, thus, to overcome the crisis.

The focus on FCNEG leads family firms to perceive the consequences of environmental jolts as a threat for both their economic and socioemotional wealth (Gómez-Mejía et al. 2007). In other words, family firms have more at

stake than nonfamily firms. Indeed, protecting their social status and their identity as family as well as business drives the way they perceive a sudden environmental change in a way that makes them strengthen their resilience. Therefore, when facing a crisis, they are arguably more likely to adopt innovation strategies that increase the upward potential of sales and profits at the expense of their control over the future technology trajectory (Kotlar 2013; Kotlar et al. 2014b; Patel and Chrisman 2014). Accordingly, we propose that once family firms deploy slack resources to absorb environmental jolts, they are more likely to adopt open innovation strategies rather than closed innovation strategies, eventually contributing to the family firm's resilient capacity to react to environmental jolts.

Proposition 2: When faced with environmental jolts, family-centered non-economic goals drive family firms to react to crisis by placing greater emphasis on open innovation strategies than on closed innovation strategies.

Deployment of slack resources and the choice between closed and open innovation can engender downside or turnaround loops that, respectively, hinder and sustain firm survival following environmental jolts. Innovation strategies aim at realigning the firm to the post-crisis external environment, which is often characterized by low environmental munificence (Park and Mezias 2005). A stream of research has developed a two-stage turnaround model, which predicts that to overcome an environmental jolt firms are expected to commit to a retrenchment strategy first and then to a strategic action in promoting turnaround (Pearce and Robbins 1993; Trahms et al. 2013). We suggest that FCNEG moderate the interplay between the deployment of slack resources and the choice between closed and open innovation, thus offering a contingency-based view on turnaround loops ensuring family firm survival rather than downward loops that can lead to decline.

Turnaround strategies are defined "as a set of consequential, directive, long-term decisions and actions targeted at the reversal of a perceived crisis that threatens the firm's survival" (Cater and Schwab 2008, p. 32). Among the contingencies that affect the success of turnaround strategies in response to an environmental jolt, extant research discusses availability of organizational slack, resource management, as well as the emphasis on generating new resources or exploiting the existing ones (Trahms et al. 2013). In addition, strong family ties to the business, consensus orientation, informal management and control systems, a strong internal orientation, altruistic motives, and long-term perspectives are accounted as specific contingencies characterizing

family firms that evaluate any turnaround strategies (Cater and Schwab 2008). It is therefore fundamental to consider whether family firms have the capacity to deploy slack resources, and especially the unabsorbed ones as discussed above, in order to invest in exploration activities, and especially in open innovation. Indeed, the sudden and critical environmental change spurred by an environmental jolt can pose severe challenges to family firms not only in terms of resource availability but also in terms of time pressure and weak stakeholder support (Arogyaswamy et al. 1995).

The pursuit of FCNEG can strongly affect which turnaround strategies are assessed and performed by family firms facing an environmental jolt. As prospect theory suggests that the consequent threat to financial and socioemotional wealth would push family firms to adopt risk-taking strategies, open innovation strategies can represent the means to leverage the available slack and create new resources, despite the loss of whole control over innovation activities. Hence, when FCNEG are prioritized in family firms, such as when family harmony is considered one of the top goals or the focus is on maintaining a social status in the community, family firms can embrace open innovation to share risks with external partners and thus increase their organizational flexibility, thereby generating new financial resources as well as customer relationship slack thanks to the novel products introduced in the market (Voss et al. 2008). These novel resources can indeed buffer the threat of a socioemotional wealth loss. This strategy, therefore, prompts a turnaround loop. Conversely, responding to environmental jolts relying on absorbed slack resources and/or closed innovation could be the strategy of family firms that barely emphasize FCNEG. Indeed, these family firms may lack enough organizational slack to cope with the negative consequences of an environmental jolt, thus engendering a downward loop that can lead them to organizational decline.

Proposition 3: When faced with environmental jolts, family-centered noneconomic goals make family firms engender turnaround loops, leveraging the positive effect of open innovation strategies on slack resources to react to crisis.

Discussion and Implications

Our model draws on prospect theory to emphasize the mechanisms through which FCNEG can create a cushion against environmental jolts and hence moderate the effect of environmental jolt on deployment of slack resources

and innovation investments. Although organizational slack can be considered a form of inefficiency, it is also essential for innovation; therefore, organizations have to be careful not to run the risk of reducing slack to a point that impedes their capacity to innovate (Nohria and Gulati 1996). Family firms that pursue FCNEG are expected to preserve an amount of organizational slack to face a crisis (Van Essen et al. 2015), thus having the means not only to absorb the environmental jolt but also to react to this. Indeed, the severe situation triggers firms to accelerate the pace of strategic evolution, which can be achieved only if a company builds a resilience capacity (Hamel and Valikangas 2003).

An environmental jolt represents a critical challenge for family firms that can thus deploy slack resources, especially unabsorbed and easily accessible resources, investing them in risky product exploration projects (Voss et al. 2008). Hence, we have looked at how FCNEG affect the effect of organizational slack on the choice between closed and open innovation strategies, by looking at the risk-taking behavior spurred by their perception of a threat to both financial and socioemotional wealth due to the scarce environmental munificence deriving from the environmental jolt. Finally, prospect theory allows also considering how an emphasis on FCNEG can engender turnaround loops, rather than downward loops in the interplay between the deployment of slack resources and the type of innovation, thus contributing to theorizing how family firms react to an environmental jolt adopting innovation as a turnaround strategy (Cater and Schwab 2008).

The extraordinary longevity and success of many prominent family firms across the world has prompted a popular perception that the family firm is a particularly resilient form of organization. In this chapter, we have sought to further advance our understanding of family firm resilience by developing a goal-based perspective on resilience in family firms that builds on prospect theory and prior research on FCNEG. Our model, summarized in Fig. 28.1, emphasizes FCNEG as an important driver of family firm resilience and clarifies the mechanisms through which FCNEG contribute to family firms' ability to both absorb and react to environmental jolts. By introducing the mediating role of slack resources and the dynamic feedback loops existing between deployment of organizational slack and innovation strategies, this research contributes to a deeper understanding of how FCNEG assist family firms in navigating crises and survive over time. The goal-based foundation of family firm resilience presented above also contributes to prospect theory. The scope of the theory can indeed be extended by considering the relevance of FCNEG as a reference point, which constitutes a benchmark for family firms who have to decide how to deploy slack resources and impose a strategic

behavior—in terms of innovation—in front of an environmental jolt. Family firm resilience thus offers a context not only to apply prospect theory to predict family business behavior but also to extend it considering the different nature of goals that can be used as a reference point in this context.

Family firm resilience is a fascinating topic that certainly deserves future research attention. Based on our model, future research is particularly encouraged to examine not only the extent but also the type of innovation strategy that family firms adopt in the wake of environmental threats and jolts (Meyer 1982). Moreover, future empirical research can benefit from taking a more dynamic and longitudinal perspective in emphasizing the performance consequences of family firms' innovative behavior. Further, considering that resilience can be conceived in terms of cognitive, behavioral, and contextual aspects, further research is needed to delve into understanding the properties that increase a firm's ability to understand its current situation and to develop specific responses to external threats (Lengnick-Hall and Beck 2005). This can prove crucial not only for advancing our theoretical knowledge of constructs and relationships included in our model but also for stimulating more normative insights for family owners and managers interested in sustaining innovation and resilience in their firms. Hence, future research is called to further extend our understanding of heterogeneity of family firms in terms of resilience, for example, defining typologies of family firms based on configurations of ability to absorb and ability to react to environmental jolts. Finally, future research is warranted that further extends our theory to account for the non-linearity of firm aging in family firms as well as the role of disruptive situational factors such as ownership and/or leadership successions and family events (e.g., marriages, divorces, births, and deaths). We think that adding these nuances will add much to our understanding of how family and firm dynamics interact in determining the ability of family firms to absorb and react to environmental jolts.

Besides, practitioners can benefit from the insights offered by the presented conceptual model. Families that prioritize their FCNEG might consider the extent to which their business should invest in absorbed rather than unabsorbed slack resources, in order to have the necessary resources to face an environmental jolt; moreover, they should consider when open innovation represents the best strategy to react to that sudden environmental crisis in order to survive securing family harmony and family social status, as well as maintaining the identity of the business and the family identity intimately interconnected.

Conclusion

The conceptual model that we developed in this chapter has founded the basis for a goal-based theory of resilient family firms. Relying on prospect theory, we have offered three propositions that predict firm behavior in front of an environmental jolt when the family prioritizes FCNEG. In particular, the first proposition suggests how the firm absorbs a crisis; the second proposition focuses on the way family firms can react to an environmental jolt through innovation; finally, the third proposition considers the downside or turn-around loops that can be engendered by the effect of the choice between a closed and an open innovation strategy on slack resources.

The fundamental role of FCNEG thus helps explain family firm behavior during and after a crisis, thus shaping resilience in terms of absorption and reaction to crises, leveraging slack resources and innovation. All in all, we hope that our conceptual model will be instrumental to attract future research attention on the important but still little understood topic of family firm resilience.

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29

How Do Owning Families Ensure the Creation of Value Across Generations? A "Dual Balance" Approach

Horacio Arredondo and Cristina Cruz

Introduction

During the last 20 years, scholars in the field of family firm studies have been focused on explaining the differences between family and non-family firms. Based on the importance of family business worldwide (Amit and Villalonga 2014; Gagné et al. 2014), the vast amount of work has concentrated on developing the arguments to establish the singularity of this type of organization (Gomez-Mejia et al. 2011). As the field is reaching its adolescence (Gedajlovic et al. 2012), other more compelling questions start to emerge, specifically in terms of the heterogeneity of family firms (e.g. Chua et al. 2012; Marques et al. 2014; Nordqvist et al. 2014; Schmid et al. 2015).

In this regard, one of the most relevant inquiries is: *why do some family firms thrive across generations and others do not?* Scholars have linked the heterogeneity in success across generations to family owners' ability to create transgenerational value (Nordqvist and Zellweger 2010; Zellweger et al. 2012; Sharma et al. 2015), defined as the "process, structures and resources through which a family creates economic and social value across generations" (Zellweger 2017, p. 328). The adoption of this approach implies a departure from traditional

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E. Memili, C. Dibrell (eds.), *The Palgrave Handbook of Heterogeneity among Family Firms*,
https://doi.org/10.1007/978-3-319-77676-7_29

family firm studies in many aspects. First, from the traditional approach to family business success, based on succession and value preservation, transgenerational value creation is focused on change and entrepreneurship (Habbershon and Pistrui 2002; Hall et al. 2001; Zahra et al. 2004). For families in pursuit of transgenerational value creation, the key is to find a balance between continuing to exploit existing markets and technologies while engaging each generation in the exploration of new business opportunities (Goel and Jones 2016; Jaskiewicz et al. 2015; Salvato et al. 2010; Sharma and Salvato 2011; Zellweger et al. 2012). Second, a focus on transgenerational value creation also implies that success is not measured through family firm performance but to the degree as to which a family is able to generate value (Habbershon and Pistrui 2002). The shift in focus from the firm to the family implies a renewed identification for the owning family, from a "family business" to a "business family" self-understanding (Zellweger 2017). As the identity with the family firm becomes more blurred, the fulfilling of non-economic goals such as family cohesion or family identification becomes paramount to ensure success for the business families (Jaskiewicz et al. 2015; Kammerlander et al. 2015; Sharma et al. 2015; Webb et al. 2010; Zahra 2012). Hence, the creation of transgenerational value implies not only ensuring financial wealth but also paying attention to the preservation of the family socioemotional wealth.

The above discussion suggests that to achieve transgenerational value creation, family owners must deal with two paradoxical "balances". The first balance has to do with the ability to exploit current competitive advantages and, at the same time, to explore future opportunities, what is known in the literature as "organizational ambidexterity" (e.g. Allison et al. 2013; Moss et al. 2014). The second balance relates to how families manage the creation of financial wealth with the preservation of the socioemotional wealth (Berrone et al. 2012; Gomez-Mejia et al. 2011; Martin and Gomez-Mejia 2016).

Despite important advancements, existing studies on transgenerational value creation have not focused on understanding how owning families deal with these two balances simultaneously. Instead, they have focused on explaining either how family firms reach organizational ambidexterity (Allison et al. 2013; Moss et al. 2014; Webb et al. 2010) or how families manage the trade-off between the creation of financial wealth and the preservation of SEW (e.g. Gomez-Mejia et al. 2014a, b, 2015; Kotlar et al. 2017). As a result, they portray an incomplete picture about what it takes for families to ensure transgenerational value creation and why some families have a striking ability to achieve longevity and maintain a competitive edge for many generations while others do not. Embracing a paradox perspective (Smith and Lewis 2011), our aim is to offer a complete picture about how owning families deal

with the challenges involved in achieving this "dual balance". In doing so, we advocate the intersection between organizational ambidexterity literature and socioemotional wealth studies as a promising interplay to explore value creation for family firms and owning families.

Scholars have asserted that, to strive in the long run and survive, organizations have to be ambidextrous, pursuing both exploration and exploitation (Gibson and Birkinshaw 2004; O'Reilly III and Tushman 2013). In a recent meta-analysis study, Junni, Sarala, Taras, and Tarba (2013) proved that there is a positive relationship between organizational ambidexterity and performance (e.g. He and Wong 2004; Lubatkin et al. 2006), a positive relationship that has also been empirically tested in family business studies (Stubner et al. 2012). However, emergent studies show that organizational ambidexterity is not a homogeneous phenomenon within family businesses (Allison et al. 2013; Veider and Matzler 2016). At the same time, the SEW approach acknowledges the existence of multiple reference points among family owners (Berrone et al. 2012). The multidimensional nature of SEW implies that family owners' strategic decision-making would be different depending on how they prioritize the different dimensions of the family SEW (Cruz et al. 2015; Cruz and Arredondo 2016). Therefore, and because whether to explore, to exploit, or both is a discretionary strategic decision, we build on the work of Veider and Matzler (2016) to argue that which strategic direction the family firm embraces would be different depending on the most salient non-economic goals that the owning family pursues. Yet, our work departs from existing studies since our goal is not to establish a causality between OA and SEW but to address the heterogeneity within business families in their potential for transgenerational value creation.

To do so, we focus on exploring how the pursuance of different non-economic goals from family owners and the ambidextrous orientation of the family-controlled firm interplay in business families. Our exploratory work is based on a survey data collected from business families worldwide enrolled online from September 2015 to January 2016. In order to reveal different typologies, we used cluster analysis. The use of cluster analysis as our methodological approach is due to our aim to develop theory, rather than testing it, using a grounded theory approach (Carter et al. 1994; Glaser and Strauss 1967) as our research philosophy. Each typology might suggest a distinct approach to balance non-economic goals and to pursue explorative and/or exploitative activities. The emergence of different archetypes, that are theoretically sound and empirically robust, allows us to posit new promising avenues for future research.

Our work makes two main contributions to the family business literature. First, it adds to the existing research on family firms by investigating the tensions faced by family owners when trying to create transgenerational value. While an increasing amount of research on family businesses has focused on transgenerational value creation (e.g. Hall et al. 2001; Habbershon and Pistrui 2002; Kellermanns and Eddleston 2006), a gap exists in understanding how such value is generated across generations. Our exploratory analyses conclude that the creation of value across generation implies achieving a dual balance between: (a) exploration and exploitation activities in the family firm and (b) bundling the different SEW dimensions to support the family firm's competitive advantages. In doing so, our research enhances our understanding of the heterogeneity within family-controlled firms, since we empirically show that different owning families face different challenges when trying to achieve the dual balance.

Moreover, our work adds to the recent discussion on the dark and bright sides of SEW (Kellermanns et al. 2012; Miller and Le Breton-Miller 2014; Naldi et al. 2013). To the best of our knowledge, our study is the first attempt to directly measure how the importance of different non-economic goals affects a strategic decision in family firms. While our empirical design is not directed to test causality, our results suggest that while some family SEW aspects may be a source of competitive advantage for the firms, others may impede innovation to flourish.

This chapter begins exploring what we know about the balance between exploration and exploitation, the balance between financial wealth and socio-emotional wealth, and we propose the "dual balance" approach in family business ambidexterity. Next, we analyze the data to identify different typologies of owning families depending on how they manage the "dual balance". Finally, we discuss our findings, before concluding.

Theoretical Background

The First Dilemma of Business Families: Balancing Exploration and Exploitation for Sustained Success

Since the seminal work of March (1991), scholars have studied the organizational ability to explore and exploit—ability that has been labeled organizational ambidexterity (OA). In March's words, organizations should develop the ability "to engage in sufficient exploitation to ensure its current viability and, at the same time, devote enough energy to exploration to ensure its

future viability" (1991, p. 105). In a recent review, O'Reilly III and Tushman (2013) highlighted the relevance of ambidexterity in the survival of organizations, a central goal for family-controlled firms (e.g. Gomez-Mejia et al. 2007, 2011; Daspit et al. 2017). Since its introduction, organizational ambidexterity has transformed into a large body of knowledge. Theoretical and empirical works have aimed to explain the relationship between ambidexterity and performance, how ambidexterity is achieved, and under what conditions ambidexterity is most useful (e.g. Raisch et al. 2009; Uotila et al. 2009; Junni et al. 2013; O'Reilly III and Tushman 2013). A detailed review of organizational ambidexterity literature is beyond the scope of this work, but two main issues are significant to portray how this study understands and treats organizational ambidexterity.

Firstly, the ambidexterity literature has used several theoretical lenses through its evolution. From its original inception, OA scholars (Duncan 1976; March 1991) recognize it as the ability of an organization to exploit its current competitive advantages and at the same time explore new sources of advantages (O'Reilly III and Tushman 2008; Taylor and Helfat 2009). Further developments refined the organizational processes behind OA. One of the most received ideas is that of O'Reilly III and Tushman (2013), who assert the idea of understanding OA as a high-order dynamic capability (Eisenhardt and Martin 2000; Teece et al. 1997), which allows organizations to purposefully reconfigure resources to void the risk of obsolescence (Leonard 1992). In this dynamic view, exploration and exploitation are different streams of innovation that require different organizational knowledge (Ancona et al. 2001; Gupta et al. 2006; Lubatkin et al. 2006). On the one hand, organizations leverage their current knowledge and routines to exploit current competitive advantage through a top-down refinement and incremental innovation process (Benner and Tushman 2003; Lavie et al. 2010; Webb et al. 2010). This type of innovation targets existing customers and/or markets, improving the competitive position of the organization (Jansen et al. 2006; Turner et al. 2013). On the other hand, exploration needs new knowledge and capabilities, and thus generally requires a bottom-up learning approach (Lubatkin et al. 2006). Exploration is about new markets and/or new customers; therefore, it is based on radical innovation (e.g. Benner and Tushman 2003; Jansen et al. 2006; Lubatkin et al. 2006).

Secondly, embracing the dynamic capabilities approach to anchor our work exacerbates the original idea of a paradoxical tension between exploitation and exploration (March 1991), thus, between current and future competitive advantages. This last conceptualization has relevant theoretical and practical implications. The management of organizations that are willing to pursue

organizational ambidexterity confronts a dilemma between exploitation and exploration. The two streams of innovation need different resources and capabilities, a challenge that stress the resource-allocation process and the decision to balance the short term with the long run (Lavie et al. 2010). Previous research demonstrated that this balance has impact on performance (Junni et al. 2013). In fact, Junni and her co-authors could prove that only the balance between exploration and exploitation is not enough. In order to excel in the short term and strive in the long run, organizations must achieve high levels of both—exploration and exploitation—to drive performance (Cao et al. 2009, 2010; Junni et al. 2013). The process by which companies achieve this balance rests on the top management team (TMT) of the organization (e.g. Lubatkin et al. 2006; Heavey and Simsek 2017; Yitzhack Halevi et al. 2015) and its resource-allocation decisions (Moss et al. 2014; Siggelkow and Levinthal 2003; Voss et al. 2008). In the case of family-controlled firms, the family generally designates the members of the TMT, having the ability to shape strategic decisions. Hence, creation of transgenerational value as a key goal for the entrepreneurial family, the potential to accomplish this rests on the ability of the family to achieve a balance between exploration and exploitation, in short, the ability to manage ambidextrous organizations.

Studies show mixed evidence on family-controlled firms' behaviors, either directly in their ambidextrous orientation or indirectly in their strategic decisions regarding process related with exploitation or exploration, for example, on research and development (R&D) decisions (Allison et al. 2013). Zellweger et al. (2012) suggest that the balance of exploration and exploitation in family business is cyclical and tied to generational change. Allison et al. (2013) show that family businesses present a considerable variation in organizational ambidexterity. Furthermore, Duran, Kammerlander, van Essen, and Zellweger (2016) demonstrate that innovation output is greater in family firms with later generations as opposed to first-generation CEOs, and Chrisman and Patel (2012) argue that family firms usually underinvest in R&D. Table 29.1 summarizes "what we know" about organizational ambidexterity in the family business field.

A closer look to the abovementioned review shows that what is missing from these studies is a clear understanding regarding the idiosyncratic factors pertaining to the family business that can inform the heterogeneity within them. The family business literature suggests that the level of engagement in ambidexterity differs within family-controlled firms (Allison et al. 2013; Hiebl 2015; Veider and Matzler 2016). Nevertheless, why a family-controlled firm would engage in exploration, exploitation, or both, more than other family-controlled firms, is still under-researched (Allison et al. 2013; Veider and Matzler 2016).

Table 29.1 Literature review on ambidexterity in family-controlled firms

Article	Literature/theory	Study type	Relevant findings for the family business field	Observations
Lubatkin, Simsek, Ling, and Veiga (2006)	Upper echelons/ organizational ambidexterity	Empirical	Family ownership positively influences the ambidextrous orientation of SMEs	Not focused on family business, but findings could be extrapolated to family business reality
Webb, Ketchen, and Ireland (2010)	Different concepts (identity, justice, nepotism, and conflict)/strategic entrepreneurship	Conceptual	Describes potential positive and negative implications of family involvement to engage in strategic entrepreneurship	Conceptualize strategic entrepreneurship as the ability to both explore and exploit
Stubner, Blarr, Brands, and Wulf (2012)	Organizational ambidexterity/F-PEC	Empirical	Family influences positively influence OA and therefore enhance performance	
Allison, McKenny, and Short (2013)	Innovation	Empirical	Ambidexterity in family firms is stable over time, and punctuated by dramatic changes. Family firms present great variations in their ambidexterity orientation	
Moss, Payne, and Moore (2014)	Strategic consistency	Empirical	Strategic consistency—continuity with past exploration and exploitation strategies based on managerial intentionality—is positively associated with higher levels of performance	
Hiebl (2015)	Agency theory	Conceptual	Family involvement in ownership and management affects the ability of later generations to achieve high levels of OA	
Veider and Matzler (2016)	RBV/agency theory/ willingness and ability	Conceptual	Heterogeneity in OA among family firms could be best explained by idiosyncratic differences in divergent governance structures, resources, and goals	

The Second Dilemma of Business Families: Balancing Socioemotional Wealth Goals

Although *A Behavioral Theory of the Firm* literature (Cyert and March 1963) recognizes the existence of economic and non-economic goals within organizations, the family business field has highlighted that family firms pursue and develop family idiosyncratic non-economic goals (Chrisman et al. 2012; Zellweger and Nason 2008). Therefore, the pursuance of those family idiosyncratic goals is what defines and distinguishes family firms from other types of organizations (Gomez-Mejia et al. 2011). Ten years ago, Gomez-Mejia, Takacs-Haynes, Nunez-Nickel, Jacobson, and Moyano-Fuentes (2007) labeled the utilities families derive from those non-economic family-centered goals as socioemotional wealth (SEW). Since its inception, the socioemotional wealth (SEW) approach has evolved as a theoretical framework grounded and nurtured in family firm research. According to this, family firms are typically motivated by, and committed to, the preservation of their SEW, referring to nonfinancial aspects or "affective endowments" of family owners (Berrone et al. 2012, p. 262). The key insight of SEW approach is that family owners frame their strategic decisions not only in financial terms but also in non-economic considerations. In this regard, the approach is based on the idea that family decision-makers are "loss averse" in terms of socioemotional wealth endowments. Therefore, they will be willing to embrace risky decisions that improve financial wealth or depart from those risky decisions, even hampering financial performance, depending on socioemotional outcomes (Gomez-Mejia et al. 2007).

Family business research has demonstrated how family non-economic goals affect the competitive advantage of family-controlled firms. For example, family involvement and the pursuance of SEW goals can enhance family firms' competitive advantage through patient capital (Sirmon and Hitt 2003), more innovation output (Duran et al. 2016), and long-term orientation (Gentry et al. 2016). On the other hand, several authors have demonstrated the negative impact of family involvement through nepotism (Jaskiewicz et al. 2013; Chrisman et al. 2013; Verbeke and Kano 2012), lack of attractiveness for talented workers (Bassanini et al. 2013; Verbeke and Kano 2012), concern for lost family identification with the firm (Shepherd and Haynie 2009; Webb et al. 2010), and a disproportionate emphasis on family control and influence (Veider and Matzler 2016). Not surprisingly, Gomez-Mejia et al. (2011) characterized the attempts to establish a link between family ownership on firm performance as the search for the "Holy Grail" (Gomez-Mejia et al. 2011, p. 689).

Our work does not have the intention to resolve the puzzle but to treat it as a dilemma that the business family must manage (Gomez-Mejia et al. 2015). To explore this dilemma, we build on recent developments that argue for the multidimensional nature of SEW (Berrone et al. 2012; Cennamo et al. 2012; Pukall and Calabrò 2014) being each dimension a salient nonfinancial utility or "affective endowment" of the family. Specifically, Berrone et al. (2012) argue that there are five major dimensions of SEW, collectively labeled FIBER (Family control and influence, family members' Identification with the firm, Binding social ties, Emotional attachment, and Renewal of family bonds to the firm through dynastic succession). As noted by several scholars, the importance that each family gives to the different stocks of SEW may be an important source of heterogeneity among family firms (Chua et al. 2015; Cruz and Arredondo 2016; Cruz et al. 2015). More importantly, different SEW dimensions (Berrone et al. 2012) can be associated with positive and negative outcomes regarding family firm's competitive advantage (Kellermanns et al. 2012). For example, the desire to pass down a legacy may help the firm to strengthen the company's long-term direction (Zellweger et al. 2011), while the family's sense of identification with the firm may contribute to bolster the company's image in the market (Berrone et al. 2010; Cruz et al. 2012; Craig et al. 2008; Deephouse and Jaskiewicz 2013; Dyer and Whetten 2006). However, if socioemotional goals play too big a role in strategic decision-making, they can become a competitive disadvantage, destroying value instead of creating it (Brundin and Härtel 2014; Kellermanns and Eddleston 2004; Kellermanns et al. 2012). For instance, a strong desire to maintain family control over decisions can encourage nepotism (Cruz et al. 2012; Gomez-Mejia et al. 2011) and hinder the attraction of outside capital (Gomez-Mejia et al. 2010), limiting growth of the business. Furthermore, a strong family identity may undermine entrepreneurial activities and hamper the pursuance of new domains in which this identity could be lost (Shepherd and Haynie 2009; Webb et al. 2010). Therefore, how families face the dilemma in preserving different SEW endowments would have an impact in their potential to create transgenerational value.

The Quest for the "Dual Balance" and Transgenerational Value Creation

The aforementioned discussion suggests that to ensure value creation across generations (i.e. transgenerational value) (Zellweger 2017), business families must be able to reach a dual balance: on the one hand, they have to find the

right balance between exploitation and exploration to create financial wealth (turning their firms into ambidextrous businesses); on the other hand, they have to strike the right balance between the various dimensions of socioemotional wealth to provide family competitive advantages. Our claim is that only business families that achieve this dual balance could be considered "families with high transgenerational potential", that is, families that have the potential to create value in both dimensions—financial and socioemotional—across generations. Attempts to test this assertion are inexistent in the family business literature. As noted earlier, empirical studies on the success of business families have focused either on examining their strategic potential (OA) or the consequences of SEW goals. To the best of our knowledge, this is the first work that explores both simultaneously.

We address this issue by embracing a paradox perspective to business families. Paradox thinking has a long tradition in management studies and has been applied to the dilemma between exploration and exploitation as well as to others such as centralization and decentralization or stability and change (Smith and Lewis 2011). Important for our research, the paradox perspective is not focused on understanding how organizations prioritize on certain factors over others (stability versus change orientation; family versus business interests). Instead, it is applied to understand how business leaders deal with both factors simultaneously and how they look for synergies between the apparently competing dimensions in their search for value creation (i.e. Eisenhardt 2000; Ingram et al. 2016; Lavine 2014; Silva et al. 2014; Smith and Lewis 2011).

The paradox perspective fits well with the family business field given the inextricable and axiomatic tie between family and firm that defines the very nature of this type of organization. Accordingly, business families have to continuously face a situation in which the differences between family logic and business logic exposed family owners to paradoxical tensions and generate paradoxes (Litz 2012; Plate and Schlippe 2010). Interestingly, the family business literature addressed these tensions since the very early beginnings of the field (e.g. Tagiuri and Davis 1996; Gersick et al. 1997). Yet, a move toward empiricist research methodologies, best suited to uncover linear relationships, shifted the focus from understanding how family firms deal with tensions and competing forces to the establishment of casual relationships between family ownership and firm outcomes (Zellweger 2007).

This chapter aims to contribute to our knowledge about the management of paradoxes by business families through an exploratory work designed to identify typologies of families based on their potential to create transgenerational value. Specifically, we analyze data on 183 Latin American business

families to identify typologies of families depending on how they face the "dual balance". Our previous literature review suggests that the array of different orientations would exhibit different realities, balanced and unbalanced, that through analysis and comparison could inform new avenues of research.

Methods

Sample

The source of the data is a survey applied from September 1, 2015, to January 31, 2016. Data were collected by two academic institutions in Spain and Chile, and the respondents were current and former international students enrolled in family business courses. The original pool consisted of 400 potential respondents, highly knowledgeable of both, the family and the business. We approached each contact individually with an email that explained the research project, encouraged participation, and called for a "snowball" to a more informed respondent if it was necessary. Due to the commitment of the respondents with the institutions, we were able to collect 280 cases, a high response rate of 70%. Afterward, we reduce the data set to include only cases from Latin America and to discard observations in which missing data or evident wrong answers for objective measurements (e.g. family ownership above 100%) indicate a lack of reliability. The final data set accounts for 183 respondents.

We decided to focus on the Latino American context as the ideal setting for our exploratory study for several reasons. First of all, Latin America is a fruitful context to study ambidexterity. On the one hand, Latin American countries have several characteristics in common regarding social, cultural, institutional, and production structure (Amorós et al. 2016; Botero and Betancourt 2016) Furthermore, it is a region with a great economic potential, formed by countries that have made real efforts to improve democracy, property rights, and economic stability (Amorós et al. 2012). Finally, most of Latin American countries have made reforms to improve efficiency and fostering economic growth, being the biggest Latin American economies in an efficiency-driven stage (Acs and Amorós 2008; Porter 1990; Porter et al. 2001), a stage in which countries must increase their efficiency and prepare companies and workforce to the adaptation required in a later technological development phase (Acs and Amorós 2008). Second, Latin American society shows a family-centered culture (Botero and Betancourt 2016). Therefore, family values such as family relationships, family harmony, and family cohe-

sion are important (Hoy and Mendoza-Abarca 2014; Poza 1995), and the preservation of those values are in permanent tension with financial value creation (Botero and Betancourt 2016; Cruz and Fernandez 2016).

Measures

Organizational Ambidexterity Past research has used different approaches to measure organizational ambidexterity. Several studies conceptualize exploration and exploitation as separate constructs (He and Wong 2004; Lubatkin et al. 2006); others understand OA as a continuous construct between exploitation and exploration and therefore use a single continuous measure (Lavie et al. 2010). Our paradoxical approach understands organizational ambidexterity as a tension between exploitation and exploration (Birkinshaw and Gupta 2013; O'Reilly III and Tushman 2013). Therefore, we borrowed from Lubatkin et al. (2006) scale, in which exploration and exploitation are measured with 12 items, and adapted it to a final measure consisting of 10 items. Respondents to our questionnaire were asked to indicate using a 5-point Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree) their firm's strategic orientation during the past 3 years. Cronbach's alpha coefficients equaled 0.85 for the explorative orientation, and 0.77 for the exploitative orientation, suggesting an adequate reliability (Hair et al. 2006). Furthermore, in order to gain insights on the strategic orientation of the family firm, we added both measures to compute combined ambidexterity (CD) (Cao et al. 2010; Kammerlander et al. 2015; Lubatkin et al. 2006). With this approach we were able to assess the strategic orientation of the family firm, namely, whether the family firm has an exploitative orientation, an explorative orientation, or an ambidextrous orientation.

Socioemotional Wealth Berrone et al. (2012) proposed a 30-item scale to represent FIBER dimensions of socioemotional wealth. Although built on previous literature, to the best of our knowledge, this is one of the first studies to use FIBER dimensions. Therefore, all the 30 items were asked using a 5-point Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree). Regarding the original scale, some items were dropped in order to achieve an acceptable reliability. Cronbach's alpha coefficients equal 0.61 for *family control and influence*, 0.77 for *family members' identification with the firm*, 0.61 for *binding social ties*, 0.65 for *emotional attachment*, and 0.60 for *renewal of family bonds to the firm through dynastic succession*. Cronbach's alphas suggest an acceptable reliability (Hair et al. 2006).

Data Analysis Technique

As we mentioned in our introduction, our aim in this study is to develop theory based on exploratory techniques. Therefore, our exploratory approach starts identifying family firms' typologies based on the two selected constructs, organizational ambidexterity and socioemotional wealth. We assume that both constructs are multidimensional in nature, and thus we need an analytical tool that allows dimensions to coalesce and form different patterns. We select cluster analysis as our analytical technique for two main reasons. First, we assert that family firms can give different weights to each of socioemotional wealth dimensions. Cluster analysis classifies observations based on differences and similarities, and therefore it does not conjecture about the importance of each dimension. Second, cluster analysis does not need previous assumptions about the population, and therefore we could explore our database for patterns of family firms' transgenerational potential.

Cluster Analyses to Identify Business Families' Archetypes

We use the two dimensions of organizational ambidexterity (explore/exploit) and the five dimensions of socioemotional wealth (FIBER model) to conduct the cluster analysis. Following best practices in cluster analysis (Hair et al. 2006), we used a two-step cluster analysis procedure. In the first step, we applied a hierarchical agglomerative method to determine number of clusters and to perform centroid estimates. In the second step, we used the centroids from the first step to perform an iterative partitioning procedure based on Ward's minimum variance method to determine cluster membership. The application of the two-step cluster procedure to our particular sample shows that five clusters best describe the data under K-means algorithm (Hartigan 1975; Hartigan and Wong 1979). Table 29.2 presents membership size and means associated with each typology found after the cluster analyses.

Before delving into the interpretation of the different clusters, we performed additional analyses to further understand the uniqueness of each of the clusters. We start by testing the differences between OA and SEW between the clusters. To do so, we present Fig. 29.1 that plots each of the groups along the two selected dimensions. To build Fig. 29.1, we tested the different levels of ambidexterity and socioemotional endowments using the S-N-K (Student-Newman-Keuls) post hoc analysis (Tables 29.3 and 29.4). The means groups are statistically significant for both, OA and SEW. The ANOVA F-test was also highly significant in the case of OA (F = 57.23, $p < 0.001$), as well as in

Table 29.2 Results of cluster analysis

		Socioemotional wealth						Ambidextrous orientation		
Cluster id.	Number of companies	Control	Identification	Social ties	Emotional attachment	Renewal	SEW total	Exploration	Exploitation	Organizational ambidexterity
Group 1	29	4.57 (0.42)	3.76 (0.28)	3.21 (−0.41)	3.89 (0.08)	3.05 (−0.91)	3.69 (−0.22)	3.22 (−0.20)	3.96 (0.00)	7.11 (−0.22)
Group 2	28	2.63 (−1.53)	3.34 (−0.70)	3.32 (−0.30)	3.49 (−0.32)	3.90 (−0.05)	3.34 (−0.58)	3.46 (0.04)	3.83 (−0.13)	7.27 (−0.06)
Group 3	9	4.56 (0.40)	2.25 (−1.79)	2.83 (−0.79)	2.81 (−1.01)	2.26 (−1.70)	2.94 (−0.98)	2.22 (−1.20)	3.67 (−0.30)	5.74 (−1.59)
Group 4	31	4.44 (0.28)	4.41 (0.38)	3.43 (−0.19)	4.32 (0.51)	4.16 (0.20)	4.15 (0.24)	2.23 (−1.20)	3.23 (−0.72)	5.38 (−1.95)
Group 5	86	4.37 (0.21)	4.41 (0.37)	4.01 (0.39)	3.81 (−0.00)	4.39 (0.43)	4.20 (0.28)	4.04 (0.61)	4.30 (0.33)	8.30 (0.97)

Mean-centered scores in brackets

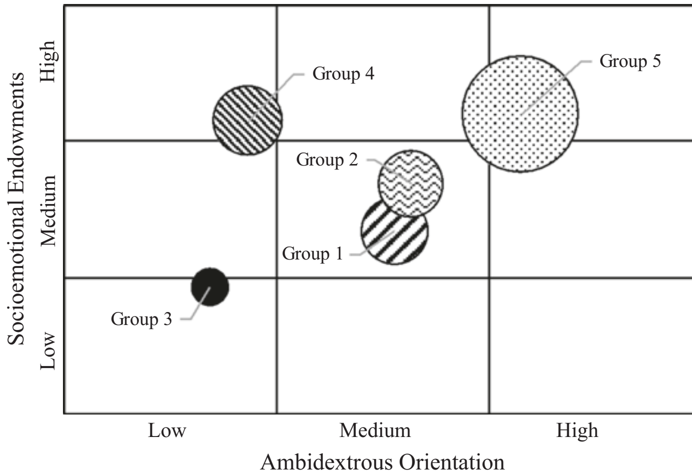

Fig. 29.1 Plot typologies (size of the bubble represents cluster size)

the case of the SEW (F = 62.35, $p < 0.001$). Based on the mean differences, we split each dimension in three categories (Low/Medium/High). Those categories respond to mean differences between and within clusters regarding their OA and SEW measures (see Tables 29.3 and 29.4, respectively). Tables show important differences between clusters for each of the two variables. Cluster 5 shows the highest levels of ambidexterity as well as the highest SEW endowment, while Cluster 3 groups the families with the lowest OA and the lowest SEW. Clusters 1 and 2 show moderate levels of ambidexterity and SEW, while Cluster 4 represent an interesting case with very low OA but a relatively high importance to SEW.

Analyses so far confirm that the five identified clusters are significantly different from each other in terms of both their strategic orientation and their socioemotional endowment. Although the cluster analysis have been performed using SEW as a unidimensional construct, as noted earlier, SEW is a multidimensional concept which represents a composite bundle of five family owner's reference points, the FIBER model (Berrone et al. 2012). As such, our interest is also in how these dimensions bundle to represent the different business families' archetypes. Consequently, we analyze the importance of each SEW dimension within each of the clusters. As Fig. 29.2 illustrates, interesting differences emerge among the different groups. Previous findings showed that business families in Cluster 5 have the highest centroid level of SEW. Our additional analyses show that for families in Cluster five, some SEW goals are clearly more important than others. Specifically, identification with the family

Table 29.3 Results post hoc mean comparisons: ambidextrous orientation

	Number of companies	Low	Medium	High
Group 3	31	5.38 (−1.95)		
Group 4	9	5.74 (−1.59)		
Group 1	29		7.11 (−0.22)	
Group 2	28		7.27(−0.06)	
Group 5	86			8.30 (0.97)

Means groups in homogeneous subsets using S-N-K ($p < 0.05$)

Table 29.4 Results post hoc mean comparisons: socioemotional wealth

	Number of companies	Low	Medium		High
Group 3	31	2.94 (−0.98)			
Group 1	29		3.34 (−0.58)		
Group 2	28			3.69 (−0.22)	
Group 4	9				4.15 (0.24)
Group 5	86				4.20 (0.28)

Mean groups in homogeneous subsets using S-N-K ($p < 0.05$)

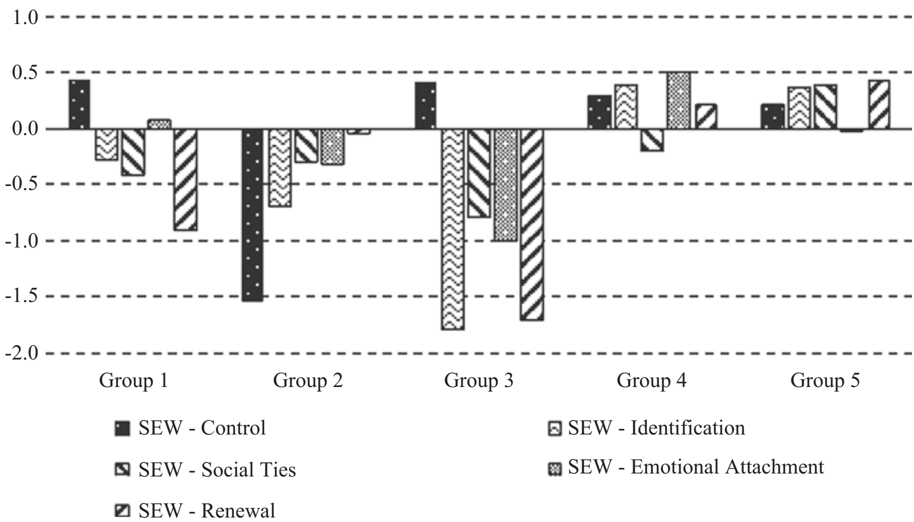

Fig. 29.2 Socioemotional wealth balance (mean-centered dimensions)

firm, social ties, and renewal of the family legacy are all important goals for families. However, the desire to maintain family control and influence and the will to use the family firm as the emotional bond between family members are moderately developed. Consistent with the previous analyses, Clusters 1–3 rate lower in most of SEW dimensions, but once more, we observe important

differences among the composition of the SEW. For instance, while family control and influence are very important for families in Cluster One, families in Cluster 3 gives a very low weight to this particular SEW dimension.

Based on the previous analyses, we now turn to describe the different typologies of owning families as characterized by the five clusters.

Cluster Descriptions

Cluster Five: Families in Business with high Transgenerational Potential (Family firm highly ambidextrous & Balanced socioemotional goals)

Entrepreneurial families in Cluster five have a clear idea of what they want for their company and for their family. The highest centroid score in exploration (4.30) and exploitation (4.04) provides a clear indication that in Cluster five, there are companies that are able to be ambidextrous. As mentioned, they are also the business families with the highest centroid level in socioemotional wealth. Nevertheless some SEW are more important than others. For these families, maintaining ownership in family's hands is not a priority. Also, the business family serves the family business, and not the other way around; thus emotions have a limited impact of strategic decisions. Further, these families have the stronger intentions of dynastic succession as well as the strongest identification of the family with the firm.

Families in Cluster five, are able to achieve the "dual balance", this is to say to attain organizational ambidexterity, while at the same time pursuing and preserving the "right" socioemotional endowments. This is why we label them as families with Transgenerational Potential, meaning that they have the ability to create value across generations. Cluster Three: Families in business with low transgenerational potential, (Family firms with no strategic orientation & strong emphasis on maintaining family control). Family businesses included in Cluster 3 show low scores for both ambidexterity dimensions—explore and exploit. Unlike the previous cluster, these family firms exhibit high negative scores on almost all socioemotional dimensions except for the desire to maintain control and influence within the family. The de-emphasis on all socioemotional wealth dimensions excluding the family control and influence dimension is representative of families that have not developed a transgenerational family mind-set. The combination of a lack of family orientation, coupled with a lack of strategic orientation, entails several warnings for the families that are in this cluster. Consequently, we labeled them as "Families with Low Transgenerational Potential.

The remaining three clusters are made by business families with medium transgenerational potential. Interestingly, the reasons why these families are not able to reach high transgenerational potential are different among the groups as described below. Cluster Four: Highly Introspective Families, Family Firms with High Emotional Attachment and Limited Strategic Orientation

As it is the case for families in Cluster 5, families in Cluster 4 also exhibit high socioemotional endowments. However, the centroid scores for socioemotional dimensions reflect an introspective family approach. This is because the main difference among Cluster Four and Cluster Five is in the importance of social ties, lower for Cluster Four and emotional attachment, higher for Cluster Four. Thus, families in Cluster Four are highly introspective families, and the family firm serves the entrepreneurial family's well-being, even at the expense of financial considerations. For highly introspective families, the connection with other stakeholders is not a priority, and therefore they have an inbound looking.

At the same time, business families in Cluster 4 are characterized by a lack of strategic orientation. This is to say, their family business is neither good at exploration nor at exploitation. Although our research design is not able to infer causality, our results seem to suggest that SEW combination of the families in Cluster 4 has a negative effect on creation of financial wealth and becomes a competitive disadvantage for the owning families in this group.

Cluster Three: Families in business with low transgenerational potential, (Family firms with no strategic orientation & strong emphasis on maintaining family control)

Family businesses included in Cluster 3 show low scores for both ambidexterity dimensions—explore and exploit. Unlike the previous cluster, these family firms exhibit high negative scores on almost all socioemotional dimensions except for the desire to maintain control and influence within the family. The de-emphasis on all socioemotional wealth dimensions excluding the family control and influence dimension is representative of families that have not developed a transgenerational family mind-set. The combination of a lack of family orientation, coupled with a lack of strategic orientation, entails several

warnings for the families that are in this cluster. Consequently, we labeled them as "Families with Low Transgenerational Potential".

Cluster One: Families in business at a crossroads (Family Firms Moderately Ambidextrous with Low Intentions for Dynastic Transition)

This archetype shows moderate scores in strategic orientation and socioemotional endowments. Cluster One offers a great opportunity to analyze a typology where we could infer that the family is in a development stage, both in terms of business acumen and family mind-set. The S-N-K[1] (Student-Newman-Keuls) post hoc procedure for the exploitation construct shows that the centroid of Cluster One is in between moderate-to-high exploitative orientation. The same procedure for explorative construct evidences that along with Cluster Two, Cluster One is. moderately explorative Therefore, firms in Cluster One are slightly prone to engage more in exploitation than exploration. Nevertheless, those in Cluster One show a fairly good balance between the two orientations. On the other hand, Table 29.4 displays that compared to Transgenerational Families (Cluster Five), families in Cluster One de-emphasize those non-economic endowments that probably are more instrumental to define a family as a family firm, namely, identification of the family with the firm and renewal of family ties through legacy. Furthermore, and also compared with Transgenerational Families, families in Cluster One are not concerned with engaging with the stakeholders of the family firm. Therefore, families in Cluster One confront a great opportunity; they can work to develop the right socioemotional balance and to engage in more explorative activities. In doing so, they would be in the right path to transform themselves in Transgenerational Family firms.

Cluster Two: Families in Business with low family essence (Family Firms Moderately ambidextrous with low SEW concerns)

Akin to the previous cluster, these families are moderately ambidextrous, with a fairly good balance in both, exploration and exploitation. However, the firms in Cluster One are not able to achieve the high scores in ambidextrous orientations of Transgenerational Families. Yet, what makes business families

[1] Not shown in this chapter

in this group unique is that they rate lower than the mean in all the SEW aspects. This is why we labeled these families as "Families at a Crossroads" because it seems that family essence is fading away. Particularly striking is the lower value that these families attach to maintaining family control, a key SEW dimension for most families (Gomez-Mejia et al. 2014a, b). Indeed, Chrisman et al. (2012) have demonstrated that family control and influence drive commitment and transgenerational intentions, and the further attainment of family-centered non-economic goals. Hence, while family control may have a dark side (Kellermanns et al. 2012), an extremely low value in this item may place the business families at a crossroad, where they have to decide whether they will strive to maintain their firms as family firms.

Discussion and Conclusions

Tagiuri and Davis's article (1996), on bivalent attributes of six family firms, argues that there must be "economies of synergy" between socioemotional and financial goals, which have been largely overlooked to date. In our study, distinct and different combinations of family idiosyncrasies with family business strategies were found. Five archetypes among Latin American families were then identified and labeled to understand their characteristics and challenges. Each of those archetypes is theoretically sound and practically meaningful. The paradoxical approach proposed in our introduction was reinforced. But far from simplistic, the findings open a thrilling opportunity for further discussion.

The issue raised by Gomez-Mejia et al. (2011) about the "Holy Grail" is still an unsolved puzzle. Nevertheless, our study illustrates that probably the discussion should not be about inputs (ownership) and outputs (performance) but about how the consequences of owning the family business, namely, SEW endowments, impact the strategic decision-making process, or vice versa. The evidence presented in our study shows that there are clear relationships between the "family essence" and the achievement of strategic outputs. Cluster analysis was able to differentiate families with transgenerational potential from those that struggle to create transgenerational value. Owning families in Cluster Five, "Transgenerational Families", are the only ones capable of resolving the existing paradoxes in an efficient way, that is, the only families that achieve the "dual balance". They are able to allocate resources wisely between explorative and exploitative initiatives. For these families, socioemotional considerations are also relevant. Nonetheless, in the quest to preserve what makes them families with high transgenerational potential, they manage to

develop the right family mind-set, one in which emotional attachment and preservation of control and influence are carefully managed. Though Cluster Five entails a quite interesting setting to further explore what determines success for owning families, the other four clusters also present different challenges and characteristics that deserve further investigation. Moreover, we do not suggest that the five categories of business families identified in this study represent a complete picture of the business families' typologies. To empirically determine whether there could be another families in business typologies not considered in our study.

This study was essentially exploratory. With this effort, we tried to contribute with a new context for subsequent theory elaboration. Future research should try to develop testable propositions based on our cluster analyses that may drive the establishment of casual relationship between SEW dimensions and firm's innovation outcomes. The Socioemotional Wealth approach is still in its infancy, and further conceptualizations and development are mandatory to answer the puzzles that this work presents. The diversity of realities shown in the study, and the richness of each of the five clusters, suggest the need for more exploratory research that understand the "how" in the cognitive process that transforms SEW considerations into strategic decisions, or vice versa.

Our work has also important practical implications. The existence of different typologies of owning families confirms the need to design tailored solutions based on the specific needs of each family. The good news is that the existence of typologies permits family business advisors to identify "best practices" in the case of the high transgenerational potential families and use them as a benchmark to offer recommendations to the rest of the families, based on their specific challenges.

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Family Firm Density and Likelihood of Failure: An Ecological Perspective

Marta Caccamo, Daniel Pittino, and Francesco Chirico

Introduction

A company is most likely to face failure when it loses its competitive positioning on the market. Failing firms do not normally close from one day to another, but they are most likely to attempt turnaround solutions or explore different types of exit strategies. Besides shutting down, a failing business can, in fact, be acquired or divested. Given the time it takes before a company actually fails, knowing more about micro and macro pressures that characterize business failure pathways (Moulton et al. 1996) is important in order to devise preventive measures and to avoid accruing costs to society (Altman 1983). Although some determinants of business failure are most likely to equally affect any organization, some others are believed to be specific to organizations that exhibit particular characteristics. For example, distinctions are

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E. Memili, C. Dibrell (eds.), *The Palgrave Handbook of Heterogeneity among Family Firms*,
https://doi.org/10.1007/978-3-319-77676-7_30

frequently made on the basis of company size (Assadian and Ford 1997; Van Praag 2003; Venkataraman et al. 1990) and age (Thornhill and Amit 2003; Venkataraman et al. 1990). In our study, we specifically focus on family ownership as a characterizing dimension, which may affect firms' likelihood to fail.

Intuitively, family firms—organizations where ownership is concentrated and maintained within a family (Chua et al. 1999; Ling and Kellermanns 2010) and that represent the oldest and most common model of an economic organization worldwide (Aldrich and Cliff 2003; Gedajlovic et al. 2012)—should be penalized by speed of innovation and environmental uncertainties (Nieto et al. 2015). Rutherford et al. (2008) note that two competing beliefs regarding family firms' survivability exist. On one hand, family business researchers argue that family firms are more resilient thanks to their long-term orientation and competitive advantage gained over time (Anderson and Reeb 2003; Hoffman et al. 2006; Lumpkin and Brigham 2011; Le Breton-Miller et al. 2006; Miller and Le Breton-Miller 2005). Conversely, management scholars at large believe the opposite due to the poor professionalization and widely accepted nepotism that characterize family businesses (Dyer 1986; Johannisson and Huse 2000; Lansberg 1988; Schulze et al. 2003). There is indeed evidence of family business resistance to change (e.g. Miller et al. 2003) and entrepreneurial risk aversion (Cabrera-Suárez et al. 2001; La Porta et al. 2000; Morck and Yeung 2003). Nevertheless, studies have shown that in many occasions family firms exhibit a radically different behavior than expected, proving instead to be more innovative and apt to survive under adverse conditions than their non-family counterparts (Astrachan 2003; Sirmon et al. 2008; Nieto et al. 2015; De Massis et al. 2016). The reason why the debate about the survivability of family firms is still going on is may be because previous studies focused more on the individual or firm level (Sharma 2004; Wilson et al. 2013; Cater et al. 2016), largely overlooking its determinants at the territory and environmental levels (Criaco 2015).

Despite the attempts to present more holistic views of family business as an embedded entity not only in the family and in the firm (Aldrich and Cliff 2003; König et al. 2013) but also in the family and in business networks (Hoffmann et al. 2016; Miller and Le Breton-Miller 2005) and in the environment (Bird and Wennberg 2014; De Massis et al. 2016; Del Giudice et al. 2010; Tàpies and Fernández Moya 2012), family firms' competitive positioning is still seldom explained using contextual variables (Block and Spiegel 2013; Criaco 2015; Stamm and Lubinski 2011). In order to address this gap,

scholars in the family business field are increasingly directing their attention toward the determinants of firm survival rates at regional level (Block and Spiegel 2013; Bird and Wennberg 2014; Sharma 2004; Stough et al. 2015).

In order to explain environmental conditions making family firms more resilient and less exposed to failures than non-family firms, we rely specifically on the density dependence model from organizational ecology (Hannan and Freeman 1977; Hannan and Freeman 1984) in conjunction with the embeddedness perspective (Granovetter 1985; Hess 2004; Polanyi 1944). Organizational ecology's selection approach (Hannan and Freeman 1977) uses competition theory and niche width theory to explain organizational fitness at different degrees of environmental variation. Therefore, it is particularly suitable as a basis for predicting organizational survival or failure over time. Notwithstanding the popularity of organizational ecology theory and its wide application, it has seemingly not yet reached the domain of family business. Criaco (2015) and Stamm and Lubinski (2011) are the sole (conceptual) contributions explicitly linking organizational ecology and family firms' survival to date.

The main objective of this chapter is to theorize about the relationship of family firm agglomeration to overall survivability rates in a territory, and specifically the implications of particular territory and environmental conditions to family firms' own likelihood to fail. As such, we theorize that increased family firm density reduces the likelihood of firm failure and that this effect is (a) higher for family firms than for non-family firms, (b) lower in urban than in rural areas, and (c) higher in fine-grained variable environments than in stable environments. Our chapter makes three contributions. First it contributes to organizational ecology theory by including family ownership as a moderator of the likelihood to fail. Second it contributes to family business research by laying a foundation for future empirical studies. Third it seeks to enhance the connection between context and firm survival pointing out what underpinning mechanisms make family business less likely to fail. Finally, the study has policy-making implications, showing the role of family businesses as important contributors to regional continuity. In fact, empirical verification of our propositions would give policy-makers an argument for increasing their support to family businesses in the form of targeted intervention. The chapter is organized in four sections: section "Theory" presents the theoretical foundations of the study; section "Propositions" is dedicated to the development of propositions; section "Discussion" discusses limitations of our study and possible future directions. We conclude the chapter with a summary of main findings and theoretical contributions (section "Conclusion").

Theory

In this section, we present the basic notions behind the theoretical constructs that we will be using in the development of our propositions. First, we will introduce different theoretical views on failure (section "An Ecological Perspective on Business Failure"). In this section, we will further present organizational ecology theory as a whole (section "Organizational Ecology"), and we will dig deeper into competition theory, niche width theory, and age dependency model. Second, we will provide an account of literature concerned with family business embeddedness (section "Family Firms as Embedded Entities") in order to provide a better understanding of the elements at play when it comes to firm context relationships.

An Ecological Perspective on Business Failure

Business failure refers to insolvency and impossibility to continue operations (Shepherd et al. 2000). Failure is different from exit or shutdown, as it mainly indicates financial distress. There are many factors that can lead to failure from a lack of market fit to too high competition, change in technology, and so on. These determinants can be external (contextual) and internal (organizational). Although higher rates of failures are expected with external market shifts such as economic crises, firms may well fail as a result of wrong strategic decisions or organizational imbalance (Moulton et al. 1996). Literature about the internal determinants of business failure is extensive; however we have decided to only focus on the external determinants, which constitute the main subject of our research.

Altman (1983) maintained that firms' likelihood to fail depends upon the cumulative effect of (a) real economic growth, (b) stock market performance, (c) money supply growth, and (d) increased business formation. Moulton et al. (1996) have specifically analyzed pathways of business failure, relating environmental stress to organizational response. This interplay between environmental conditions and organizational survival or failure is captured by organizational ecology theory, from which we build our study and that we will present more in detail in the next sections.

Organizational Ecology

Research in the field of organizational ecology is driven by the fundamental question "Why are there so many (few) forms of organizations?" (Hannan and Freeman 1977) and what the sources and consequences of this diversity

are. Organizational ecology is used to explain emergence, evolution, and extinction of organizations and populations over time.

Organizational ecology is best known for the density dependence model, which links population density at foundation with survival chances in the long term. The density dependence model is not only a well-known construct, but it has also been widely tested (Swaminathan and Wiedenmayer 1991) in several industries, for example, brewing (Swaminathan and Wiedenmayer 1991), automobile (Hannan et al. 1998; Dobrev et al. 2001; Dobrev and Carroll 2003), wine (Swaminathan 1995), hospitality (Baum and Mezias 1992), and telephone (Barnett 1990). The density dependence model includes both the notion of legitimacy and competition (Hannan 1986). It alleges that density is initially a driver of legitimacy, which later studies (Zimmerman and Zeitz 2002; Oertel and Walgenbach 2009) categorized into four different sources: socio-political regulatory, socio-political normative, cognitive, and established industry. After density reaches a tipping point, competitive pressure offsets legitimacy (Hannan and Freeman 1977; Hannan 1986). This is mainly due to the fact that assuming that resources in a population are finite and its capability to expand is unlimited, firms quite naturally compete to obtain a larger share within the same population (Hannan and Freeman 1977; Hannan 1986). Although the use of density as a proxy for legitimacy has been questioned (Zucker 1989), the empirical support obtained across several industries has generated a substantial volume of research in the field since the original theorization of Hannan and Freeman in 1977 (Amburgey and Rao 1996).

Competition theory also heavily relies on size distinctions among organizations (Hannan and Freeman 1977). According to the theory, density increases in large organizations have some repercussions both with small size and, most importantly, medium size organizations (Hannan and Freeman 1977; Mac Arthur 1972). In fact, the latter partly overlap in competitive space with larger companies and partly with smaller ones (Hannan and Freeman 1977). Their in-betweenness makes them vulnerable to competitive pressure from both sides, leading quite easily to exit from the market and increase in survival chances at the other two ends of the size spectrum (Hannan and Freeman 1977; Mac Arthur 1972).

Besides competition theory, Hannan and Freeman (1977) described niche width theory as a way to shed light on the sources and conditions of evolutionary advantages. Niche width theory examines uncertain environments and evaluates two types of strategies in response: specialist and generalist (Hannan and Freeman 1977). Generalist organizations can tolerate higher degrees of environmental uncertainty since they can adapt to a wider array of environmental configurations thanks to the excess capacity they carry

(Hannan and Freeman 1977). However, if the environment exhibits frequent variations between favorable and unfavorable states, specialists may still be favored provided they have enough slack to undergo periods of "down" (Hannan and Freeman 1977).

Carroll (1985) builds on Hannan and Freeman's (1977) classification of specialists and generalists to present another instance where specialists outperform generalists: resource partitioning. Resource partitioning distinguishes between a crowded, resource-abundant market center and a less abundant and populated peripheral segment (Dobrev and Kim 2006). According to resource partitioning, generalist firms prosper in the former, whereas the latter is the domain of specialist firms (Dobrev and Kim 2006). An increase in concentration of generalists offering homogeneous goods opens up more opportunities for specialized niches, thereby increasing generalists' failure rates and specialists' survival rates (Carroll 1985).

Although they are penalized if faced with high environmental variability, specialist organizations are sometimes themselves responsible for reversals in industry maturity (Abernathy et al. 1983; Swaminathan 1995).

According to organizational ecology, age of organizations and populations influences survivability too, given the premise that "age tracks the fit between an organization and its environment" (Hannan 1998). This means that structural inertia remains an important assumption to keep in mind when hypothesizing the consequences of aging faced with environmental evolution. Hannan (1998) summarizes age dependency with three hindrances: "Liability of Newness", "Liability of Adolescence", and "Liability of Aging". The "Liability of Newness" entails that younger firms are more likely to exit sooner since they do not have the same network and legitimacy advantage of established organizations (Hannan and Freeman 1989; Freeman et al. 1983; Stinchcombe 1965). The "Liability of Adolescence" occurs when low rates of mortality are observed in the initial life stages of a population and those are followed by a steep increase and a subsequent re-normalization (Hannan and Freeman 1989). Finally, the "Liability of Aging" assumes that companies grow in time and it posits that size and investment constrains organizational transformation (Aldrich and Auster 1986). Such liability may be driven by senescence and obsolescence (Hannan and Freeman 1989). Senescence refers to the accumulation of internal friction, which deters collective action and consequently determines a capability loss (Hannan and Freeman 1989). Obsolescence happens when there is a capability misalignment in the face of an environmental drift (Hannan and Freeman 1989). The same populations and organizations might experience different aging patterns depending on the

environmental conditions they are confronted with. Hence there is the need to provide temporal contextual evidence in the analysis of evolution patterns.

Family Firms as Embedded Entities

Family firms are extremely complex organizations. They combine ownership, management, and family into a single entity (Hoy and Verser 1994; Littunen and Hyrsky 2000; Sharma and Salvato 2013; Wiklund et al. 2013), whereas family involvement is ever-present at different levels in the firm (Aldrich and Cliff 2003). The family business overlap can be easily connected to Hess' (2004) embeddedness framework, which includes three levels of embeddedness, namely, *social*, *network*, and *territorial*. As a matter of fact, the application of this framework to family business might support a better distinction between internal ambitions of the enterprise to survive in the years and the external means to reach that end, such as community and connections (Miller and Le Breton-Miller 2005). These can only be studied by taking into consideration systems of family firms and their interplay with the context, hence going beyond viewing single companies as "atomized actors" (Granovetter 1985: p. 485). Indeed, family influence originates kinship ties, also defined as "the network of genealogical relationships and social ties modeled on the relations of genealogical parenthood" (Holy 1996: p. 40). The theoretical ground supports the existence of such kinship ties at individual, interpersonal, group, and organizational levels (Gagné et al. 2014; Gómez-Mejia et al. 2011; Steier 2001) that differentiate family firms from their non-family counterparts (Berrone et al. 2012).

The concept of embeddedness has largely permeated family business literature, both explicitly and implicitly. The embeddedness perspective was born as a reaction to the prevailing "undersocialized" accounts of economic action (Granovetter 1985). Karl Polanyi is considered as the "father of embeddedness" (Hess 2004). According to Polanyi (1944), "market economies are embedded in society and their social and cultural foundations". Mark Granovetter (1985) subsequently adopted the concept, stressing individual and collective agency to a greater extent. According to Granovetter (1985), actors are at the center of a system of social relations, which is characterized by kinship relationships and economic organization at the same time. Jack and Anderson (2002) further describe embeddedness as "a process to develop credibility, acquiring knowledge on how business is conducted and thus bridging structural holes

in resources and filling information gaps". It is only through embeddedness that the two mechanisms of "value extraction" and "value production" are set in motion (Jack and Anderson 2002).

Hess (2004) classified actors' embeddedness along three major dimensions: *societal embeddedness*, *network embeddedness*, and *territorial embeddedness*. *Societal embeddedness* refers to the cultural and political background of the individual and to his cognitive setup. *Network embeddedness* considers the individual network and its structure and evolution (Halinen and Törnroos 1998; Henderson et al. 2002). Finally, *territorial embeddedness* looks at the extent to which actors are bound to a specific territory. The three dimensions together constitute the "space-time context of socio-economic activity" (Hess 2004), or what define "local embeddedness". If we substitute the actor with the family firm, Hess' (2004) framework may suit family business as well, hence supporting the view of family firms and family stakeholders as embedded in social relationships (Aldrich and Cliff 2003; Steier 2001; Steier et al. 2009). Societal embeddedness constitutes a micro-level of analysis, which is reflected by the *family embeddedness* concept proposed by Aldrich and Cliff (2003). In fact, family firms are embedded both in the family and in the family business that together shape their "genetic code" (Hess 2004). Being part of the family fosters the accumulation of entrepreneurial learning that is transferred generation after generation in the daily practices of the family and of the firm (Hamilton 2011). From a *network embeddedness* perspective, family firms are embedded in the network of the family and in the network of the business (Anderson et al. 2005; Hoffman et al. 2006; Le Breton-Miller and Miller 2009). To conclude, family firms are firmly embedded in the territory (*territorial embeddedness*) maintaining a tight connection to the place of origin (Arregle et al. 2007; Bird and Wennberg 2014; Pallares-Barbera et al. 2004). This tight connection with the context on one hand enables them to better capture resources and to develop long-term relationships with their customer base, and on the other it might occasionally result in lock in. Finally, and linked to the implications of territorial embeddedness, the institutional environment impacts performance of family firms (Liu et al. 2012; Steier 2009). The institution-based view on governance maintains that the choice of governance structure is driven by the external institutional context (Jiang and Peng 2011; Liu et al. 2012). In fact, whereas institutional underdevelopment implies reliance on family resources for survival, developed institutional environments make institutional resources more accessible (Liu et al. 2012). This entails that family governance in underdeveloped institutional settings makes up for the high costs of monitoring and enforcing contracts (Liu et al. 2012; Williamson

1985), becoming a buffer against managerial opportunism (Liu et al. 2012). Discerning among the multiple levels of embeddedness is fundamental in order to avoid misattributions when ascertaining correlations and establishing cause-effect relationships.

Propositions

Based on organizational ecology theory, we develop four propositions that seek to explain the effects of the increase in family business density over likelihood to fail in a set population. We further use Hess' (2004) embeddedness framework in order to explain the underpinning mechanisms that determine organizational responses to external conditions.

Family Firms' Density and Likelihood to Fail

The presence of family firms in a regional environment is believed to generate positive externalities for the whole territory. The high degree of territorial embeddedness of the firm is in fact reflected in the long-term family and community orientation of family businesses (Litz 1995). Despite the difficulties in estimating its extent, the existence of kinship ties is widely accepted and researched within the family business academic community (Gómez-Mejía et al. 2007; Habbershon and Williamson 1999). Family firms are believed to value the pursuit of non-economic goals more than non-family firms (Gómez-Mejía et al. 2007), for instance, by creating new jobs and investing on building a reputation and harnessing their social capital among the others (Chrisman et al. 2012). Cruz et al. (2012) point to the spillover effects of family ownership over non-family members and community at large, which are also often associated with the non-financial aspect of the family firm, or socioemotional wealth (SEW) (Gómez-Mejía et al. 2007). The pursuit and maintenance of SEW is indeed linked with the leniency of family businesses toward socially and environmentally responsible deeds (Berrone et al. 2010; Cennamo et al. 2012; Gagné et al. 2014). Gómez-Mejía et al. (2007) used the case of mill owners to prove that family business prioritizes SEW over financial returns. Their study of 1237 family-owned Spanish mills revealed that retaining independence was generally preferred to becoming affiliated to a large co-op, despite the prospects of higher profits. The focus on maintaining close oversight of the company operations, target settings, and overall strategy's impacts on the territory has to be interpreted as

an important manifestation of territorial embeddedness. Family firms' attachment to the place of origin thus results in high attention to resource preservation and to nurture the environment in order to ensure continuity of economic activity. We therefore posit that an increase in the number of family firms in a territory will reduce likelihood to fail of organizations in the same territory. Formally,

Proposition 1: Increased family firm density reduces the likelihood of firm failure.

Family Firms' Density and Family Firms' Likelihood to Fail

Criaco (2015) suggests the existence of an inverted U-shaped relationship between the density of family firms at founding and the survival of new family firms. He speculates that new family firms entering established populations where family business is the predominant organizational form are facilitated because of the benefits stemming from a higher degree of preexisting legitimacy. The likelihood would be that new family firms will exploit the general identity of "family firms" in order to climb the legitimacy curve more rapidly, gaining trust and local acceptance before building their market. On the other hand, at higher levels of density among family firms, resource scarcity decreases chances of survival. Criaco's (2015) argument is in line with Bird and Wennberg's (2014) study on small family firms that proved it is easier for family start-ups entering environments, where the family business setup is the prevailing organizational form. We further contend that, besides ease of entry, community (or network) embeddedness strengthens the resilience capacity of family firms (Brewton et al. 2010). This is due to the fact that family firms are more likely to exhibit mutualistic behaviors among each other, thus forming alliances to cope with the increase in competition. Moreover, family firms are expected to display higher levels of interdependence given their embeddedness in the regional environment (Arregle et al. 2007; Bird and Wennberg 2014) and to rely on a "natural source of cohesion" (Baum and Ingram 2002; Danes et al. 1999; Brewton et al. 2010). Network embeddedness primarily generates trust among organizations, which is important for firms' survival. Steier (2001) maintains that trust among family firms "represents a fundamental basis for cooperation and potentially provides a key source of competitive advantage". Trust is both embedded in social relationships (Granovetter 1985) and built over time (Steier 2001), at times becoming a substitute (Nooteboom et al. 1997; Steier 2001), comple-

ment (Gulati and Nickerson 2008; Poppo and Zenger 2002), or concurrent mechanism (Gulati and Nickerson 2008) to formalized governance. It indeed allows family firms to reduce the agency costs arising from the separation of management and ownership Sharma 2004). Our second proposition builds on the first, but it looks more closely at the family business community. We posit that the increase in the number of family firms in a population will increase the survivability of family firms more than the survivability of non-family firms, given the fact that family firms can take direct advantage of the network of the family and the network of the business. In formal terms:

Proposition 2: The negative effect of increased family firm density on firm's likelihood to fail is more pronounced for family firms than for non-family firms.

Family Firms' Density in Rural Areas and Likelihood to Fail

Existing literature (Besser 1998; Brewton et al. 2010) suggests that family firms may be perceived differently in rural and urban settings. For instance, Tönnies (1955) discussed *Gemeinschaft*, that is, a characterizing force in rural settings, which generates strong informal ties and reciprocity within communities and acts in opposition to the *Gesellschaft*, that is, the domain of urban life and asymmetric relationships (Johannisson 2007). The rural-urban difference seems to be amplified in the case of family business. Brewton et al. (2010) found a significant correlation between social capital and family firms' resilience in times of stability in rural firms, but not in urban firms. Their findings are in line with Besser (1998) who showed that rural family firms' owners display greater community citizenship compared to urban firms, and with Backman and Palmberg's (2015) panel study of 1000 firms that looking at employment growth rates demonstrated that family firms grow faster than non-family firms in rural vs. urban settings. The differences between rural and urban settings are also reflected in the population-level effects of relative demographic changes in the two sub-populations. In a study within the American brewery industry, Swaminathan and Wiedenmayer (1991) showed that increased density in city firms is most likely to increase the overall mortality rate within the population. On the contrary, an increase in density of rural firms decreases overall mortality rates by generating more mutualism. It is worth noting that in Swaminathan and Wiedenmayer's (1991) study, population (people living in the area) size also plays an important role among the survival determinants. Whereas urbanization, as predictably, strengthens

survival rates of urban firms, it prompts exits of rural firms due to the shrinking market (Swaminathan and Wiedenmayer's 1991).

Based on the aforementioned, we postulate that the moderating effect of family ownership will have different magnitudes if we segment along urban and rural populations. Therefore, breaking down our base proposition 1 into two sub-populations is necessary. We thus conclude by saying that the presence of family firms in rural areas is rewarded more than the presence of family firms in urban areas. This may be due to the fact urban areas are normally larger and characterized by a greater cultural variety, which suggests that legitimization requires greater efforts compared to rural environments. Therefore, an increase in the number of family firms in a territory will reduce the likelihood to fail more in the rural area than in an urban area. Thus,

Proposition 3: The negative effect of increased family firm density on firm's likelihood to fail is less pronounced in urban than in rural areas.

Family Firms' Density, Environmental Variations, and Likelihood to Fail

Hannan and Freeman (1977) contend that the capacity to adapt is itself a subject of evolution. When the environment is stable, organizations adapt, at times lowering their performance in order to keep their "environmental fit" (Hannan and Freeman 1977). As mentioned in the theoretical section of the chapter, during stable times, specialist strategies are always preferred, since they allow operations without excess capacity (Hannan and Freeman 1977). Comparatively, environmental variation is characterized by "environmental variability" and "grain" (Freeman and Hannan 1983). According to Freeman and Hannan (1983), variability is measured looking at the variance of environmental fluctuations about their mean, whereas grain captures the patchiness of those variations (Singh and Lumsden 1990), whereby frequent variations denote a fine-grained environment and periodic fluctuations characterize a coarse-grained environment. When the environment is fine-grained, specialist organizations are favored both in the case of high and low variability (Freeman and Hannan 1983; Singh and Lumsden 1990). On the contrary, if the environment is coarse-grained, a specialist strategy is only preferable when variability is low (Freeman and Hannan 1983; Singh and Lumsden 1990). This is due to the fact specialist organizations do not have enough "slack" to undergo periods of excessive variation (Hannan and Freeman 1977).

Sirmon and Hitt (2003) call “survivability capital” the bundle of family-specific resources that carry family businesses through disruptions and economic downturns. The survivability capital provides family firms with excess resources to cope with market turbulence (Sirmon and Hitt 2003). In the same way, Danes et al. (2008) maintain that family firms are endowed with human, social, and financial capital that enables them to face disruptions. Hence, family business resilience is allegedly linked to the individual and family socio-capital, which helps the business survive even under tough conditions (Chirico et al. 2014).

Family firms' traditions may become an important source of inspiration and renewal for the whole industry (De Massis et al. 2016), hence contributing to survivability in dynamic environments. This is especially likely to happen in mature industries in accordance with the population ecology's view of specialists (Abernathy et al. 1983; Acs and Audretsch 1990; Swaminathan 1995). De Massis et al. (2016) propose that tradition plays a role in sustaining family firms' competitive stance over time in environments characterized by frequent changes. In fact, family firms may tap into two sources of past knowledge (firm and territorial traditions) in order to deliver different types of product innovation (innovating product functionalities and innovating product meanings) through the use of two specific dynamic capabilities (Teece 2014): interiorization and reinterpretation (De Massis et al. 2016). Therefore, we maintain that the decrease in overall likelihood to fail upon the increase in the number of family firms in a population is enhanced when the environment is subjected both to high variability and high frequency of variations. In fact, family firms are more resilient than their non-family counterparts in such a context. Formally,

Proposition 4: The negative effect of increased family firm density on firm's likelihood to fail is more pronounced in high-variability and fine-grained than in low-variability and coarse-grained environments.

Discussion

We have focused on the effects of an increase in the number of family business in a population over likelihood to fail; likelihood to fail of family firms; likelihood to fail in rural vs. urban environments; and likelihood to fail in variable environments. We have further used Hess' (2004) embeddedness framework in order to point out the mechanisms at play in each of the analyzed scenarios. While territorial embeddedness and network embeddedness proved to be advantageous in order to guarantee higher rates of survivability in family business dense populations, societal embeddedness further enhances

survivability in rural areas and carries the business through in variable fine-grained environments. Despite the coherence of our arguments, we are well aware that testing our propositions will have to take into account several limitations, chiefly related to the heterogeneity of family firms and in turn to the chosen unit of analysis. We will hereby discuss possible future research directions (section "Future Research Directions") and describe implications for policy-making (section "Implications for Policy-Making") and for practice (section "Implications for Practice") of our study.

Future Research Directions

As posited in the introduction, family business is still the prevailing organizational form worldwide, both in large corporates and SMEs (Chua et al. 2012; Colpan et al. 2010; Gagné et al. 2014; Liu et al. 2012; Stamm and Lubinski 2011; Westhead and Cowling 1998). This entails that there is no sharp distinction between family firms and non-family firms and that there are cases where other organizational dimensions may matter more to organizational evolution than family ownership. On the contrary, in the theoretical section of our study, we have highlighted that a population is constituted by organizations "sharing the common fate" or "relatively homogeneous in terms of environmental vulnerability". Therefore, before moving on to the testing part of our propositions, we must take into account few cases where heterogeneity is most likely to affect the definition of boundaries of the populations under analysis: size and age, globalization, and specialist vs. generalist strategy.

Size and Age Hannan and Freeman (1977) argued that similar size organizations compete with each other. Dobrev and Carroll (2003) argue that organizational size is the most meaningful factor to explain firm outcomes. The role played by size in competition theory is grounded on the premise that size is a driver of structural changes, which in turn determines structural differences among heterogeneous organizations (Hannan and Freeman 1977). The latter entails that size distribution affects patterns of resource utilization, at the same time setting population's boundaries (Hannan and Freeman 1977). We further maintain that size plays a role in perceived legitimacy of family ownership of big corporations. If it is true that family businesses tend to exhibit substantial degrees of mutualism among each other, it is equally true that large, traded family corporations are unlikely to be perceived as peers by their family SME counterparts. Moreover, differently from a large body of literature on trust, family business literature suggests that trust within family firms may decrease or eventually disappear as they approach maturity (Steier 2001).

Hence it is important to monitor any discrepancy of family firms' behavior vis-à-vis the age dependency model illustrated in the theoretical section.

Size and age effects get eventually amplified when family firms expand their business beyond the boundaries of their local territory. In fact, starting up new subsidiaries in a population ecology logic would be equivalent to starting a new business at all, for example, reincorporating the company elsewhere and thus in need of undergoing the legitimization process again. We will briefly argument on the implications of the internalization process in the following paragraph.

Globalization According to Hess (2004), globalization may well trigger a "process of disembedding". Therefore, assuming that family corporates' subsidiaries benefit from the same degree of legitimacy than other family firms in the region would be misleading. The emergence of large conglomerates and multinational firms is a well-known threat to the field of organization ecology as well (Amburgey and Rao 1996). This is due to the fact that competition theory is based on the assumption that organizational populations' members have to be equally affected by environmental changes or processes of interest (Amburgey and Rao 1996). Of course, the assumption does not hold when it comes to the comparison of local SMEs with big holding's subsidiaries. As stated by Vaessen and Keeble (1995), "environmental advantages must be juxtaposed with selective external pressures". This entails that when the environment approximates its carrying capacity (the density threshold after which competitive pressure offsets the benefits of legitimacy and mutualism), both local recognition from the customer base and access to the scarce resources (Westhead and Cowling 1998) are needed in order to ensure business continuity. Family firm subsidiaries' lack of territorial and network embeddedness is worth investigating further in order to ascertain whether non-local family enterprises are rewarded at the same levels as their local counterparts. Eventually, globalization does not pose questions only with respect to multinational corporations. With the increase in immigration and emigration flows, entrepreneurial activities started by "non-*locals*" are more and more common. In these cases, Hess' (2004) framework of embeddedness requires some adjustments, whether we consider it in its standard form or applied to family business.

Kloosterman et al. (1999) applied the concept of "mixed embeddedness" to make up for the gap in embeddedness theory. As in Jack and Anderson (2002), "mixed embeddedness" (Kloosterman et al. 1999; Kloosterman and Rath 2001) implies that embeddedness defines organizational opportunities and

constraints. However, it proposes that actors can be embedded in the culture and network of their country of origin, at the same time being embedded in the politics and institutions of their country of settlement (Kloosterman et al. 1999; Kloosterman and Rath 2001). Sometimes these companies find a reference market in culturally similar immigrant groups; others simply compete in a culturally different market. It would thus be interesting studying whether family-owned companies run by immigrants compete on an equal stand compared to their family-owned local peers, and how dynamics at the three levels of embeddedness change in those circumstances.

Specialist vs. Generalist Lately much research has been dedicated to explore the intersection of family business and entrepreneurship. These efforts have led to the creation of two new fairly similar paradigms: "entrepreneurial families" (Hoy and Sharma 2006; Nordqvist et al. 2013) and "entrepreneuring families" (Uhlaner et al. 2012). Entrepreneurial families and entrepreneuring families are subsets of business owning families that are mainly driven by entrepreneurial goals and motives (Uhlaner et al. 2012). Although they share the same pursuit of family wealth growth by means of business value creation (Berent-Braun and Uhlaner 2012; Uhlaner et al. 2012), not all entrepreneuring families share the same business model (Uhlaner et al. 2012) or the same governance structure (Astrachan and Shanker 2003; Sharma 2004; Sharma and Nordqvist 2008). In our chapter, we have argued that family firms are mostly likely to adopt a specialist strategy, which entails being small in size and focused on a specific product/service/technology. However, this is not always the case. Portfolio family entrepreneurship is a good example of diversified family business strategy, which may entail different degrees of relatedness. Since most of the advantages gained by specialists according to population ecology rests on the supposedly smaller size of specialist organizations, we could argue that provided the size of businesses in the portfolio remains small, portfolio entrepreneurship may actually maximize the chances of survival of family companies.

In sum, testing our propositions may pose substantial challenges from a methodological point of view. Data availability is a key point to ascertain the empirical feasibility of the study. Few statistical databases offer information detailed enough to allow longitudinal multilevel studies at a regional and country level. Moreover, given the limitations highlighted in the previous paragraphs placing some limitations prior testing would be opportune. First of all, we agree with Barnett and Amburgey's (1989) suggestion to add a coefficient of mass dependence to the density model in order to capture the differ-

ent size impacts, at the same time distinguishing subsidiaries and portfolio companies from self-standing enterprises. Second, controlling for age is advisable in order to distinguish established organizations from new entrants and avoid incurring in the discussed liabilities of age. Finally, we will have to take into account the impact of globalization by distinguishing non-local subsidiaries from local players and local vs. non-local family entrepreneurship.

Implications for Policy-Making

We believe that empirical verification of our propositions will have important policy-making implications. In fact, the positive externalities generated by family businesses are worth investing in their support. Our framework based on embeddedness theory is useful to indicate at which level it is better to inject support in order to amplify the positive contribution of family firms to the environment depending on external conditions and wished outcome. Moreover, quantifiable evidence of this contribution will support policy-makers to make a stronger case for policies sustaining family businesses' competitiveness in the territory.

Implications for Practice

Our study is not void of practical value. Practitioners are likely to be affected by our research both indirectly and directly. On one side, family business owners might benefit from policy-makers' actions grounded in the findings. Alternatively, they could engage in lobbying activities to demand more favorable policies geared toward keeping density of family-owned enterprises in the territory high. Lastly, aspiring family business owners might be guided by our study in their choice of settlement. If the propositions turn out to be true, they will provide a solid base to determine whether venturing in a new family enterprise is advisable location-wise.

Conclusion

Our main objective in writing this chapter was to lay out the ground for future empirical work that would consider the effects of an increase in density of family firms within a population on likelihood to fail in the region under different environmental conditions. Our research presents three distinct contributions. First, it contributes to the field of organizational ecology by pro-

posing to include family ownership as a moderator within the density dependence model. Second, it contributes to family business literature by contextualizing family business survivability by means of a proposition-based study that could lead to testable evidence. Third, and most importantly, it highlights the need to take into account appropriate levels and units of analysis when discussing survivability of family firms and its underpinning mechanisms. This will most likely lead to an improvement in our understanding of the determinants of survival and thus will offer a better understanding of the ongoing debate about family firms' higher resilience compared to non-family businesses.

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31

Understanding Family Firms' Entry Mode Choices When Going to China and India: An International Opportunity Identification-Based Approach

Ann Sophie K. Löhde and Andrea Calabrò

Introduction

Recent years have clearly shown that family firms do internationalize—in theory and practice! This assertion is intended to suggest that the debate about family firms' strategies and processes when approaching international markets has finally received considerable attention, including in academia. Nevertheless, some questions remain unanswered or unclear, such as the following: How and why do family firms internationalize? Why do they enter some markets and not others? How do they behave in challenging and unknown international target markets?

Previous literature has broadly considered family firms as having strong home market ties, being rather risk averse, and not leveraging all of the opportunities

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© The Author(s) 2019

E. Memili, C. Dibrell (eds.), *The Palgrave Handbook of Heterogeneity among Family Firms*,
https://doi.org/10.1007/978-3-319-77676-7_31

that international markets can offer (Calabrò et al. 2016a, b; Kraus et al. 2016; Mensching et al. 2016), despite the fact that practice suggests otherwise. In fact, the growing and successful international presence of many family firms is widespread in many different parts of the world, even if we look at the emerging markets of China and India, which are culturally very distant from Western countries and are generally seen as especially challenging environments for foreign businesses (Hoskisson et la. 2000). Internationalization has become a necessity for long-term survival in today's globalized economy, and this is also true for family firms that have increased their international activities tremendously in the past two decades. The process of family firm internationalization has often been considered gradual, beginning with low-commitment activities such as export (Calabrò and Mussolino 2013; Calabrò et al. 2009) and slowly moving toward higher market commitment ones such as joint ventures or Greenfield investments (Pongelli et al. 2016). While these findings are in line with traditional international business theories (e.g., Andersen 1997; Brouthers 2002; Johanson and Vahlne 1977; Lu 2002; Vahlne et al. 2012), the unique characteristics of family firms may alter this internationalization process on several levels (Boellis et al. 2016; Calabrò et al. 2017b; Pukall and Calabrò 2014). Especially with regard to entry mode choices, the literature on family firms has thus far offered only two opposing views. On the one hand, we find a current arguing that the aim of keeping control within the family favors entry modes with full ownership (Gómez-Mejía et al. 2007; Kuo et al. 2012; Pongelli et al. 2016). On the other hand, another current of the literature argues that first market entries, especially to unknown markets, are instead performed with a trusted partner to share risks and preserve the long-term survival of the firm (Berrone et al. 2012; Gómez-Mejía et al. 2007). What is not so clear in both perspectives is the understanding of the process through which family firms identify international opportunities and how this may influence different parts of their internationalization strategies (Ardichvili et al. 2003; Calabrò et al. 2017b). Our aim is to fill this gap by providing an understanding of family firms' entry mode choices when going to China and India using an opportunity identification-based approach.

Entrepreneurial exploration and exploitation are the two actions necessary to actually identify the opportunity to internationalize (Goel and Jones III 2016). A few recent studies aimed at researching international opportunity identification (IOI) among family firms differentiate between the two core concepts of accidental discovery (serendipity), in which an opportunity is not actively searched for but discovered by accident, and purposeful search (deliberation), in which an opportunity is actively searched for as part of a plan (Zaefarian et al. 2016). Despite limited evidence suggesting that family firms

are less engaged in purposeful searches for international opportunities and instead rely on accidental discoveries (Ardichvili et al. 2003), what has not been investigated thus far is the effect the form of IOI may have on the internationalization process. Thus, we aim to investigate if and how IOI—accidental or purposeful—influences the entry mode choice of family firms. By focusing on first entries to the unfamiliar emerging markets of China and India, we examine IOI's potential influence on the choice of foreign market entry modes among family firms. To that end, we employ exploratory cross-case analysis (Yin 2011) regarding ten German family firms of comparable size and industry.

Our findings suggest that family firms that accidentally discover international opportunities will choose an international joint venture as their main foreign market entry mode and that they will follow this behavioral pattern especially if the perceived cultural distance between the home and the host markets increases. In contrast, family firms purposefully searching for international opportunities will choose the most suitable foreign market entry mode among several options. The most suitable option is chosen only after having implemented a prior test phase. Finally, those family firms will implement a test phase prior to final market entry, especially if their level of alertness is high. These findings provide several contributions relevant for theory, especially by expanding the debate on internationalization and family firms' first market entry mode choices (Pongelli et al. 2016) in the context of the challenging and unique markets of China and India (Beamish 2013). By focusing on the importance of the nature of family firms' IOI (accidental versus purposeful), we are able find a direct relationship to their entry mode choices (Calabrò et al. 2017b; Zaefarian et al. 2016). An accidental IOI leads to the choice of an IJV for first market entry, whereas a purposeful search resulted first in a test phase involving carefully considering options, followed by the subsequent choice of the most suitable entry mode (Ardichvili et al. 2003; Calabrò et al. 2017b).

Literature Review

Internationalization of Family Firms

In recent decades, various theories have been borrowed from a range of fields to capture the internationalization of family firms and its peculiarities. However, the core problem of the academic debate regarding this topic is its

narrow understanding "as a strategic decision, which eclipse[s] other important aspects of the phenomenon" (Reuber 2016, p. 1270). In the past, family firms were considered to have strong home market ties, being rather risk averse, and thus not leveraging all the opportunities that international markets can offer (e.g., Claver et al. 2008; Pukall and Calabrò 2014). Decades of research have focused mainly on investigating inhibiting factors of family firms' internationalization (Pukall and Calabrò 2014), such as excessive domestic orientation (Gallo and Pont 1996) and risk avoidance (Casillas and Acedo 2005). Meanwhile, lack of managerial expertise and/or dominant family control is negatively correlated with internationalization success (Calabrò et al. 2009; Singla et al. 2014; Thomas and Graves 2005). Some recent studies have shifted the focus to the benefits family firms may gain through internationalization due to their unique characteristics (Boellis et al. 2016; Mensching et al. 2016; Reuber 2016), among them being the long-term orientation of strategies or the short decision-making paths allowing for rather intuitive decisions based on unexpected business opportunities (Calabrò and Mussolino 2013).

Choosing a suitable entry mode for a foreign market is at the heart of discussions in international business literature and is crucial to the overall success of an international move (Bruneel and De Cock 2016). The basic distinction we find is between non-equity entry modes (e.g., export, sales representatives, and non-equity joint ventures) and equity entry modes (e.g., Greenfield/Brownfield investments, M&A, and equity joint ventures). Within the equity entry modes, we differentiate between different levels of control, with international (equity) joint venture (IJV) implying shared control and Greenfield/Brownfield investments as well as M&A activities leading to full control of the international presence, so-called wholly owned subsidiaries (WOS) (Brouthers 2002). The literature on entry mode choices unfolds in three basic directions (Samiee 2013). The first follows the assumption that ownership and control determine the entry mode (Boellis et al. 2016; Pukall and Calabrò 2014). The second relies on country risk and development stage, concluding that, the higher the risk, the less likely equity entry mode becomes (Morschett et al. 2010). The third direction examines the role of cultural distances that reduce the likelihood of firms investing in a country, finding a higher likelihood of entering culturally distant markets with an IJV as opposed to a WOS (Brouthers 2002; Tihanyi et al. 2005). Especially regarding first entries to new markets, unfamiliar cultures cause reluctance (Beugelsdijk et al. 2017) and hence are associated with particularly careful considerations among firms (Morschett et al. 2010).

Exploration and Exploitation of International Opportunities

Firms often internationalize to a specific foreign market because they are presented with a good opportunity to do so. Having a good opportunity is a necessary—although not sufficient—condition to enter a new market, as these opportunities must not only be explored but also entrepreneurially exploited (Shane and Venkataraman 2000). This is also valid for family firms and "serves as the means to the family business' end of long-term survival, sustainability, growth, and renewal" (Goel and Jones III 2016, p. 94). Exploration refers to the activities that redirect organizational resources and competencies toward new opportunities, as opposed to the optimization of existing resources and competencies (Shane and Venkataraman 2000). This concept is vital to the long-term survival of the family firm. However, entrepreneurial exploration can only benefit the firm in the long run when combined with entrepreneurial exploitation (Goel and Jones III 2016). Entrepreneurial exploitation is the use of existing resources and competencies to improve existing opportunities, such as quality or efficiency improvements (Lavie et al. 2010). To succeed as an organization in the long term, exploration and exploitation must be combined in a purposeful manner and not be seen as a trade-off (Goel and Jones III 2016; March 1991).

The framework of entrepreneurial exploration and exploitation has also recently been applied to help better understand the internationalization strategies of family firms (Calabrò et al. 2017b). For such firms, internationalization endeavors begin with opportunities that must be identified as such and subsequently exploited. Nevertheless, there is a need to better understand whether and to what extent international opportunities are actively created or passively discovered, and the use of opportunity identification theory (Ardichvili et al. 2003) may help to shed new light on the family firm internationalization debate. This theory distinguishes between two types of opportunity identification: accidental discovery (serendipity) and purposeful search (deliberation) (Zaefarian et al. 2016). The former refers to the unexpected identification of an opportunity, one that is discovered by accident but identified as an opportunity due to constant alertness, which involves being receptive to opportunities but not engaging in a structured search (Ardichvili et al. 2003). Accidental discovery depends on the ability of firms to notice an opportunity without searching for it (Kirzner 1979). Due to their alertness, entrepreneurs are capable of recognizing the value of an opportunity in the moment and dedicating resources for further exploration (Kontinen and Ojala 2011; Shane and Venkataraman 2000). The skill of accidental discovery

has been perfected by family firms (Kirzner 1979). In addition to personal cognitive skills (Shane and Venkataraman 2000), family firms also excel at creating opportunities from accidental discoveries due to short decision-making processes and informal communication channels between managers and owners (Calabrò et al. 2017b). The latter type of opportunity identification, the purposeful search, refers to the process of systematically searching for an opportunity. Here, a structured process of market research, network building, and knowledge creation occurs (Zaefarian et al. 2016). Family firms envision their goal and actively engage resources to gather relevant information to identify new international opportunities (Kirzner 1979).

In the context of family firm internationalization, IOI is often accidental, especially regarding first international moves (Graves and Thomas 2008; Patel and Fiet 2011). Moreover, the unfamiliarity of new international markets increases reluctance to actively consider them as potential targets (Kontinen and Ojala 2011). Thus, family firms commonly do not actively search for international opportunities. Nevertheless, alertness and the ability to react quickly and exploit sudden opportunities are competencies that are unique to family firms (Ardichvili et al. 2003; Patel and Fiet 2011). Additionally, the role of social and business networks and the role of prior knowledge have been explored in the context of IOI (Kontinen and Ojala 2011). International opportunities are more commonly recognized via business networks than social networks. The relevance of prior knowledge cannot be generalized, as it depends on institutional and environmental factors regarding the industry and the organization (Zaefarian et al. 2016).

The issue of whether or not the form of IOI influences the subsequent internationalization process has not been fully captured yet and must be examined in greater detail. As the identification of an international opportunity is only the initial starting point of this continuing internationalization process (Ardichvili et al. 2003), we aim to investigate its potential relationship with the choice of market entry mode among family firms. Thus, we explore if and how the form of IOI—accidental versus purposeful—influences family firms' foreign market entry mode choices.

Methods

Research Design and Sample Selection

Our exploratory research approach, based on multiple case studies, aims to generate insights that can be generalized beyond the study sample (Yin 2011). To this end, we combine Eisenhardt's (1989) approach to multiple case study

analyses with an inductive approach in order to build grounded theory (Gioia et al. 2013). Multiple case studies are adopted to acquire an understanding of *if and how the form of international opportunity identification—accidental* versus *purposeful—influences family firms' choice of entry mode* and to treat this as a replicable experiment (Eisenhardt 1989; Yin 2011). As existing studies do not capture the relationship between IOI and entry mode choice, a theory-building setting with first- and second-order analyses is the most suitable approach with which to lay the foundation for further studies (Eisenhardt and Graebner 2007).

Our sample selection process focused on Germany, as 90% of its firms are family-controlled or influenced (Chua et al. 2012). The German economy is well-known for its hidden champions (among them many family firms) characterized by successful internationalization endeavors (Simon 2009). Our analysis revolves around internationalization endeavors by these firms to China and India, as these markets are among the strategically most important ones for companies around the world. Not only are they the largest markets in terms of population, but their economies are quickly catching up in terms of GDP. Our final study sample consists of ten cases of market entries between 1985 and 2016. All sampled cases have activity in China and India beyond exports or are planning such activity, as that is the only way long-term local expansion is possible, due to high tariffs for imports in these markets. Moreover, we intentionally aimed to capture a variety of entry modes to be able to examine the relationship between the form of IOI and entry mode. Furthermore, the family firms had to be active in the secondary sector and have an annual turnover of between € 100 and € 1000 million (2015) to ensure internationalization aspirations but also differentiate these firms from MNCs. Moreover, we only sampled firms with at least second-generation family ownership and/or management and close to 100% family ownership to exclude effects caused by external shareholders (Singla et al. 2014). The case selection followed Strauss and Corbin (1998) in applying a theoretical sampling logic. The large scope of this study allowed us to investigate a variety of cases and reach a satisfactory level of saturation with the tenth case (see Table 31.1).

Data Sources

To ensure triangulation of the data, we applied a multisource data collection method using primary and secondary data sources. The primary sources consist of personal interviews with top management team (TMT) members, as they possess relevant knowledge regarding internationalization processes.

Table 31.1 Description of cases and overview of interviews

Case	Industry	Year founded	Turnover range 2015 (MEUR)	Ownership structure (%)	Generation	Interview partner(s)	Interviewee's position in the firm	First entry China	First entry India
A	Manufacturing	1889	150–500	100	5th	Family and non-family	CEO	–	IJV (2013)
B	Machine building	1921	150–500	100	5th	Family and non-family	CEO and business development	IJV (1985)	IJV (2013)
C	Manufacturing	1889	150–500	100	3rd/4th	Family	CEO	IJV (1993) failed; 2nd JV (2005)	–
D	Conveyor and drive technology	1925	150–500	100	3rd/4th	Family	CEO and successor	IJV (2004)	–
E	Machine building	1887	150–500	100	4th	Family	Former CEO	Greenfield (2005)	IJV (1950)
F	Machine building	1935	500–1001	100	3rd	Non-family	CFO	Greenfield investment (2005)	M&A (2010)
G	Engineering	1984	150–500	100	1st (2nd incoming)	Family	Head of marketing	Greenfield (2016)	–
H	Engineering	1946	150–500	100	2nd	Family and non-family	CEO and business development	Greenfield/IJV (2002)	M&A (2013)
I	Metal processing	1898	> 1000	100	4th	Family	CEO	IJV (1995)	Sales rep.
J	Filtration systems	1966	150–500	100	2nd	Family	CEO	Greenfield investment (2013)	–

Family firms were approached through "gatekeepers" (Leblanc and Schwartz 2007) or personal letters to the CEO. The interview guidelines were sent in advance to allow interviewees to prepare. We adopted a semi-structured interview strategy with open-ended questions built out of pilot cases selected based on convenience and access (Creswell and Clark 2007). Each firm chose one or two interview subjects based on their involvement in and knowledge of the topic at hand. Beginning in a narrative style and asking the interviewees to describe the family firm, we established an atmosphere of trust. Subsequently, we focused solely on first market entries to China and India. The interviews were conducted in German or English and recorded between March and November 2016 with an average length of 60 minutes. Subsequently, the recordings were transliterated and the German interviews were translated into English to ensure diligence and comparability of the data coding process. For secondary sources, we used follow-up e-mails and phone calls, company websites, brochures, press releases, and databases (e.g., DAFNE). In this way, we gathered contextual information regarding each company's history, financial data, family background, and industry to provide a holistic picture of the cases and ensure comparability (Yin 2011).

Data Analysis

The first phase of data analysis consisted of extensive case descriptions in the form of timelines and narratives using primary and secondary data (Akhter et al. 2016). These narratives already revealed how international opportunities were discovered—whether the process was accidental or purposeful—and the entry mode used to enter the market for the first time. The second phase consisted of data coding focusing on the form of IOI identification and examining possible relationships to the foreign market entry mode. We labeled all sentences and phrases relating to the topic, which allows replication by an independent researcher based solely on spoken (written) words (Gioia et al. 2013). Our findings suggest the existence of a direct relationship between the form of IOI and decisions by family firms regarding first entry mode in China and/or India. To ensure the quality of the research, we followed Yin's (2011) criteria for construct validity via triangulation, external validity through within case and cross-case analysis (Eisenhardt 1989), and reliability by carefully documenting all processes described above. To the best of our knowledge, internal validity was achieved.

Findings

In this chapter, we aim to demonstrate that the form of IOI by German family firms influences their first entry mode choice in the context of the unfamiliar emerging markets of China and India. Indeed, overall, our cross-case analysis concludes that the nature of IOI—whether accidental discovery or purposeful search—has a direct impact on entry mode choice. The examination reveals two core findings: accidental IOI leads to the formation of an IJV, and purposeful IOI results in various entry mode choices (see Table 31.2). We find the first relationship to be positively affected by the perceived cultural distance of the target market and the second to be mediated by the test phase prior to market entry. All these findings (crystallized in propositions) are part of the internationalization process of the sample cases prior to market entry to China and/or India and are subsequently summarized in a comprehensive conceptual model.

Accidental Discovery and Entry Mode Choice

The first behavioral pattern we identify is that an accidental discovery of international opportunity for first entries to China and India results in family firms choosing an IJV as their main entry mode. Our aim is to better understand that relationship. Discovering an international opportunity by accident is a situation in which an opportunity has not been actively searched for by the family entrepreneur and is only recognized as such once presented (Gaglio and Katz 2001; Zaefarian et al. 2016). We find five cases in which family firms did not actively pursue entering the markets of China or India but decided to do so after an opportunity was presented to them.

> *My grandfather was very excited about China after he travelled there back in the 1960s. He always wanted to spend a lot of time there, (…) but the market was just opening in the 1980s and doing business in China was [completely unknown territory and] not an option for a small family firm. (…) [So when the Chinese firm] approached us to do a joint venture, he just said yes, let's try it.* (Case B, CEO, family)

The reasons why opportunities are understood as such are diverse and depend on the individual situation of each family firm and its environment. The concept of recognizing the value of information or a situation once it is present is referred to as alertness (Ardichvili et al. 2003; Baron and Ensley

Table 31.2 Summary of case analysis

Case	China	Year of entry	Type of IOI	Test phase	First entry mode	Reasons for entry mode	India	Year of entry	Type of IOI	Test phase	First entry mode	Reasons for entry mode
A	No	–	–	–	–	–	Yes	2013	Accidental discovery	No	IJV	Cultural distance
B	Yes	1985	Accidental discovery	No	IJV	Cultural distance	Yes	2013	Accidental discovery	No	IJV	Cultural distance
C	Yes	1993/2005	Accidental discovery	No	IJV	Cultural distance	No	–	–	–	–	–
D	Yes	2004	Accidental discovery	No	IJV	Cultural distance	No	–	–	–	–	–
E	Yes	2005	Purposeful search	Yes	Greenfield	Control	Yes	1950/2007	Accidental discovery	No	IJV	Cultural distance
F	Yes	2005	Purposeful search	Yes	Greenfield	Company policy	Yes	2010	Purposeful search	Yes	M&A	Company policy
G	Yes	2016	Purposeful search	Yes	Greenfield	Independence	No	–	–	–	–	–
H	Yes	2002	Purposeful search	Yes	Greenfield/ IJV	Market access	Yes	2013	Purposeful search	Yes	M&A	–
I	Yes	1995	Purposeful search	Yes	IJV	Market access	Yes	2002	–	–	Sales rep.	–
J	Yes	2013	Purposeful search	Yes	Greenfield	Full control	No	–	–	–	–	–

2006). Family firms in particular have the ability to be alert for opportunities without being actively engaged; they are able to "smell opportunities, allowing them to pick up on overlooked opportunities" (Zaefarian et al. 2016, p. 334). Alertness is also dependent on personal cognitive skills, optimism, and creativity (Shane and Venkataraman 2000). The unification of ownership and control among family firms gives them the unique opportunity to act upon unexpected opportunities quickly, as decision-making processes are short (Calabrò et al. 2016a; Calabrò et al. 2017a).

> *We are not that large that we just take 20 to 30 million to explore a new market and see if we have a chance there. Of course, we are aware of the markets developing in our industry, though. So when we suddenly have an opportunity, we take it.* (Case E, former CEO, family)

The initiators of the international opportunity for these five cases of accidental discovery were either a Chinese or Indian business partner or even a competitor proposing collaboration. Thus, they were already part of the family firm's network. This is in line with prior research, which has found that business networks play a key role in the IOI of family firms (Kontinen and Ojala 2011). Once the German family firms had identified the international opportunity as such, they immediately engaged in partnership negotiations with the proposing party.

> *There is a worldwide organization in our industry, and through that organization, where we know a lot of members, because you visit each other and it's very open, we met our Indian partner. We talked to him at some events and then suddenly had this idea to do something together in India.* (Case A, CEO, non-family)

For these cases, we did not find evidence of considerations of alternative forms of market entry in the time between IOI and the actual rollout of market entry. Interestingly, while searching for patterns in the dataset, we identified two correlating explanations for choosing an IJV. On the one hand, cultural distance was the main factor holding family firms back from entering the markets of China and India on their own before the opportunity was presented to them. These family firms are often found to engage in internationalization processes only passively (Zaefarian et al. 2016). However, the local expertise of the party proposing the international business opportunity and the prospective personal relationship reduces perceived cultural distance for family firms. This is in line with findings regarding the risk averseness of family firms in the internationalization process (Graves and Thomas 2008).

Hence, perceived cultural distance ruled out all other market entry forms a priori, even taking into account possible shortcomings of an IJV, such as sharing sensitive knowledge in the partnership.

> *Of course, we knew that they wanted to participate in our technology, but we did not have any clue about the culture and the country.* (Case A, CEO, non-family)

On the other hand, in other cases, the opportunity did present a threat at the same time. In these cases, immediate action was required by family firms, and there was no time or room to explore alternatives. To enter culturally distant markets such as China or India without a partner requires preparation in terms cultural education, market research, and network building. As the opportunity appeared unexpectedly and imposed a threat at the same time, there were no resources available to conduct research and consider alternatives under these time constraints.

> *We had this supplier in China; we were his second largest customer. In 2001, he suddenly decided that he wanted to enter our business. He wanted to enter our market in China. We had no resources or knowledge to just build our own subsidiary in a [culturally distant] country like China. But we could not afford to lose the market; the whole industry was moving there, so we cooperated with him [and entered China with a joint venture].* (Case D, CEO, family)

Overall, an accidental IOI leads family firms to focus solely on this one opportunity and form an IJV with the proposing local partner to overcome the cultural distance of the target market. This leads us to the following propositions:

Proposition 1: Family firms *accidentally discovering* international opportunities will choose an international joint venture as their main foreign market entry mode.

Proposition 2: Family firms *accidentally discovering* international opportunities will be more likely to choose an international joint venture as their main foreign market entry mode as the perceived cultural distance between the home and the host markets increases.

Purposeful Search and Entry Mode Choice

Starting from the assumption that "entrepreneurial discovery depends on a fit between an entrepreneur's specific knowledge and a particular venture idea,

which may be discovered through systematic search" (Fiet 2007, p. 596), we explored and found evidence for a second behavioral pattern among family firms entering unfamiliar markets such as China and India for the first time: family firms purposefully searching for international opportunities. Put differently, their first market entries to China and India occurred in a much more structured manner when compared to the family firms that discovered international opportunity accidentally. A purposeful search refers to all activities related to exploring new options for the expansion of the family firm in international markets (Zaefarian et al. 2016). Specifically regarding the emerging markets of China and India, this implies that the top management team (TMT) of the family firms analyzed acknowledged the importance of entering these markets in the near future. This carefully considered choice was manifested through the dedication of considerable resources to researching the target markets, collecting information and creating knowledge for a certain period of time, as well as building a local network with authorities, local business partners, and potential customers (Fiet et al. 2005).

> *(…) we realized that China represented a growing market due to all the reforms which took place there (…) we said, let's enter the market, as we already did in other markets (…). The only question was: how do you do that? Well, and that's why we made the decision to go to China in '93, and actually entered only in '95.* (Case I, CEO, family)

In our sample, there are a range of different reasons for which the TMT of the family firms developed an interest in the emerging markets of China and India and began the process of conducting research, collecting information, and networking. The explanations of why they discovered the importance of exploring options in those markets range from familial interest in the country to growth aspirations and supplier relationships (Graves and Thomas 2008). In contrast with accidental IOI, the family firms in a purposeful search were conscious of the goal they aimed to reach (Kirzner 1979). It is during these search processes that the sampled family firms then found the "missing piece of information" that triggered the international move (Fiet 2007)—hence, they literally created or discovered the specific international opportunity to enter the market. One of the cases from the group of purposeful searchers in particular applied a highly elaborate approach after having researched their competition in the target market:

> *So therefore we chose quite a pragmatic approach and said, let's simply order some copycats from China. (…) and so we brought all the imitations over here (…),*

analyzed them in our product clinic and then found out which was the best. Surprisingly, it was not the one who tried to build the exact same model, but the one who didn't just copy us but thought (…) we will do it a bit differently. And so we noticed, hey, there are people who reflect and think about things. And then we contacted them. That's how we found our joint venture partner! (Case I, CEO, family)

The cases of purposeful search observed in our sample also involved active engagement in networking and participation in field trips to the countries in question (e.g., organized by the German Chamber of Commerce).

There are these official trips from the Ministry once in a while, and there is a demo area. That is the state helping, meaning Germany goes into certain countries and tries to support the industry, and they support us then. (Case G, CEO, family)

Thus, IOI in all of the above cases not only came in the form of being actively approached by Chinese or Indian business people but also in the form of planned business trips for networking purposes, market research, customer feedback, or external consulting during the purposeful search phase. Thus, the companies possessed rather profound market knowledge and had already made the decision to enter China or India at some point prior to IOI (Patel and Fiet 2011). They systematically invested resources to find a suitable time and form of market entry. In this way, perceived cultural distance—a key reason why companies initially refrain from entering these markets—had already been reduced through these prior experiences (Samiee 2013) and thus no longer exerted an influence on entry mode choice.

I was in China already in 2006 for the first time, and then we decided not to go there, because (…) our product range did not fit at all. Whereas now, they have such big environmental problems and here our way of working fits. This is the reason why we started now. (Case G, CEO, family)

Once the opportunity had been identified as such, our cases show a clear difference in behavior compared to the first set of cases, in which family firms acted rather quickly and were basically blind to alternatives. This second set of family firms also identified the opportunity and began acting upon it, but insisted on exploring alternatives and testing the approach chosen based on the form of IOI (Patel and Fiet 2011). Hence, the firms that engaged in a purposeful search for international opportunities in China or India selected a variety of entry modes, and we do not find a pattern or a tendency toward a specific entry mode that would be dependent on the form of IOI.

Because family firms are more risk averse and less likely to be actively searching for international opportunities (Thomas and Graves 2005), the certain precariousness we find in this second set of cases leads us to the conclusion that fear of failing is higher than in the previous cases consisting of those that discovered their international opportunity accidentally. Thus, these family firms are very alert to alternatives or further opportunities that may appear—without actively searching for them (Ardichvili et al. 2003). For this reason, we find that family firms that are actively seeking international opportunities are also very alert following their first international move to a target market (Kontinen and Ojala 2011). They remained open to alternatives and explored them carefully, whether or not these alternatives are actively discovered in a search process or they appear accidentally.

> *First, we basically followed a Greenfield concept, and were already setting up. And it was then by coincidence that the owner of one of our biggest competitors and market leaders those days approached us and offered his company for sale due to his age. It was a German person in India for 25 years, and he more or less offered us the company. We had all the structures we were about to build in front of us, a network, and a reputation. This is why we then suddenly followed the acquisition route.* (Case F, CFO, non-family)

Thus, we find that the sampled cases that engaged in a purposeful search acted upon the identified opportunity, but were receptive to alternatives—alert to other opportunities during the internationalization process and following a first successful market entry (Zaefarian et al. 2016). To verify the opportunity they have identified, the family firms engage in test phases in the target market. Depending on the industry, the sampled cases either tested their products directly in the market or took orders from a limited number of customers to develop a feeling for local conditions. During this test phase, the family firms often made adaptions to their chosen market entry mode or the products they were planning on selling in local markets. Only after a successful test phase was the final decision on the entry mode made and the internationalization process fully begun.

> *We were already set to go. We already had previous exporting experience in China and a clear idea [at that point] of the product we wanted to launch (…). But we first went there to verify our opinion, and after that test we came up with a completely different product for that market. Hence, we changed the entire strategy after that test!* (Case J, CEO, family)

To sum up, we do not find a direct relationship between IOI as a result of a purposeful search and the entry mode choices of specific family firms. In fact, we find IOI triggers the first market entry, but with various entry modes (the most suitable for each individual family firm). Furthermore, the family firms that actively searched for an opportunity to enter the market are more reluctant to follow that opportunity and invest time and resources in testing the approach first, as explained above regarding the test phase. Following IOI, they display a high level of alertness while pursuing the prior opportunity in a test phase. Only after this test phase is the final choice of entry mode made. These findings lead to our second set of propositions:

Proposition 3: Family firms *purposefully searching* for international opportunities will choose the most suitable foreign market entry mode from among several options.
Proposition 4: Family firms *purposefully searching* for international opportunities will implement a test phase prior to choosing the most suitable foreign market entry mode from among several options.
Proposition 5: Family firms *purposefully searching* for international opportunities will implement a test phase prior to final market entry, especially if their level of alertness is high.

A Conceptual Model for IOI Determining Entry Mode Choice

The previous findings, represented in five propositions, are integrated into a conceptual model explaining the relationships between accidental discoveries of or purposeful search for international opportunities and foreign market entry mode choices (see Figure 31.1).

Regarding the relationship between the accidental discovery of an international opportunity and the entry mode choice, we find clear evidence of a direct relationship between an accidental opportunity discovery and the entry mode of an IJV. Additionally, this relationship appears to be moderated by the perceived cultural distance of the target market of China or India, which strengthens this relationship. Put differently, the higher the cultural distance from the target market, the higher the likelihood that an accidental discovery will lead to the selection of an international joint venture as the main entry mode. For purposeful IOI and entry mode choice, we find that family firms choose the most suitable entry mode and that this relationship is mediated by

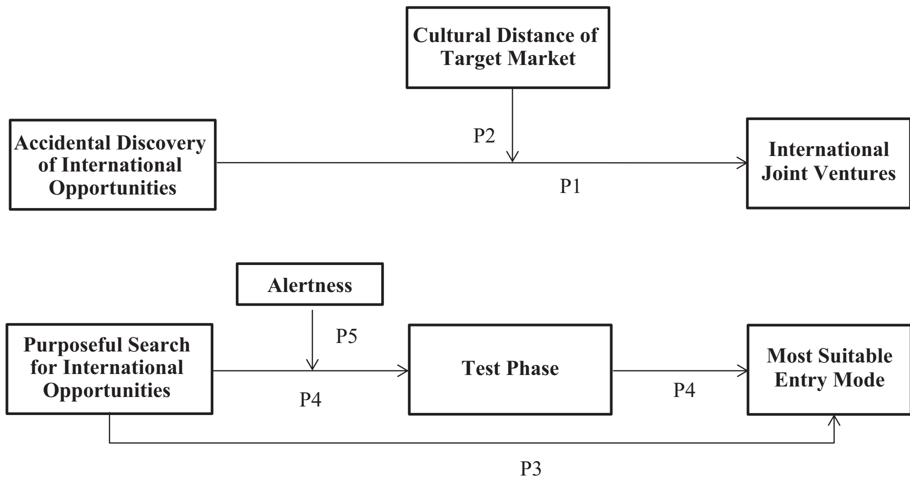

Fig. 31.1 Conceptual model of the relationship between IOI and entry mode choice

a test phase characterized by a high level of alertness. Thus, after family firms have discovered a suitable opportunity to enter the target market, they remain alert to alternatives and engage in a test phase prior to final market entry.

Discussion

The two markets of interest for our analysis are perceived as rather risky, especially among family firms. Due mainly to prejudices about dodgy business practices and untrustworthiness, German family firms often have not dared to actively approach these markets. Moreover, the amount of financial resources, personnel, and time necessary to conduct market research, build a local network, and gain a rudimentary understanding of the Chinese or Indian market can be highly discouraging. Nevertheless, these firms display a high level of alertness to new opportunities and the advantage of short decision-making paths to act upon unexpected opportunities (Calabrò et al. 2017b). This has allowed our five cases involving accidental discoveries of international opportunity to build successful presences in these countries. To counteract reticence due to the perceived cultural gap with the Chinese and Indian markets, they chose to enter only with a local partner in a joint venture (Beamish 2013).

However, not all of our sampled German family firms share this view. In contrast, we also found family firms purposefully searching for international opportunities to enter China or India and investing considerable resources in attempts to understand these markets and their cultures and to establish a local network, all of which are key success factors for their internationalization

processes (Löhde et al. 2017). These family firms selected the type of entry mode carefully, making a structured assessment and choice from among all available options.

Interestingly, they also engaged in a test phase of their market entry mode prior to final entry. Thus, the results of their research efforts must first be verified in a micro market entry in which, for example, they entered with one product in a restricted area or took only a couple of orders from previously selected customers. The test phase is characterized by a high level of alertness to better methods or opportunities that may come along, and market entry strategies are frequently adapted based on these experiences. It is only during the test phase that a decision about the final entry mode is made, as new experiences and feedback from the market may affect the choice.

Contributions to Theory

This chapter makes several contributions to theory and advancing the debate on family firms' foreign market entry mode choices by focusing on the importance of IOIs (Bruneel and De Cock 2016; Hennart and Slangen 2015) within the context of unfamiliar or emerging markets such as China and India. In particular, we distinguish between accidental discovery and the purposeful search for international opportunities and identify patterns regarding entry mode choices in both cases. Studies have found that accidental IOI is a common way for family firms to identify international opportunities (Zaefarian et al. 2016).

On the one hand, we discover that such accidental IOIs by family firms lead to the formation of an IJV for first market entries. The reasons for this are mainly rooted in the unfamiliarity of the culturally distant market at the time the international opportunity is identified (Kontinen and Ojala 2011; Samiee 2013). This relationship is accelerated by the perceived cultural distance of the target market. Hence, family firms prefer to collaborate with a local partner to bridge the culture gap (Killing 2012; Samiee 2013).

On the other hand, and contrary to the dominant view that family firms discover international opportunities only accidentally, we find that family firms that decide to enter the Chinese or Indian markets engage in a purposeful search for international opportunities (Graves and Thomas 2008). In these cases, the most suitable entry mode is carefully selected after a long process of market research and a test phase of the chosen entry mode. Due to the high level of market knowledge acquired in this prior search process (Patel and Fiet 2011), family firms engage in a test phase to verify the opportunity prior to final market entry, which we find has a mediating role between purposeful

IOI and entry mode choice. The family firms analyzed in this study actively used this test phase to gain feedback from the local environment on their product or service, test their distribution channels, build customer relationships, and develop a feeling for the market. All these experiences are then used to reflect on entry mode choice and the previously conducted market approach. Thus, the test phase is characterized by a high level of alertness and may indeed alter the approach previously chosen. These findings support the notion that alertness is relevant not only in the context of accidental IOI but also in purposeful IOI (Kontinen and Ojala 2011).

Limitations and Future Research Directions

Naturally, our research has several limitations that comprise new avenues for future research, and several additional theoretical angles should be examined in the context of family firm internationalization and IOI to fully grasp entry mode choice and its antecedents. First, this exploratory study analyzes only a limited set of German family firms in China and India. Our approach should be applied to different contexts to validate our findings regarding the relationship between IOI and entry mode choice. Although our sample includes a variety of industries, ages, and generations of family firms, it cannot fully cover potential influential factors. Thus, our derived propositions should be tested in a large-scale quantitative study. Furthermore, the nature of specific industries may indeed play a key role in opportunity identification for international endeavors, and thus research on a specific industry context could enrich the current debate on this topic. The business model of firms may also play key role in IOI. Contrasting IOI in light of home market-oriented family firms as opposed to highly international ones—even born global/born again global family firms—could generate valuable insights into how experience influences IOI and, in turn, entry mode choices (Bell et al. 2001).

Second, our research does not account for potential differences in the risk perception of family and non-family employees involved in internationalization (Scholes et al. 2015). Future research should examine the role of non-family employees in IOI and entry mode choice, as there is evidence that family members have a different risk perception with regard to internationalization (Calabrò et al. 2017b). There may be a relationship between non-family involvement in management and purposeful IOIs, which in turn lead to the more careful consideration of several entry mode options (Calabrò et al. 2013). In addition to family and non-family employees' risk attitudes, generational differences may also play a key role in IOI (Calabrò et al. 2017b). In particular, the entry of a new successor has been found to accelerate internationalization

efforts and correlate with higher risk-taking (Calabrò et al. 2016a). Thus, the influence of both multigenerational involvement and takeover by younger generations may impact the internationalization behavior of family firms, and these aspects should be further investigated. Building on this, we also suggest examining risk attitudes applying the concept of effectuation. The maximum affordable loss principle is very common among family entrepreneurs' internationalization endeavors, especially those undertaken in unfamiliar markets (Sharma and Salvato 2011; Simon 2009). Analyzing the issue of why and how that impacts IOI and entry mode choice and whether differences exist between family and non-family experienced leaders and incoming successors would advance debates regarding the uniqueness of family firm internationalization (Calabrò et al. 2017b).

Third, we only analyzed IOI processes resulting in a successful international presence. Of course, sampling data on failed internationalization among family firms is very difficult, if not impossible. However, it could add a completely new angle to IOI and its relationship to entry mode choices of family firms. Follow-up studies should investigate these failed attempts to leverage accidental as well as purposeful IOIs to shed light on the reasons why these attempts failed and what role entry mode played in such failures.

Fourth, the context of our study focusing on family firms with 100% family ownership limits the scope of our findings to these firms. To generalize them to family firms with different ownership structures, future research should account for the role of minority external shareholders and their influence on IOI and entry mode choice (Calabrò et al. 2013; Pongelli et al. 2016). Finally, this study also only analyzes internationalization to the culturally distant markets of China and India. For family firms in particular, which are rather home region-oriented, cultural and geographic distance increases risk aversion, as it threatens their socioemotional wealth to enter such unfamiliar markets for the first time (Gómez-Mejía et al. 2007; Minichilli et al. 2016). Meanwhile, the unfamiliarity of these target markets may alter entry mode choice independent of the form of IOI. Thus, testing our propositions in additional target market settings would shed further light on the relationship between IOI and entry mode choice.

Managerial Implications

The findings of our exploratory study have several implications for practitioners. First, they highlight that family firms limit themselves to only one entry mode choice—IJV with a local partner—in cases of accidental discovery. One could argue that they are blinded once a good opportunity arises and make

little effort to consider alternatives. Although it may often indeed be the best option, cultural distance should be actively reduced through market research and field trips to help firms consider alternative entry modes and make an informed decision. The second group of cases, those engaging in a purposeful search for market entry opportunities, shows that a variety of entry modes can lead to a successful international presence in China and India. Second, family firms should constantly be alert to new and better opportunities, even after successfully entering these markets. China and India are emerging markets with tremendous growth rates and are subject to frequent political and regulatory change. German family firms must constantly be aware of these developments and adapt their strategies to local markets if necessary to fulfill their aspirations and participate in this growth (Löhde et al. 2017).

Conclusion

This chapter has shed new light on whether and to what extent the way family firms identify international opportunities (accidental discovery versus purposeful search) determines the type of entry mode they choose for entering unfamiliar emerging markets such as China and India. Based on the actual experiences of German family firms in China and/or India, we find that successful internationalization processes are often the result of an unexpected opportunity. These accidental discoveries lead to the entry mode choice of an IJV to overcome knowledge deficits about the target market and the need to act quickly to leverage the unexpected opportunity. In other cases, we find a purposeful search for opportunities in the markets of China and India, which in turn leads to careful preparation and an extended test phase prior to market entry due to a deficit of knowledge about the market. In these cases, the most suitable entry mode is chosen after many options have been carefully considered.

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32

Conceptualizing and Investigating Entrepreneurial Action in Family Firms: A Few Promising Directions

Sanjay Goel, Raymond J. Jones III, and Ranjan Karri

Entrepreneurship is primarily concerned with the creation, discovery, and exploitation of opportunities (Shane and Venkataraman 2000). The academic field of family business is based on the desire of some families to keep the business as family owned from one generation to the next (Chua et al. 1999; Chrisman et al. 2005). Thus, entrepreneurship and family business share a unique relationship where entrepreneurship can serve as the "means" to the family business' "end" of long-term survival, sustainability, and growth (Goel and Jones 2016). A long-term and sustainable family business may need to create the competencies and capabilities to act entrepreneurially in order to ensure its survival, growth, and longevity. Entrepreneurial actions thus may be the necessary agency for family business outcomes such as succession (Marchisio et al. 2010), innovation (Zahra 2005; Carnes and Ireland 2013), competitive advantage (Zahra et al. 2008), and firm performance (Brannon et al. 2013).

Given the important relationship of entrepreneurship in the field of family business, it is useful to assess how entrepreneurship unfolds in the family

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E. Memili, C. Dibrell (eds.), *The Palgrave Handbook of Heterogeneity among Family Firms*,
https://doi.org/10.1007/978-3-319-77676-7_32

business in the form of entrepreneurial actions (McMullen and Shepherd 2006; Alvarez and Barney 2007). Entrepreneurial actions are defined as "efforts to bring about new economic, social, institutional, and cultural environments through actions of an individual or group of individuals" (Rindova et al. 2009). Entrepreneurial actions also refer to "behavior in response to judgmental decision making under uncertainty about a possible opportunity to profit" (McMullen and Shepherd 2006: 134). McMullen and Shepherd (2006) advance a conceptual framework that proposes two essential elements for entrepreneurial action to occur—the knowledge or perceived uncertainty and the motivation or willingness to bear uncertainty. Both knowledge and motivation are required in a two-stage process for entrepreneurial action to occur. Knowledge about the state of the environment and the motivation to apply or adapt to the environment may give rise to third-person opportunities—latent opportunities discovered due to the alertness of an actor who was able to gain knowledge and has motivation to imagine or discover them. Third-person opportunities are converted to first-person opportunities when the actor decides to act on such opportunities, taking ownership of the risk inherent in such action. This conversion involves an evaluation stage that consists of a risk assessment combined with the desire to act through entrepreneurial action. For example, a change in the technology environment may present a third-person opportunity for an alert entrepreneur and the decision to act based on desire and feasibility assessment will result in a first-person opportunity to the entrepreneur. It is in the pursuit of perceived opportunities that entrepreneurial actions take the form of resource creation, resource expansion, and finding new application for existing resources (Hayek 1945).

A considerable body of work links entrepreneurship and family business in general, which includes several special issues related to this topic presented in journals like *Strategic Entrepreneurship Journal*, *Small Business Economics*, *Entrepreneurship and Regional Development*, the *International Journal of Entrepreneurship and Innovation*, and so on. In this chapter, we provide a foundation for entrepreneurial action to advance the study of entrepreneurship in a family business. While there is a substantial literature that focuses on the nature of "opportunities," and the nature of the "actor" (entrepreneur), there has been relatively less written on the nature of entrepreneurial action itself. We examine the actions in more detail and emphasize the connection of actions to specific actors. We provide an overview of the correspondence and fidelity of these activities in family business to the general understanding of entrepreneurial actions, as well as highlight the distinction of these activities as they are conceptualized or undertaken in family business. A secondary, and

a more modest purpose of this effort is to bring the fields of entrepreneurship and family business closer, as well as providing areas where family business can enrich the broader understanding of entrepreneurial actions.

We depart from the understanding of entrepreneurship as exploration, discovery, creation, and exploitation of opportunities by focusing on the knowledge and motivation necessary in the family business context for entrepreneurial actions to occur. In order to accomplish our objectives, we first present a foundation of entrepreneurial actions based on the epistemology of the field of entrepreneurship and entrepreneurial opportunities. By highlighting these foundational perspectives in entrepreneurship as a starting point in understanding entrepreneurial actions in family business, we modestly offer family business research an avenue to better understand where and how it actually fits within the broader entrepreneurship literature, as well as fruitful avenues to explore in the future.

Foundations of Entrepreneurial Action

Entrepreneurship is conceptualized in a variety of ways—the creation of new products or processes (Schumpeter 1934), entry into new markets (Lumpkin and Dess 1996), or the creation of new ventures (Gartner 1985)—and as a multilevel phenomenon in which an *entrepreneur* can influence system-wide activity and outcomes (Kilby 1971; Stevenson and Jarillo 2007). Because the outcomes achieved by entrepreneurs are a result of their actions, it is important to understand what it means to *act entrepreneurially.* To act entrepreneurially is to *act* on the possibility that one has identified an opportunity worth pursuing that is based on an evaluation of the feasibility of the perceived uncertainty and the motivation or willingness to bear such uncertainty (McMullen and Shepherd 2006).

Entrepreneurial actions are material in explaining family business survival and growth. To understand the role of entrepreneurship in family business is to ask what it actually means to act entrepreneurially in a family business and who the author of such action is. In family business research about entrepreneurship, the specific entrepreneurial action as a unit of analysis, and the specific author of the action (e.g. individual family business founder, family member, or the family business), is not always well defined. Under these foci, certain actors are engaging in particular circumstances at particular times in their lives. This follows the Euro-American “sociological imagination” tradition of studying social action and of identifying links between issues of personal milieu and social/historical structures and processes (Watson 2013).

Extant literature in entrepreneurship categorizes entrepreneurial action on its supposed function relative to entrepreneurial opportunity—as exploration (Shane and Venkataraman 2000) and exploitation (Singh 2001; Companys and McMullen 2007). Exploration entails a shift away from an organization's current knowledge base and skills, directed at new opportunities, technical skills, market expertise, and/or external relationships (Lavie and Rosenkopf 2006; Smith and Tushman 2005). Activities relating to exploration often include searching, risk-taking, discovery, experimentation, prototyping, and flexibility (March 1991). The focus of such activities is on the ability to reorient organizational competencies toward new opportunities as a source of competitive advantage (Shane and Venkataraman 2000). The act of exploring entrepreneurial opportunities involves reorienting strategies within the organization and is focused on opportunities directed at discovering new means–ends relationships as opposed to pursuing optimization within existing means–ends frameworks (Kirzner 1997; Shane and Venkataraman 2000). Although exploration is characterized by high costs in the short term, it is vital to the long-term performance and survival of the firm. This is because new opportunities are uncertain and may involve a long gestation period before they pay off (Bierly and Daly 2007). While exploration identifies new opportunities, it needs to be complemented with exploitation to leverage existing competencies and reap the rewards (March 1991; Shane and Venkataraman 2000).

Alternatively, exploitation is focused on delivering expected outcomes within the organization by utilizing a firm's current core capabilities (March 1991; Shane and Venkataraman 2000). The effort of entrepreneurs here is to strengthen core competencies and leverage them across related existing opportunity sets within the organization (Shane and Venkataraman 2000). Activities relating to exploitation often include or have the goal(s) of improving quality and efficiency and fostering existing knowledge, skills, technologies, and capabilities in the organization (Benner and Tushman 2002; Lavie et al. 2010). Exploitation activities enable an organization to benefit from the continuity provided by utilizing known and successful strategies (Lamberg et al. 2009), which primarily result in short-term gains (Benner and Tushman 2002). Exploitation alone, however, is not sufficient for long-term survival; without the pursuit or willingness to explore new opportunities, survival may be in jeopardy as changes in the external environment make the organization irrelevant (Lavie et al. 2010; March 1991). An implication of this is that it is important to balance exploitation activities with exploration activities.

Theories of entrepreneurship that embrace this exploration/exploitation perspective of entrepreneurial action relative to opportunity have often taken several forms (Klein 2008). Alvarez and Barney (2007, 2010) highlight that

the study of entrepreneurial opportunities has emerged from two primary approaches. The first, is a focus on the how alert entrepreneurs discover objective opportunities in the marketplace (Kirzner 1989), typically called the discovery approach (Shane 2003). The second approach focused on opportunities being formed by the enactment of the entrepreneur (Aldrich and Ruef 2006), called the creation of opportunities. While these two general approaches have been the focus of much debate (Alvarez and Barney 2008), our intent here is not to add to the discovery-creation debate, only to acknowledge it as a fundamental distinction in entrepreneurship literature.

We now highlight several specific foci within the entrepreneurship literature as a backdrop to better understand the nature of entrepreneurial actions. The first stream is labeled *structural* or system-level approach concerned primarily with how the economic system functions. This structural view is established out of a neoclassical economics tradition concerned with innovations as a result of exogenous shocks or an output of a production function (Langlois and Foss 1999). In neoclassical economics, efficiency is the main concern and the actions by economic agents (actors) are mechanistic, responding to stimuli within the production function, and solving maximization/minimization problems subject to constraints with the firm or industry as the unit of analysis. The “entrepreneurial firm” is defined/envisioned as a new or small firm. The literatures on industry dynamics, firm growth, clusters, and networks have in mind a structural concept of entrepreneurship (Aldrich 1990; Acs and Audretsch 1990; Audretsch et al. 2005). Here, any firm can do what any other firm does (Demsetz 1988), if all firms are always on their production possibility frontiers, and if firms always make optimal choices of input combinations and output levels, then there is nothing for the entrepreneur to do. Even in more advanced models of asymmetric production functions, hidden characteristics, and strategic interaction, firms or agents are modeled as behaving according to fixed rules subject to formalization by the analyst, again leaving little room for entrepreneurial actions. While this view provides efficiency, it does not explain aspects of the drastic variation among firms, nor how creative destruction does actually occur (Schumpeter 1934). Out of this efficiency model emerged what is now known as the Austrian perspective or *functional* view—entrepreneurship as discovery or alertness to profit opportunities (Kirzner 1973). Proponents of these theories argue that the health of an economic system depends on the pursuit of opportunities by prospective entrepreneurs (e.g. Kirzner 1973; Schumpeter 1934). Thus, the central issue is whether entrepreneurial action occurs.

A *functional* or objectivist perspective is steeped in the idea of discovering of opportunities (Chiles et al. 2010). From this perspective, opportunities are

viewed as existing independent of the entrepreneur in the environment as a result of competitive imperfections (Kirzner 1973) and based on *risk* (Alvarez and Barney 2005). These imperfections arise exogenously from changes in technology, consumer preferences, or other attributes of the context in which an industry or market exists (Schumpeter 1934; Kirzner 1973; Shane and Venkataraman 2000). Entrepreneurs, with a reasonable understanding of the desired outcomes from evidence-based calculated decisions (Baker et al. 2003), are able to discover these objective opportunities and then take the necessary action to exploit them (Kirzner 1973; Shane 2003). Actions therefore are embedded within the prevailing institutional structures and logics, they then emerge from the interplay between the entrepreneurial agency of the actor and institutional gaps (Lok 2010).

Moving away from this functional approach are the *occupational* theories that define entrepreneurship as self-employment and treat the individual as the unit of analysis. These theories describe the characteristics of individuals who start their own businesses and aim to explain the choice between employment and self-employment (Kihlstrom and Laffont 1979; Shaver and Scott 1991; Parker 2004). The labor economics literature on occupational choice (e.g. Banerjee and Newman 1993; Evans and Leighton 1989), along with psychological literature on the personal characteristics of self-employed individuals (e.g. Brockhaus and Horwitz 1986), belongs in this category. For example, McGrath and MacMillan (2000) argue that particular individuals have an "entrepreneurial mindset" that enables and encourages them to find opportunities overlooked or ignored by others (and that this mindset is developed through experience rather than formal instruction). This individual-level approach is concerned primarily with how prospective entrepreneurs go about acting. These researchers seek to explain why some individuals are more likely than others to pursue possible opportunities for profit (e.g. Begley and Boyd 1987; Sarasvathy 2001; Shane 2003; Shaver and Scott 1991). As in streams discussed earlier, entrepreneurial action takes center stage, but this time more in terms of *how* it occurs and *who* does it rather than *whether* it occurs. Actions under this *occupational* view are not separate from the actor, for example, entrepreneurial action is purposeful human action.

Out of this focus on the individual-level emerged a *pragmatic* view where opportunities are *created* within the entrepreneurial process (Alvarez and Barney 2007, 2010; Chiles et al. 2010; Lachmann 1976; Sarasvathy 2001; Shackle 1979). This perspective views opportunities as emerging from the subjective cognitions of the entrepreneur (Sarasvathy 2009), who actively

creates and recreates the social world through action and interactions which is necessary and functional because of *uncertainty* in environmental conditions (Lachmann 1976; Shackle 1979). Thus, opportunities are *endogenously* created through mental models and are based on interpretation of past experiences and imagined future expectations leading to a malleable vision of the future (Chiles et al. 2010; Weick 1995); then, these opportunities are acted upon through entrepreneurial activities of experimentation, finally leading to new business (Kerr et al. 2014). This subjective view of entrepreneurship assumes that entrepreneurial means and goals are not fixed—rather, they are transitive. The goals at any point may be means to other goals and vice versa, and hence the labels are relative to each other. In applying the subjective view of entrepreneurial action, it is impossible to clearly categorize the action as "exploration" or "exploitation" a priori—the same action could be classified as both exploration and exploitation, or the action originally intended to be exploration could later be labeled as exploitation and vice versa, as entrepreneurial goals and vision evolve.

Within the stream of subjective but pragmatic approach, a key perspective is *effectuation* (Sarasvathy 2001, 2009). Effectuation is presented in contrast with a causation model that views entrepreneurial activity beginning with the ends or goals and means are acquired to achieve the ends. Effectuation suggests that entrepreneurs begin with the means available to them without predetermined ends. The means often fall into three categories: (1) who the person is (characteristics, abilities, etc.), (2) what they know (education, experiences, etc.), and (3) whom they know (social and professional networks) (Sarasvathy 2001). An effectuation model emphasizes that the ends are developed based on the decision-making criteria employed by the entrepreneur and through exploiting the contingencies encountered in the entrepreneurial process through collaborative approach (Sarasvathy 2001). This approach builds on the pragmatists claim to apply the *logic* the entrepreneur has identified when acting. Here the entrepreneur does not necessarily focus on the opportunities, but use what is available (e.g. who you are, your experiences, and the relationships you have) as the means to create opportunities. Uncertainty still exists, but uncertainty becomes a function of the entrepreneur's interpretation and they can adapt or be flexible, again using the malleability of their goals to resolve the imbalance between affordable and unaffordable risk.

Out of the more pragmatic view, we identify another stream where the literature focuses on *action* as the unit of analysis and not the actors or the context, a *process* view. This perspective aligns with a broader "practice theory" of

entrepreneurship (Steyaert 2007; Johannisson 2011; Watson 2013). The entrepreneur performs patterns of behavior, has certain routinized ways of understanding, or knows about entrepreneurship. These conventional activities of understanding and knowing how to perform them are necessary qualities of entrepreneurship practices in which the entrepreneur participates, but need not be associated with any one or more entrepreneurs. According to this perspective, practice as a "nexus of doings and sayings" (Schatzki 2001) is not solely understandable to the agent or the agents who carry it out, it is likewise understandable to potential observers (at least within the same culture). Practices are thus routinized ways in which entrepreneurs describe things and understand the world, for example, act entrepreneurially (Schatzki 2001). Entrepreneurship as practices moves away from focusing on the author, instead placing emphasis on the activity, performance, and work of continually creating entrepreneurial practices. Practice theory helps to understand the role of material objects in organizing entrepreneurship and highlights the reproduction of entrepreneurial practices across time. Finally, a practice perspective gives importance to the mundane and often overlooked activities within the performance of action. This perspective could be of relevance to family businesses in the context of entrepreneurial actions that enact and reproduce family legacies, and firm survival and growth could become a byproduct of such activities. Yet, the conception, redefinition, contemporization, and editing of such legacies itself could be a subjective endeavor, relative to the vision of a specific family leader, family, or other actors, and hence attention to the cognitive owner and author of the vision could be illuminating and material to understanding the phenomenon of entrepreneurship in any generation.

As a final observation, actions need to be connected to actors. While the "action" could be of primary concern, it is important to clearly identify the "actor" (e.g. individual, group, organization, or institution) as they are necessary to *take* action. While nonhuman entities are sometimes attached to actions (e.g. acts of nature or God), these are not considered entrepreneurial actions, even though they may benefit authors of entrepreneurial actions. Hence, inquiries of entrepreneurial action need to be clear about the actual action as well as who the author(s) of entrepreneurial action is/are. In addition to identifying *who* is acting, it is also important to highlight that entrepreneurial action does not happen in a vacuum and from a structural perspective all actions occur in context, for example, with organization or market structures, at certain times, and so on. These perspectives help to delineate between the antecedents or outcomes (e.g. characteristics of the

actor, their motivations, environmental effects, etc.) of the actions and the functional action itself. While the individual and context influence the action because actions are authored by an actor and are embedded within a context, family business researchers could move toward modeling and studying specific actions that are *entrepreneurial* within the family business, and connecting these actions to specific actors.

In exploring entrepreneurial action, we need to also be careful in that we do not solely focus on action from the "entrepreneurial hero or visionary" perspective (Read et al. 2010; Watson 2013) where *grand* actions with impactful outcomes are entrepreneurial. This perspective confuses the action with their impact, which would make it impossible and tautological to have a clear and independent definition of action a priori—since entrepreneurial actions are risky relative to their outcomes, their impact cannot be known a priori. Seemingly mundane daily actions could be entrepreneurial, if they have the element of risk and are conceived in the actor's mind to expand resources. Additionally, not every action taken by an *entrepreneur* may be entrepreneurial. Some actions are purely administrative or managerial (Watson 2013), not aimed toward creating an envisioned future, but concerned with maintaining the status quo or reducing the variance around a phenomenon. Therefore, it is important that researchers be clear about what makes a specific action entrepreneurial and whether they are actually studying/observing one or more entrepreneurial actions.

The conceptual overlap of these approaches suggests that they are complementary. In fact, researchers employing individual level as the unit of analysis have frequently borrowed from theories grounded in the system-level approach (e.g. Kaish and Gilad 1991). We especially see the use of entrepreneurship across levels in family business where the unit of analysis can shift drastically from the family, to the family leader, to individual employees, and then back to the firm. Therefore, in addition to identifying the specific action that is entrepreneurial within the family business as well as the specific actor and the context, it is important to highlight the stream of entrepreneurship research guiding the understanding of the entrepreneurial action. The ability to clarify the foundational theoretical grounding in a specific entrepreneurial literature can help not only advance family business literature, but can also, as Miller et al. (2016) posit, offer new insights into the entrepreneurial perspectives, given the uniqueness of family businesses.

Table 32.1 provides a sample of key papers in entrepreneurship literature where elements of entrepreneurial action were studied.

Table 32.1 Elements of entrepreneurial action from key entrepreneurship literature

Key contributions	Key element of entrepreneurial action	Unit of analysis (action, individuals, organization)	Implications
Schumpeter (1934)	Innovation	Action (can be by an individual, firm, network)	Opportunities do not exist, individual actions create through destruction (or rendering current relationship between means and ends obsolete
Kirzner (1973, 1997)	Discovery (alertness)	Action	Opportunities are exogenous exist waiting to be recognized or discovered
Mises (1949)	Shapes the market	Action	Opportunities are enacted by the entrepreneur
Casson (1982), Knight (1921), Foss et al. (2008)	Judgment	Action under uncertainty and fundamental uncertainty	Opportunities are endogenous, do not exist per se, are subjective, and are thus imagined. They are revealed once the action is complete and visible to others (profits are realized)
Shane (2003)	Discovery and exploitation—individual-opportunity nexus	Individuals and organizations	Opportunity identification can lead to improvements, creating new firms, new products, etc.
Shane and Venkataraman (2000)	Discovery and exploitation	Individuals and organizations	Discovery of new "means-ends" frameworks
Alvarez and Barney (2007), Sarasvathy (2001)	Comparison of all approaches (discover, creation)	Action	Discovery—actions in response to opportunities, creation—opportunities as a result of action
Kihlstrom and Laffont (1979), McGrath and MacMillan (2000)	Self-employment - Individuals have an entrepreneurial mindset	Individual action	Exploit opportunities

(*continued*)

Table 32.1 (continued)

Key contributions	Key element of entrepreneurial action	Unit of analysis (action, individuals, organization)	Implications
McMullen and Shepherd (2006)	Focus on theories of entrepreneurial action—knowledge and motivation essential	Entrepreneurial actions can range from opportunity recognition (existing to be exploited in the system) and enactment of opportunities (individuals shaping through imposing their will)	Applying system level theories of entrepreneurship have limitations at the individual level of analysis

How to Classify Entrepreneurial Action in Family Business

Entrepreneurial Action in a Family Business Context

As the review of entrepreneurial action above establishes, the specification of authorship of entrepreneurial action is a critical component of entrepreneurship. Entrepreneurial action in family firms can be specified with respect to the authors of action. Entrepreneurial action in a family business could be authored directly by the family business leader (e.g. founder), by specific other (individual) family members, by the family collectively, by a combination of family and non-family managers, or by non-family managers governed by the controlling family.

We explore this distinction using the example of Ford Motor Company across generations. Henry Ford who built his first vehicle in 1896, and established the Ford Motor Company in 1903 authored the initial entrepreneurial action. After his death in 1947, his grandson Henry Ford II became the leader of the company, introducing several new models, including the iconic Ford Thunderbird in 1955. When the company became public in 1956, the family retained 40% controlling interest, as external managers were brought in to grow the company further. Subsequent entrepreneurial actions were initiated, authored, or coauthored with external managers Robert McNamara and later Lee Iacocca, such as the conception and introduction of models such as the Falcon, Mustang, and Pinto. If Ford Motor Company expands into a business making driverless cars today, the action meets the definition of "entrepreneurial

action," occurs in a family business context, and is approved by the family owners, but the authorship of the action most likely may not be traced back to the controlling family. Actions in this context are more likely to resemble corporate entrepreneuring, with enabling mechanisms set up by a series of actions by non-family executive managers, acting within a cultural and institutional context created by the controlling Ford family.

Direct Entrepreneurial Action by the Family/Family Members

In this case, the family plays a more direct and involved role in conceiving and authoring the entrepreneurial action. Several variations are possible even in this scenario. A lone visionary could author the action with family members as executors or helpers. Several scholars have identified the "lone founder" in family business as the driver of entrepreneurship, and some have also identified specific differences in the actions of lone founders relative to those of subsequent generations. What has been less commonly documented and studied are cases where ideas and subsequent actions developed via inputs from family members, or as collective entrepreneurial action by the family as a unit. Opportunities created only as a family (i.e. collective opportunities would otherwise be invisible were it not for the family). Anthropological approaches, kinship, and so on could be incorporated, along with collective entrepreneurship.

In family business literature, the utility and need for specifying the authorship of entrepreneurial action is also evident by well-documented differences between founder-led and next-generation-led family businesses. For instance, Miller et al. (2007) suggest that founders are led by entrepreneurial rationality and could be analyzed using traditional conceptualization of entrepreneurs and entrepreneurship—they create opportunities and harness resources to take action relative to an entrepreneurial vision. Because of their initial resource endowments, their actions are likely to deploy elements of entrepreneurial action, such as bootstrapping, malleable vision, resource enlargement, and options management with an eye on affordable loss. Subsequent generations of the family face vastly different resource endowments, as well as legacy and ownership conditions which may act as boundaries and constraints on subsequent entrepreneurial actions.

Table 32.2 provides distinction between these different authors of entrepreneurial actions and the characteristics of those different types of action in family firms.

Table 32.2 Classification of entrepreneurial action in family business

	First-order actions	Second-order actions	Family business as a context
Characteristic of action	Directly entrepreneurial (novel, purposeful)	Entrepreneurship enabling	Corporate entrepreneuring
Author of actions	Family, family member	Family or non-family employee	Non-family employees, teams, the organization
Definition of action	Entrepreneurial actions toward an envisioned future	Creating or enlarging resources and competencies for entrepreneurial action	Entrepreneurial actions taken as the general course to grow or expand the business
Example of action	The family business owner or group of owners decide and then act entrepreneurially (Ciambotti et al. 2012); family members and owners strategically experimenting for business development (Bhaskaran 2004); family members are most strongly involved not only in making decisions about developing or expanding new ventures but also pursuing these opportunities through building the necessary networks as a key resource (Klyver 2007). The family business owners recognize new opportunities and acted to pursue these opportunities through the sale of one business and starting a similar business with a better business model and no controlling partners (Short 2007)	Family business owners and managers manage the organization culture to ensure growth, innovation, and survival creating a situation where entrepreneurial actions can occur (Hall et al. 2001); the specific orientation of the family and business can enable actions of individuals across the firm (Leenders and Waarts 2003); the character of the family through experience and relationships can enable expansion (Colli et al. 2013); the family business owners/managers provide a more open, less formalized, and autonomous organization structure/culture enabling more entrepreneurial decisions (De Massis et al. 2013). The creation of an extended system of leadership across family and non-family managers to grow the business (Ng and Thorpe 2010)	Entrepreneurial orientation is a necessary part of the entrepreneurial process in all firms and those decisions are made by both owners and managers (Craig et al. 2014). Selling the business to start new enterprises because of sound business rationale and not family issues (Kenyon-Rouvinez 2001). Abundance or constrained resources can influence entrepreneurial actions (Tran and Santarelli 2014); corporate venturing is a normal course of business, but can have various effects on the family business, the family, and individual family members (Marchisio et al. 2010); owners and managers are involved in the process of collaboration for corporate entrepreneurship (Toledano et al. 2010)

Entrepreneurial Enabling by the Family/Family Business

Distinct from entrepreneurial actions could be actions that develop the family in ways that enhances, or enlarges the family as a resource, or the family's competencies to undertake entrepreneurial action. Activities such as narrative construction (Parada and Dawson 2017; Dalpiaz et al. 2014), conflict management, and boundary management via values (Sundaramurthy and Kreiner 2008), culture (Hall et al. 2001), routines (Ng and Thorpe 2010), traditions (Colli et al. 2013), leading to resources such as resilience, cohesion, and social capital, may belong in this domain. The action in this context could be preparing other family members for specific roles or with specific skills, but not all these actions would be entrepreneurial if they do not meet the test of "acting toward creating an envisioned future" versus managerial work of reducing variation and maintaining the status quo. Seen in this light, not all succession may be "entrepreneurial," some could be "managerial," which could hide a lack of entrepreneurial author at the helm.

Measuring Entrepreneurial Actions in Family Business

Because family businesses are not unlike corporations, family business scholars have sometimes relied upon established measures to study entrepreneurial behavior (Zahra 2005), entrepreneurial tendencies (Eddleston et al. 2012), the effect of corporate venturing on family businesses (Marchisio et al. 2010), as well as corporate entrepreneurship as an outcome within the context of family business (Kellermanns and Eddleston 2006) to highlight a few. In borrowing these established measures, there is an inherent focus on the *business* domain within the family business. This is of course useful as it provides a better understanding of entrepreneurial activities as part of the general course of doing business in a family business context. In Table 32.3 we provide several examples of established measures of entrepreneurial behavior (or antecedence of action, e.g. environmental factors, attitudes, and motivation) and where that action may be occurring in the family business.

Since our focus is on entrepreneurial actions in family business that may lead to entrepreneurial outcomes, and these actions may conceivably take place in family or business domains, it is incumbent upon us to suggest the possible ways in which entrepreneurial actions can be measured not just in the business domain but also in the family domain as well as how, when, and where those two intersect (including the author of the action). Entrepreneurial

Table 32.3 Examples of measures and antecedence of entrepreneurial actions in the business domain

Article	Measures	Level of analysis	Characteristic of action/ antecedent in the family business domain	Author in the family domain
Zahra (1996)	Innovation—creation and introduction of products, R&D investments, patenting Venturing—entry into new ventures and creating new businesses Strategic renewal—revitalizing a company's ability to compete and redefining its business domain (improving internal efficiencies)	Firm	Corporate entrepreneuring	Family employee, non-family employees, teams, the organization
Miller (1983), Covin and Slevin (1989), Covin and Covin (1990), Lumpkin and Dess (2001)	Entrepreneurial orientation (innovativeness, proactiveness, risk-taking, competitive aggressiveness, autonomy)	Firm	Corporate entrepreneuring or entrepreneurship enabling	Family, non-family employees, teams, the organization
Kuratko et al. (1990), Hornsby et al. (2002)	Corporate Entrepreneurship Assessment Instrument (CEAI)	Firm	Corporate entrepreneuring or entrepreneurship enabling	Family, non-family employees, teams, the organization
Renko et al. (2015)	Entrepreneurial Leadership Scale (ENTRELEAD)—perceptions of enabling actions of specific leaders	Individual	Directly entrepreneurial or entrepreneurial enabling	Family, non-family employees, teams, the organization
McGee et al. (2009), Schjoedt and Craig (2017)	Entrepreneurial Self-Efficacy Scale (ESE)	Individual	Directly entrepreneurial or entrepreneurial enabling	Family, family member, non-family employee
Davis et al. (2016)	Entrepreneurial Mindset Profile	Individual	Directly entrepreneurial or entrepreneurial enabling	Family, family member, non-family employee

actions are concerned with two primary functions: (1) the endorsement, refining, and shepherd of entrepreneurial opportunities and (2) the expansion of resources—through the identification, acquisition, and deployment of existing resources in new arenas as well as creating new resources to pursue those opportunities (Kuratko et al. 2005), we identify a few ways in which future research can measure entrepreneurial actions that create effects on entrepreneurial outcomes.

To measure entrepreneurial actions in family businesses, literature on corporate entrepreneurship may provide useful directions. Corporate entrepreneurship is often understood as the development and implementation of new ideas into the organization (Hornsby et al. 2002). More specifically, it has been categorized as innovation aimed at venturing and strategic renewal (Zahra and Covin 1995). Innovation is measured by the firm's commitment to creating and introducing new products, production processes, and organizational systems (Covin and Slevin 1991; Lumpkin and Dess 1996). Venturing as an entrepreneurial action is measured by the new businesses a firm sets up (Block and MacMillan 1993), whereas actions of strategic renewal refer to revitalizing the company's operations by changing the scope of its business, its competitive approach, or both (Stopford and Baden-Fuller 1994). Strategic renewal has also been conceptualized as building or acquiring new capabilities and then creatively leveraging them to add value for shareholders. The most popular antecedents to corporate entrepreneurship outcomes (innovation, venturing, and strategic renewal) studied in the literature are related to entrepreneurial orientation such as proactiveness, risk-taking, autonomy, and so on (Miller 1983; Covin and Slevin 1989; Covin and Covin 1990; Lumpkin and Dess 2001). Family business scholars have applied similar empirical models that find the effect of key antecedents to corporate entrepreneurship outcomes and found family-specific variables such as generational involvement as influential factors in predicting corporate entrepreneurship (e.g. Kellermanns and Eddleston 2006).

Research could also examine specific corporate entrepreneurial actions and not just *antecedents* to the action. For example, researchers can build on the work of Kuratko et al. (2005) who developed a framework of specific entrepreneurial actions and behaviors of mid-level managers. Family business research can focus on the specific entrepreneurial actions, for example, the endorsement, refinement, and shepherding of entrepreneurial opportunities and the identification, acquisition, and deployment of resources needed to pursue those opportunities, being taken by family business leadership, as well as other family and non-family business employees to better understand where and how entrepreneurial action is occurring in the family business.

For example, a distinction can be made about whether the family is *enabling* entrepreneurial action by deploying key resources and providing culture where other managers are able to take their own entrepreneurial action *or* is the family business *engaging* in corporate venturing as the normal course of growth and business development.

At a more individual level, researchers may be able to focus on the entrepreneurial ability of the family business leader. In doing so, researchers may be able to determine if they are acting entrepreneurial or enabling entrepreneurial actions. A possible example could be the use of the Entrepreneurship Leadership Scale (Renko et al. 2015). This scale bridges both what we label first- and second-order actions, examining both specific direct first-order purposeful actions (e.g. identifying new products/services to bring to market) and second-order enabling actions (e.g. challenges employees to be more innovative and creative).

Again, we propose that direct action, entrepreneurial enabling, and action in the general course of doing business is not independent of the author of that action. It is therefore important that researchers clarify if their focus is actually on entrepreneurial action or the antecedence of that action. In addition to being clear about “the what” in relation to action, a clarity on “the who” is also as necessary in order to truly understand the integration of business and family domains coalescing around entrepreneurial actions. Table 32.4 provides further examples of how entrepreneurial actions can be examined at the intersection of the business and family domains based on the specific author of those actions.

Techniques to Arrive at a Workable Consensus on “Entrepreneurial Action” in Family Business

Overall, it appears that research on entrepreneurship in family businesses could benefit from a more careful and precise incorporation of entrepreneurial action in future studies (e.g. Goel and Jones 2016; Nordqvist and Melin 2010). While reviews help show the range of divergence or convergence around a specific topic, reviews themselves are influenced by the perspectives and lenses used by the reviewers, and thus are a subjective endeavor (Oxman and Guyatt 1991). There are at least two specific techniques that can be deployed to arrive at a more precise accounting of entrepreneurial action in family business literature—subjecting works to a calibrated scale representing fidelity to an agreed-upon understanding of entrepreneurial action and adopting a Delphi technique to arrive at a workable consensus. We discuss each of these here.

Table 32.4 Possible measures of entrepreneurial action in the family domain

Author of action	Measures	Possible effects
Family founder/ leader	Actions to develop openness among family members and the next generation	Enhances absorptive capacity
	Actions to build cohesion among family members (Carr et al. 2011)	Builds family social capital
	Actions taken to develop empathy (Rafaeli 2013)	Recognition of opportunities embedded in others
	Actions taken to create obligations (Chrisman et al. 2014)	Acquire pre-commitments for deployment in new courses of action
	Actions to engage in social exchange (Bubolz 2001; Daspit et al. 2016)	Expands network required to create new ventures
	Actions to expand the family boundary through strategic alliances with key resources providers (Sirmon and Hitt 2003)	Builds enduring alliances that help in realizing the entrepreneurial vision
	Actions that develop interdependencies within family members (Lumpkin et al. 2008)	Increases solidarity and cohesion in pursuing uncertainty
Next-generation family members	Pursuing education that complements the family business knowledge and skills (Morris et al. 1997)	Expands knowledge needed in related business domains
	Build relationships external and unrelated to family and family business	Develops ability in diverse domains
	Build overlapping networks—overlaps with networks of the previous generation (Arregle et al. 2007)	Develop heterogeneous resources
	Socialization of the next generation (García-Álvarez et al. 2002)	Develops commitment to the survival of family business—impetus for entrepreneuring

Applying a Fidelity Score This process begins with developing a numerically anchored scale and the creation of a coding scheme. The coding scheme includes descriptions of critical and necessary elements indicating specific and necessary elements of entrepreneurial action, both in number and degree. We term each numeric value of this scale as a "fidelity score," and the scale as a "fidelity scale" (see Table 32.5). In the next step, an odd-number team of researchers casts a broad net and identifies all articles that are the broad purview of entrepreneurial action. Next, each team member independently reviews each article relative to the specific and necessary elements of entrepreneurial

Table 32.5 Fidelity scale—entrepreneurial action in family business literature

Fidelity score	Anchor elements for each score
5	Explicit delineation of the entrepreneurial process in part or whole as it relates to entrepreneurial action
4	Implicit delineation of the entrepreneurial process in part or whole as it relates to entrepreneurial action
3	Explicit or implicit linkage to the entrepreneurial process related to entrepreneurial action in a general manner without separation of the components of the process
2	Explicit or implicit linkage to the concept of entrepreneurship (in general) with no specification relating to entrepreneurial action
1	Within the family business domain with the concept of the entrepreneurial process being of only peripheral interest
0	Outside the scope of the family business or entrepreneurial process domains and not relevant to the study

action, and applies the numeric fidelity score that best rates the article on this dimension. It may be helpful for the team to group after each of them has scored the first 5–7 articles to assess whether they are interpreting and applying the scale consistently—any disagreements may provide an opportunity to improve the consistency in scoring. Once all members have assigned a fidelity score, articles for which scores differ across the team are identified. Disagreements between the raters on these articles are first attempted to be resolved via discussion and clarification. Other disagreements that cannot be resolved are documented, and either an average score or the modal score is applied to the article. An inter-rater reliability (IRR) score is calculated to ensure that the categorization at least meets the threshold of consistency among raters. Holsti's (1969) IRR measure of Proportion of Agreement Observed (PAO) could be adapted for this context and calculated by the following equation for the two raters:

$$\text{Proportion of Agreement Observed}\left(\text{PAO}\right) = 2^{*} A / \left(nA + nB\right)$$

where A-number of agreed-upon articles by all raters and nA and nB = number of sufficiently related articles per rater. While there is no agreed-upon level of IRR, reliabilities of 0.7 or above have been accepted in management research (Ellis 1994; Riffe et al. 2005; Krippendorff 2004). This approach has been used in other contexts (e.g. content analysis (Stemler 2001)) and has a wide currency where there may be some degree of variance among topic experts in assessing any particular characteristic in a sample.

The development and use of this scale provides additional consistency and reliability, and may offer a level of objectivity to a critical review and mapping of the conceptual terrain around a topic that can at times be a subjective endeavor (Oxman and Guyatt 1991). It allows the reader to better understand the essential elements of specific constructs and their operationalization, providing a more nuanced review (Oxman 1994).

Table 32.5 provides a definition of our scaling measures. It should be emphasized that the categorization of each article is not a judgment on the overall quality of the articles—only its relevance to the specific elements of entrepreneurial action. For example, one could categorize Short et al.'s (2009) study on *Family Firms and Entrepreneurial Orientation in Publicly Traded Firms* as a 2 because it is more directly relevant to attitudes and firm characteristics than specific entrepreneurial actions.

Using the Delphi Method Another approach to develop a broad consensus around application and development of "entrepreneurial action" as a construct in family businesses is to use an adaptation of the "Delphi method" (Linstone and Turoff 1975). According to Linstone and Turoff (1975), "Delphi may be characterized as a method for structuring a group communication process so that the process is effective in allowing a group of individuals, as a whole, to deal with a complex problem." We believe that our recommendation to use the technique fits the following conditions that they identity as suitable for its use especially well:

- The problem (in this case, a workable consensus around the development of entrepreneurial action construct in family business) cannot be resolved via precise analytical techniques; however, a reasonable solution may emanate from the application of subjective judgments of a knowledgeable collective.
- Individuals that may be able to craft a solution are larger than can effectively interact in a physical setting.
- Time and cost make frequent meetings and discussion between knowledgeable individuals infeasible.
- The heterogeneity of the participants needs to be preserved to assure validity and integrity of the results (i.e. "avoidance of domination by quantity or by strength of personality" (Linstone and Turoff 1975).

Under this approach, the research team would send a comprehensive range of definitions as well as applications purportedly using entrepreneurial action in family businesses to an identified group of family business and entrepreneurship scholars, and iteratively input their comments that help resolve and draw sharper boundaries around the construct, till there is a broad consensus about the definition relative to well-defined contexts.

Directions for Future Research

We believe there are opportunities to develop the family business field in two broad areas. One direction would be to increase the rigor and specificity by which entrepreneurial action is studied in family businesses, by a deeper and clearer specification of the context—for example, specific actors and authors of entrepreneurial actions, specific subsystems where these actions originate, as well as first- and second-order consequences of such actions. While there is more sensitivity to the heterogeneity of family businesses (for instance, public vs. private family firms, small vs. large family firms, and founder-led vs. next-generation-led family firms), there is immense need to measure family variables within these groups relative to entrepreneurial action. Research captures a few of the family variables (such as conflict or cohesion), but without at least controlling for other compensating or conflicting variables, the models are under-specified. Our classification may assist in conceptual modeling that explains entrepreneurial action via more fine-grained and comprehensive mediating variables that map how families influence entrepreneurial action. Fortuitously, there are already calls for acknowledging and modeling the heterogeneity of family businesses in other contexts—for example, different configurations of family control and ownership in the context of performance in family firms (Miller et al. 2007).

The second direction would be to map the terrain of entrepreneurial action within family businesses that has no analogue outside the family business context. We offer a few specific questions/exemplars of possible advancement in these two areas. These questions are organized in Table 32.6 based on the level of analysis and the elements in entrepreneurial action. To reiterate, we described that for entrepreneurial actions to occur, the requirements are the knowledge (perceived uncertainty), the motivation (intentionality or willingness to bear the uncertainty), and the enablers that will allow entrepreneurial actions to take place in the family business context. We also suggest that entrepreneurial actions can occur at various levels—the founder, the family as

Table 32.6 Future research questions on entrepreneurial action in family business

Level of analysis	Individual	Collective	Team
Analogue in family business	Founder	Family	Family and non-family employees
Entrepreneurial action:			
1. Knowledge (perceived uncertainty)	How do family businesses increase the awareness of *what* to do? (Engage in boundary spanning activity, family identity conflict may affect the ability to even know what is out there)	How does the family as a collective create an environment that helps perceive uncertainty and identify third-person opportunities? (Bridging capital—families that are highly networked)	How does the composition of the family business team affect their ability to perceive uncertainty? (Diffused knowledge among team members)
	How does the family develop the knowledge to evaluate the feasibility of an identified opportunity? (Ability to evaluate the feasibility of applying the awareness of a potential opportunity, social networks)	What is the influence of the family on perception of uncertainty?	How does a professional team member affect the ability of a family business in evaluating a perceived opportunity? (Applying the firm's competencies to recognize their ability to act on an opportunity)
2. Motivation (intentionality or willingness to bear uncertainty)	How does the family business apply itself to decide how to act? (Judgments to act—e.g. decision-making using affordable loss)	What particularities of a family (culture, legacy) encourage or dampen the intent or aspirations to act? (Intent is heightened due to legacy, obligations, etc.)	How does the decision-making of a team affect the intentionality to act? (Heterogeneous risk preferences and profiles)
	How does intentionality to develop the business as a family business affect entrepreneurial actions? (The ability to translate intent to action)	How does the family constrain or expand the range of possible entrepreneurial actions? (Bridging capital and aspirations that are passed down as legacy. Obligation versus groomed successors)	How does heterogeneity in teams affect the intentionality, commitment, and execution characteristics of entrepreneurial actions (e.g. speed)?
3. Entrepreneurial enablers	How does the founder influence the formation or evolution of entrepreneurial enablers?	How does the family create and sustain entrepreneurial enablers?	How do the family owners overcome agency issues with non-family employees in teams?

a collective, and a team comprising family and non-family employees. In Table 32.6, we identify and organize critical research questions that will help deepen our understanding of how entrepreneurial actions unfold. For example, the ability to perceive uncertainty requires increasing awareness of what to do as well as the ability of the family to perceive third-person opportunities and at the team level how the team composition influences the ability to perceive uncertainty. Once actors perceive an opportunity in the family firm, an essential requirement is the motivation to bear the uncertainty. This motivation may vary depending on the level of analysis (founder, family, and team). Finally, for an action to occur within the family business, enabling mechanisms at the founder, family, and team levels are instrumental in the actual enactment of entrepreneurship.

Relative to our second direction dealing with studying entrepreneurial actions that may be unique and highly contextualized to family businesses, we describe two issues as exemplars of the kind of research areas that may be pursued.

1. Obligation-based entrepreneurship versus opportunity-based entrepreneurship in family business

According to Audretsch and Thurik (2001), an individual can create a start-up either because he fears unemployment or because he discovers an opportunity. This vision of business creation according to Bhola et al. (2006) results in two "types of dynamics": either push or pull. Since Reynolds et al. (2002), this dichotomy has given birth to the concept of necessity entrepreneurship (push motivation) and opportunity entrepreneurship (pull motivation).

Entrepreneurship literature has made a distinction between entrepreneurial actions that are driven out of necessity (e.g. to ensure survival when the opportunity cost to an entrepreneur is close to zero), versus those that are driven out of exploiting an opportunity (i.e. out of choice, when an entrepreneur chooses to bear the positive opportunity cost to undertake entrepreneurial action) (Audretsch and Thurik 2001; Reynolds et al. 2002), sometimes also referred to as "push" entrepreneurship or "pull" entrepreneurship (Amit and Muller 1995). Henrekson (2004), on the other hand, labels opportunity entrepreneurship as "first-order" entrepreneurship and necessity entrepreneurship as "second-order" one. The concepts of opportunity and necessity entrepreneurship have been used to distinguish between two types of entrepreneurs (Gurtoo and Williams 2009; Acs et al. 2008; Hessels et al. 2008), on a variety of endowment, demographic, and socioeconomic background. This distinction has important implications for the broader issue of economic development as

well. In the context of economic development, Acs (2006) found that necessity-based entrepreneurship fared poorly relative to opportunity-based entrepreneurship. Their data indicated that the ratio of opportunity-to-necessity entrepreneurship was a key proxy of economic development. Thus as more and more of the population becomes involved in opportunity entrepreneurship and as more and more people leave necessity entrepreneurship (self-employment), the more we see rising levels of economic development. While it has not been specifically studied, we also believe that entrepreneurial actions that are necessity driven would be qualitatively different from those that are opportunity driven. It is likely, for example, that necessity-based entrepreneurial actions are less creative, more short term, more individualistic or selfish (i.e. to benefit oneself and one's family), and less strategic and frequently exceed the affordable loss criterion (i.e. they are riskier), relative to opportunity-based entrepreneurial actions.

We believe that in the specific context of family businesses, another type of entrepreneurial action could conceivably be mapped—what we term as obligation-based entrepreneurship. In a family business, subsequent generations may feel obligated to be entrepreneurial as a duty or obligation they owe to the previous generation and to their family in general. While obligation-based entrepreneurship may be a universal phenomenon, its degree and magnitude may vary across countries. In many cultures, roles are preordained for specific progeny (e.g. the eldest son has an obligation to take over the business and ensure its survival and growth as a duty to the family), regardless of entrepreneurial intention or inclination of the progeny.

The distinction between obligation and right has not been studied within the context of emotions, but is within the context of moral emotions—guilt or shame for not doing something one was supposed to do, and pride for doing something that is right, what one perceived was something that was expected by influential. While "obligation" is not an emotion, perceived obligations do have emotion implications. For example, if the next generation is brought up to "feel" normative commitment to their family business, the founder, and/or their previous generation, they may experience feelings of guilt if they did not take over the business and try to run it as expected. Once they take over, they may feel obligated to keep the business alive via necessary entrepreneurial actions, to assuage their guilt.

Family businesses may take actions that promote both opportunity-based and obligation-based entrepreneurship differentially, which may be reflected in parenting, training, and grooming of the next-generation leaders. For example, to promote opportunity-based entrepreneurship, family businesses may groom subsequent generations more deliberately and provide tailored

solutions for their careers around their capabilities and interests, so that they have more discretion to pursue entrepreneurial actions with family business as a backdrop. On the other hand, family businesses may focus more on connecting the next generation to the family business, promoting the family business as a family heirloom and legacy, and inculcating protecting the family assets over individual interests, which may enlarge the sense of obligation in the next generation, and lead to entrepreneurial actions that are driven by obligations.

Obligation-based versus opportunity-based entrepreneurship in family businesses may lead to qualitatively different entrepreneurial actions as well as resultant outcomes via the mediating role on triggering specific type of commitment in successors. Dawson et al. (2015) found that when individuals' identity and career interests are aligned with their family enterprise, they experience *affective commitment*, whereas family expectations from these individuals are associated with *normative commitment*. Individuals who are concerned about losing inherited financial wealth or who perceive a lack of alternative career paths stay with the family enterprise because of *continuance commitment*. In terms of the quality of entrepreneurial actions, we would expect opportunity-based entrepreneurship to lead to affective commitment, which in turn may be associated with better-quality entrepreneurial actions (e.g. innovative, broader, more radical, etc.). Indeed, Dawson et al. (2014) found that "descendants with affective commitment to their family firms are more likely to engage in discretionary activities going beyond the job description," which is suggestive of increased likelihood of entrepreneurial actions.

2. Collective entrepreneurship (CE) versus team entrepreneurship (TE)

Collective entrepreneurship refers to entrepreneurial actions taken by a collective, where entrepreneurial opportunities are visible only in, and to, a collective. Team entrepreneurship refers to entrepreneurial actions that are constructed together by the team, by acting on opportunities constructed by merging individual cognitions and actions. Thus CE is characterized by collective opportunity (i.e. a potential state of value creation that can only be discovered or created, evaluated, and exploited via CE) *emergence* and *exploitation* through entrepreneurial action where a shared understanding (i.e. a mutually shared mental model (Klimoski and Mohammed 1994; Weick and Roberts 1993) *emerges* within a group of actors (Tuominen et al. 2014). As the shared understanding unfolds in the interrelations and interactions of the group members (Morgeson and Hofmann 1999), the degree of the understanding may not be fixed but dynamic and malleable according to the quality

of the relationships between entrepreneurial group members over time (Blatt 2009). In a family, these relationships are multilayered due to generational differences, as well as their longer evolutionary history. Collective entrepreneurship thus may more naturally occur in business families in the later generation when family members naturally merge their identity with the family, and a superordinate collective mind/actor develops—these families rely on their collectivity to conceive opportunities and take entrepreneurial action. In this context, the "collective" may emerge more idiosyncratically and organically, leading to actions that are imbued by unique family recipes. While specific influences on the emergence and consequences of this collective mind in the family is outside the scope of this chapter, future research could map the conceptual structure of collective entrepreneurship in family businesses, and identify conditions under which the family business exhibits team versus collective entrepreneurship.

Conclusion

In this chapter, we provided an overview of entrepreneurial actions, in order to advance research on entrepreneurial actions in family businesses. Our basic premise is that actors author actions, and therefore a study of actions cannot be too far removed from actors. This premise and the focus on actions rather than outcomes then lead to a sharper focus on entrepreneurial actions in each of the three domains of family business as well as their intersections—business, family, and ownership/management. While many studies have investigated entrepreneurship in family business, it has not always clear whether the study is about entrepreneurial actions, characteristics of actions (e.g. risk-taking), or outcomes (e.g. innovation). We believe studies that draw a sharper distinction between these would develop deeper conceptual and practical knowledge about entrepreneurship in family businesses. Furthermore, there seems to be a preponderance of work at the intersection of family and business domains. It is likely that some of the issues we have identified could be resolved due to better integration of entrepreneurship and family business fields. To spur such integration and an active dialog, we have proposed techniques for assessment and convergence.

As we outline above, once we define entrepreneurial actions in a more abstract sense, it is possible to study entrepreneurial actions even purely in a family domain. So, for example, specific actions involved in parenting could be entrepreneurial, and some business families could conceive and act entrepreneurially while performing the general responsibility of parenting, which

could be one source of difference in outcomes we see between entrepreneurial and non-entrepreneurial families. To that end, we have provided some examples of measures of entrepreneurial action in different domains and authored by different kind of actors in family businesses. These should obviously be taken as illustrative and not exhaustive catalogs of all possible areas of inquiry on this topic. Overall, there appears to be significant opportunities to contribute meaningfully in the broader area of entrepreneurship in family businesses via a focus on entrepreneurial actions authored by specific actors in the family business context.

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Exploring the Role of Family Firm Identity and Market Focus on the Heterogeneity of Family Business Branding Strategies

Isabel C. Botero, Dinah Spitzley, Maximilian Lude, and Reinhard Prügl

Introduction

To remain competitive, organizations need to create unique value propositions that help differentiate their products and services from those of similar companies. One of the ways organizations achieve differentiation is through their strategic branding efforts. Strategic branding helps define the rules and guidelines that an organization uses to determine how, what, when, where, and to whom they communicate their brand messages (Keller 2008). These branding efforts are geared toward developing strong brand associations that will allow the organization to enhance and sustain their distinctiveness by creating positive connections in the minds of consumers (Anisimova

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E. Memili, C. Dibrell (eds.), *The Palgrave Handbook of Heterogeneity among Family Firms*,
https://doi.org/10.1007/978-3-319-77676-7_33

2007). Brands are important for internal and external stakeholders alike. Internally, brands help employees develop emotional connections with what the organization offers, which helps develop loyalty toward the company and a higher motivation (Mitchell 2002). Externally, brands help to highlight and differentiate the organization and their products from their competitors (de Chernatony and McWilliams 1989; Keller 1993) in the eyes of external stakeholders like customers and (prospective) employees. In particular, brands represent a bundle of associations that help individuals make decisions about the types of relationships they want to have with an organization, and their attitudes and intentions toward the organization and their products (e.g., to buy from or to work for a firm; LaForet 2009).

In the context of family firms, the research on branding is still in its infancy (Beck 2016; Blombäck and Botero 2013; Sageder et al. 2016). Up to now, most of the work on branding has focused on exploring two general issues: (1) understanding the perceptions that external stakeholders (mainly customers and prospective employees) have about the "family business brand"[1] (see Beck and Prügl 2015; Botero 2014; Kahlert et al. 2017; Lude and Prügl 2016; Orth and Green 2009 for examples of this work) and (2) understanding how family businesses communicate their family business brand to external stakeholders (see Binz Astrachan and Astrachan 2015; Botero et al. 2013; Carrigan and Buckley 2008 for examples of this work). Results from these two areas of research indicate that stakeholders have positive, neutral, and negative perceptions about family firms depending on the context (Beck and Prügl 2015; Botero 2014; Carrigan and Buckley 2008; Kahlert et al. 2017; Lude and Prügl 2016; Orth and Green 2009) and that family businesses differ in what they decide to communicate to their customers (Botero et al. 2013). However, there is no clear understanding why these results vary.

Chua et al. (2012) suggest that mixed results in family business research may be a sign that there is heterogeneity between the family firms studied. These authors suggest that early work in different areas of family business research has failed to acknowledge that family firms are not homogeneous and that sometimes the variation in behavior and performance among family firms is as large as the variance between family and non-family firms (Chua et al. 2012). Thus, we need to better understand the factors that create heterogeneity in family firm behavior. With this in mind, the goal of this chapter is to examine why family firms use different branding strategies (i.e., communicating the involvement of the family in the business to their stakeholders or not).

We take a sender approach by focusing on the perspective of the organization and try to understand how they make decisions about how to communicate

[1] "Family Business Brand" represents the associations and expectations attributed to communicating that there is family involvement in a firm (Krappe et al. 2011).

their brand. Building on previous work on family firm identity (Memili et al. 2010; Sundaramurthy and Kreiner 2008; Zellweger et al. 2010), branding (Lynch and de Chernatony 2004; Leek and Christodoules 2011), and persuasion (Eagly and Chaiken 1993), we argue that there are two important factors that influence why a family firm is likely to communicate the involvement of the family in the firm: (1) family firm identity and (2) (primary) market focus. Family firm identity shows the degree of integration between the family and the business (Sundaramurthy and Kreiner 2008; Zellweger et al. 2010). Similar to others, we argue that a stronger integration of family and business identities enhance the likelihood of communicating the family's involvement in the firm (Sundaramurthy and Kreiner 2008). However, the extent to which decision-makers perceive that there would be a benefit from communicating the family brand is likely to moderate this relationship. "Market focus" is a term used to explain which type of customers a company defines as their primary target. Building on previous research on market focus (Lynch and de Chernatony 2004) and information processing (Eagly and Cheiken 1993), we argue that the communication of the family business brand will vary depending on whether a business is focused on a business-to-business (B2B) or a business-to-customer (B2C) market. We suggest that, given the differences in how consumers in these two contexts process information, the relevance and effectiveness of communicating the family business brand can be different, which can lead family firms to vary their strategic decisions about communicating a family business brand.

Building on these ideas, we develop a conceptual model to explain how and why there is heterogeneity in the communication of the family business brand. The purpose of our model is to advance the current understanding of family business branding and to identify key areas for future research that can help both academics and practitioners. We see four important contributions of this project to the family business literature. First, our project integrates the concept of heterogeneity to the work on branding to help understand why family firms differ in their strategic communication decisions toward stakeholders. Second, this project explores the value of market context to better understand the heterogeneous behaviors of family firms. By doing this, it helps highlight the interesting complexities that considerations of the context can bring to family business decisions. Third, this project introduces the sender perspective (compared to the more prevalent receiver perspective) as an important component in the research about branding in family firms. And, fourth, this project highlights three different family business branding strategies that can be used by family firms in their communication efforts. In the following sections, we summarize previous literature on family business branding and present the rationale and justification for the conceptual model advanced in this chapter.

The Exploration of Branding in Family Firms

Research about family firms has focused on understanding the unique characteristic of this form of enterprise, and the effects that family involvement can have on organizational decisions (Sharma 2004). Until the early 2000s, the focus of academic research was on understanding the internal characteristics that make family firms unique (Habbershon and Williams 1999; Sirmon and Hitt 2003). As research in the family business expanded, one area that has started to receive attention is family business branding. Family business branding explores what organizations do when presenting their brand to stakeholders, and how these actions affect stakeholder perceptions, evaluations, and actions toward the family firm (Beck 2016). To date, most of the research on family business branding has taken a receiver perspective. The focus has been on how external stakeholders evaluate the family business brand (Krappe et al. 2011), the reputation of family firms (Sageder et al. 2016), and how these perceptions affect intentions toward family firms (Binz et al. 2013; Botero 2014; Craig et al. 2008). Findings from this work suggest that promoting a family firm brand is likely to result in positive perceptions about the organization, which are likely to influence customer attitudes and intentions toward the family firm (Beck and Prügl 2015; Carrigan and Buckley 2008; Craig et al. 2008; Lude and Prügl 2016; Orth and Green 2009). Thus, researchers claim that the family business brand can be used as a source of competitive advantage in the communication efforts of the firm (Blombäck and Botero 2013; Kashmiri and Mahajan 2010; Zellweger et al. 2010).

Even though communicating the family business brand can serve as a distinct source of competitive advantage for these organizations, there is some evidence that indicates that family firms vary in the degree to which they promote their connection to the family (Binz Astrachan and Astrachan 2015; Botero et al. 2013; Micelotta and Raynard 2011). For example, Botero et al. (2013) reviewed 1036 family business websites to find that only 43% of these firms explicitly communicated the family's involvement in the business. Similarly, Binz Astrachan and Astrachan (2015) conducted several interviews for their report about family business branding in the United Kingdom and found that explicitly promoting family ownership was relevant in contexts where personal interaction and craftsmanship were the sources of differentiation between organizations. Therefore, in an effort to continue to enhance our understanding about branding in family firms, this chapter takes a sender perspective to understand how and why family businesses make decisions about whether or not to highlight the family's involvement in a firm. A sender

perspective focuses on the party that is making decisions about what to communicate in their branding efforts (Botero et al. 2013). The model presented in this chapter highlights two important drivers of the decision to communicate intentionally and explicitly the family business brand: family firm identity and market focus of the firm. In the following sections, we present a review of the literature on each of these drivers and articulate the rationale for our model.

Family Firm Identity as a Driver of Selecting a Branding Strategy

The family's involvement in a firm is the characteristic that provides the main source of differentiation between family and non-family firms (Chrisman et al. 2004; Sharma 2004). Because of this, researchers have tried to explain what the overlap of family and business systems does to affect the behavior of family firms. Building on the resource-based view (RBV) of the firm (Barney 1991; Barney et al. 2001; Habbershon and Williams 1999; Habbershon et al. 2003) have argued that the involvement of the family, through management and ownership in a firm, results in a unique bundle of idiosyncratic resources that they labeled *familiness*. When leveraged, this unique bundle of resources has the potential to translate into sources of competitive advantage in the marketplace (Habbershon and Williams 1999), better financial performance (Miller et al. 2005), and greater organizational trust (Steier 2001). There are three ways to explain why the involvement of a family in a firm can result in familiness: the involvement, the essence, and the identity approach (Zellweger et al. 2010). The *involvement approach* indicates that the degree of involvement of the family in the business can affect the resources available to the firm, and this in turn determines the capabilities that can be leveraged to obtain competitive advantage (Habbershon and Williams 1999; Habbershon et al. 2003). The *essence approach* highlights that the influence of the family in a firm comes from the behaviors in which the family members engage while being part of the firm, and it is these behaviors that can provide different capabilities that can be leveraged by family firms (Chrisman et al. 2005). Finally, the *identity approach* suggests that the integration between the business and the family identity is what generates the unique resources that family firms possess (Zellweger et al. 2010). The higher the integration of these two identities, the greater the individual motives to engage in actions that can result in a benefit for the firm. In this chapter, we build on the identity approach to explain the heterogeneity in the communication of the family business brand.

Family firm identity originated from the organizational identity construct. Organizational identity describes the shared perceptions that organizational members have regarding "who we are as an organization" (Albert and Whetten 1985; Brown et al. 2006). It encompasses the features that members view as the most central, distinctive, and enduring of an organization (Albert and Whetten 1985). Accordingly, organizational identity is important because it influences the behavior of organizational members and provides the common ground for a shared system that helps understanding and interpreting interactions within a firm (Whetten and Mackey 2002). Organizations are likely to have multiple identities that need to be managed simultaneously (Balmer and Greyser 2002; Pratt and Foreman 2000). Two identities are relevant and constantly at play in family firms: family identity and business identity (Tagiuri and Davis 1996). Family firms vary on a continuum based on the degree of integration or segmentation of these identities (Sundaramurthy and Kreiner 2008). On one side of the continuum, there can be high segmentation between the family and business identity (Sundaramurthy and Kreiner 2008). Under these conditions, family firms resemble non-family firms because there is a clear separation between the family and the business. On the opposite side of the continuum, there is high integration of these identities. When family members see the firm as a part of their family and the family as part of the firm, they are more likely to uphold family values and beliefs when acting on behalf of the organization (Dyer and Whetten 2006). Under these conditions, the family and the business share similar goals, values, beliefs, norms, and interaction styles (Sundaramurthy and Kreiner 2008).

Family firm identity is shaped by both the family and business subsystem. Family firms are likely to have different degrees of integration between these two identities. Hence, the degree of integration between these two identities can represent a source of heterogeneity that can help explain why family firms differ in how they communicate their brand to stakeholders. Similar to other authors (Binz Astrachan and Botero 2018; Botero et al. 2013), we argue that the strength of family firm identity (i.e., the overlap between the family and business identities) affects if and what family firms decide to communicate as part of their family business branding strategies. When there are low degrees of integration between the identities, family firms see a separation between the family and the business. This separation gives less salience to the family component of the business. Thus, decision-makers are not likely to use any information about the family in their communication efforts about the business. On the other hand, when there is a high degree of integration between these identities, family businesses will be likely to incorporate information about the family and the business in their communication

efforts toward different stakeholders. Under these conditions, the organizations believe that the two components of their identity play an important role in "who they are as organization," and organizational leaders will try to incorporate these two components in the information they will provide to the organizational stakeholders.

Family Business Branding Strategies

Organizational identity is the central platform for the development of communication policies and practices in a firm (Balmer 2008) because organizational identity is seen as the common ground incorporating the shared perceptions that organizational members have about the organization. Communication policies and practices help outline what organizations decide to leverage in their branding practices, and the information to which different stakeholders will have access when developing their perceptions about the organizational brand. In the context of family firms, promoting the family business brand can result in positive, neutral, or negative perceptions by stakeholders (Sageder et al. 2016). Thus, family businesses use different strategies when communicating their family business nature to their stakeholders. These branding strategies can be classified into three archetypes based on the degree of integration between the family and business identity (see Table 33.1).

Type I strategies—*non-family business branding*—are those used by family firms that have little integration between the family and business identities. These strategies have no explicit or implicit communication of the family business brand. Although these firms are family owned, they have segregated their business identity from the family. As Sundaramurthy and Kreiner (2008) argue, the segmentation between the family and the business identi-

Table 33.1 Archetypes for branding strategy based on the integration of the family—business identity

	Type I	Type II	Type III
	Non-family business branding strategy	Dormant family business branding strategy	Integrated family business branding strategy
Degree of integration between family and business identity	Low	Some	High
Communication of family business brand	No	Indirect	Yes

ties leads them to actively avoid communicating their family business nature. They are unlikely to use any family reference or family artifacts as part of their branding strategy (Micelotta and Raynard 2011). Firms that use these strategies behave just like non-family firms regarding their branding strategy, and do not perceive a reputational advantage from communicating their family business brand, or they perceive that it is a liability to the firm (Botero et al. 2013).

Type II branding strategies—*dormant family business branding*—are used by organizations that have some integration between the family and business identities. Although these firms acknowledge their family business nature, they do not explicitly communicate their family business brand in planned communication efforts. Firms that use these strategies often make indirect references to their family business nature (Botero et al. 2013), and rely heavily on the receiver paying attention to these small cues to obtain a competitive advantage that can result from their family business nature.

Type III branding strategies—*integrated family business branding*—are used by organizations that have a high integration between the family and business identity. Firms that use these strategies actively and explicitly promote their family business nature. Companies that use these strategies often have an overlap between the family and business name, and actively use communication artifacts (e.g., pictures of the family, reference to the family history, clear connection to the family, signaling the family background on a logo tagline, or emphasizing the family in commercials, off- and online) as part of their planned branding strategies (Sudaramurthy and Kreiner 2008). These firms are interested in actively leveraging their family association as part of their communication efforts.

Moderating Role of Sender's Perceived Benefits of the Family Business Brand

Even though the identity of the family firm is one of the primary drivers of what the firm decides to communicate, the sender's perceived benefits of communicating the family business brand can act as a moderator of the relationship between family firm identity and the communication of the family business brand. In their work, Binz Astrachan and Botero (2018) find that business owners often evaluate the perceived benefits and costs associated with communicating their family business nature as part of organizational branding efforts. When family business owners perceive that highlighting their family nature provides a positive differentiation in the marketplace, and

they can leverage benevolence from stakeholders, they are more likely to actively communicate it as part of their branding efforts. However, when they doubt that the family business brand is relevant, and/or they believe that there is a downside to being a public family or personifying their brand, they will use constraint when communicating their brand.

Translated into our model, this means that the perceptions of the marketing professional, the business manager, or the family business owner can play a moderating role in the relationship between family firm identity and the decision to promote the family involvement in the firm. In particular, we argue that even when there is no strong integration between the family and the business, if the family firm representative believes that there is a benefit in communicating the involvement of the family in the firm, they may decide to use integrative or dormant family business branding strategies in their communication efforts. Similarly, when a representative of a family firm that has a high integration between the family and business identities perceives that it is harmful to communicate the family involvement in a firm, they may use dormant or non-family business branding communication strategies. By doing this, they avoid the perceived harm of connecting the family with the business.

Market Focus as a Driver of Branding Strategy Selection in Family Firms

Another factor that can influence branding strategy selection of family firms is the market focus of the firm. We use the term market focus to describe the type of market that a firm defines as their primary target. Although there are several ways to classify the market focus of a firm, in this project, we differentiate between business-to-consumer companies (B2C) and business-to-business (B2B) companies. B2C are companies that sell products directly to the end consumers and primarily target the mass markets (Kleinalenkamp 2000). B2B companies, on the other hand, sell refined goods or services to other organizations (Kleinalenkamp 2000). In the context of family firms, there is very little research regarding how market focus can affect the strategic decisions of the firm. However, Botero et al. (2013) suggest that to understand better the communication decisions about branding in family firms, it is important to consider contextual factors that go beyond family and business systems. Building on this idea, we see market focus as a second driver for understanding the heterogeneity between family firms regarding the use of different family business branding strategies.

B2B and B2C markets differ greatly in the range of products/services they are likely to offer their stakeholders. While B2C contexts are mainly focused on products/services that are less complex and for which individuals can make faster decisions, B2B companies are likely to offer highly complex, explanation-requiring, and innovative products/services (Schultheiss 2011). For this reason, the information that is communicated as part of the brand in B2B contexts is more likely to be project-based and adapted to the specific needs of the corporation, while in B2C context, the information communicated as part of the brand is focused on the product or service (Belz 2006; Mervold 1994, as cited in Schultheiss 2011).

A key difference between these two foci is how stakeholders at the center of each approach make purchasing decisions (Lynch and de Chernatony 2004). In B2C contexts, consumers are interested in maximizing the value for each transaction. They on average follow shorter buying processes where the consumer often makes low-involvement and spontaneous purchase decisions. In this context emotions play a very strong role in how customers decide to act to fulfill their wants (Leek and Christodoulides 2011; Mencarelli and Rivière 2015). Buyers in the B2B context follow a different logic. These individuals are trained professionals who try to streamline their purchase processes. They are likely to act based on logic rather than emotions when making decisions (Leek and Christodoulides 2011; Mencarelli and Rivière 2015). In B2B contexts, values of investments are higher and represent general needs of the business and not the wants of an individual. In these contexts more people are likely to be involved in the decision-making process and require more information and time to make their choices (Belz 2006; Mervold 1994, as cited in Schultheiss 2011).

Having different buying logics and structures is important in the branding context because consumers in B2C and B2B contexts are likely to use different types of information processing when making decisions about the brand (Lynch and de Chernatony 2004). The heuristic-systematic model of information processing by Eagly and Chaiken (1993) is a useful framework to understand the different decision approaches that individuals use. This model suggests that there are at least two approaches to process information when making decisions (i.e., Heuristic and Systematic). However, depending on the type of decision that a person has to make, individuals are more likely to rely on one approach more than the other (Eagly and Chaiken 1993). Individuals process information heuristically when they use judgment rules (i.e., heuristics) that are already stored in their memory to make decisions. In heuristic decision-making, individuals process and evaluate information based on context and using minimal cognitive effort (Eagly and Chaiken 1993). An

example of using heuristics in purchasing decisions would be buying the most expensive bottle of wine because it is the best wine. In this situation, the decision-maker is using a heuristic (i.e., a price-quality inference like expensive wine = good wine) to determine what they should buy.

Systematic processing, on the other hand, is based on the comprehensive and analytical judgment of information. When individuals process information this way, they are more likely to use cognitive effort to understand and evaluate information that is given to them (Eagly and Chaiken 1993). When processing information systematically, individuals are more likely to rely on the content and quality of information to make their decisions. An example of using this approach in purchasing decisions would be to do careful research before buying a bottle of wine. In this situation, the consumer would first determine the occasion and type of food that will be consumed, and then determine the type of grape, winery, and year before buying the wine.

Given the distinctive market structures and buying behaviors of customers in B2B vs. B2C markets (see Table 33.2), the marketing and branding strategies of companies need to be adapted to approach explicitly the target group of each market (Lynch and de Chernatony 2004). In B2C markets, buyers will primarily process information heuristically (Lynch and de Chernatony 2004). Therefore, messages in the B2C market need to focus on providing information that is likely to activate positive emotions and heuristics about the brand for the individual. Buyers in the B2B contexts are more likely to

Table 33.2 Branding strategy based on type of market focus

	B2C—context	B2B—context
Characteristics of customers	Mostly individual decision-maker, low-involvement, short, and spontaneous purchase decision based on emotions	Mostly group decision-making of trained professionals, streamlined, time-consuming, and information-demanding buying process based on logic with a high buyer-seller interdependence
Information processing that is prevalent	Heuristic	Systematic
Importance of family business brand information for decision-making	Family business brand can serve to activate positive thoughts about a firm	Family business brand plays a secondary role. Information about the product and the logistics of the decision is likely to be more prevalent
Communication of family business brand	More likely	Less likely

rely on their systematic processing when making purchasing decisions. In the B2B market, branding messages need to focus on justifying and providing rationale and in-depth information that is useful when making more complex decisions (Belz 2006; Mervold 1994, as cited in Schultheiss 2011).

Building on this idea, we believe that an important differentiator between companies that decide to promote their family business brand and those who do not is the market focus of the company. We argue that, given how consumers process information in each context, family business representatives will vary on the importance they place on providing information about family ownership when developing messages about their brand. In the B2C context, customers are more likely to use information about family ownership to activate unique perceptions about a brand. As Sageder et al. (2016) find, even though there are positive, negative, and neutral associations with the term "family firm," most of the studies have found positive associations with communicating family ownership. Thus, family business in the B2C contexts can benefit from promoting their family business nature and is more likely to communicate actively and explicitly their family business brand. However, because in the B2B contexts consumers are more likely to require comprehensive and analytical information about the product or service, providing information about family ownership as part of the brand will not be as relevant. Because of this, family firms in B2B contexts are less likely to actively communicate their family business brand in their communication efforts. In B2B contexts the family business brand plays a secondary role, while information about the product and the logistics of the decision are likely to be the focus of the communication efforts.

A Model for Understanding Heterogeneity in Family Business Strategies

Building on what we have presented in the previous sections, Fig. 33.1 presents a conceptual model that explains why family firms differ in the degree to which they communicate their family business brand. In this model we suggest that the heterogeneity in the branding practices of family firms can be explained in part by two drivers: family firm identity and market focus. Family firm identity is a concept used to describe "who a family firm is" as an organization (Zellweger et al. 2010). Family firms have identities that differ in how they integrate the family and the business components of their identity (Sundaramurthy and Klein 2008). When the identity of a family firm shows

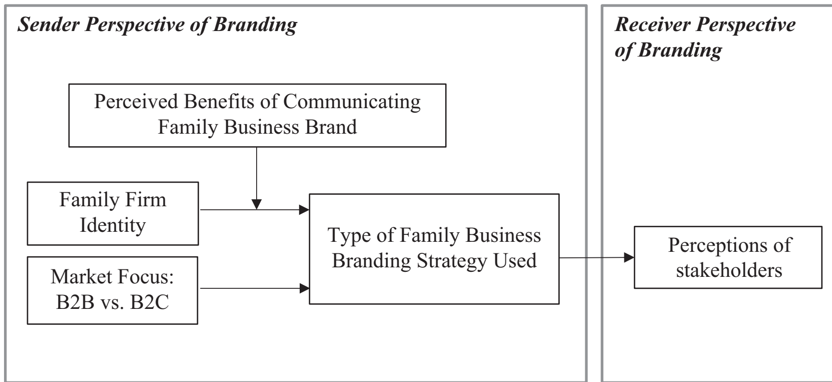

Fig. 33.1 A sender perspective of family business branding communication decisions

a strong integration between the family and the business components (i.e., strong family firm identity), organizations are proud of both their family and business elements and want to communicate this as part of who they are. On the other hand, when there is little integration between the family and the business components (i.e., weak family firm identity), family firms separate their business and their family sides and are less likely to communicate their family business brand when presenting themselves to others. Given that the identity of an organization is likely to affect what the organization decides to communicate to their stakeholders (Balmer 2008; Christensen and Cheney 2004), we propose that the stronger the family firm identity, the more likely the organization is to use an integrative family business branding strategy. However, the weaker the family firm identity is, the more likely the organization is to use non-family branding strategies. With this in mind, we advance the following proposition:

Proposition 1: The strength of the family firm identity influences the type of family business branding strategy that organizations are likely to use.

In this model we also argue that the decision to communicate a family business brand is also affected by the perceptions of business owners, and those who make decisions about the family business brand in a firm (Binz Astrachan and Botero 2018). In family business contexts, there is a great concern to protect the family and the business legacy (Zellweger et al. 2012). Thus, the beliefs of family and organizational representatives are more likely to play a

role in what an organization decides to communicate to others. In this model we argue that the perception of the benefits of communicating the family business brand will change the effect that family firm identity will have on the decision of whether or not to communicate the family business brand. In particular, we suggest that when family business representatives perceive there is a benefit that comes from communicating that the firm is family owned, these organizations will be more likely to promote their family business brand even when there is no strong integration between the family and business components of identity. At the same time, when family business representatives have a strong family firm identity but they do not perceive a benefit from communicating the family business brand, they will be less likely to engage in these types of actions. Based on this, the second proposition that we advance based on our model is:

Proposition 2: Perceived benefits of communicating the family business brand will act as a moderator between family firm identity and the type of family business branding strategy to use such that when there are higher levels of perceived benefits, family firms will be more likely to use integrative family business branding strategies, and, when there are lower levels of perceived benefits, family firms will be more likely to use non-family business branding strategies.

An additional factor that we consider in our model is the market focus of a family firm. Market focus is a term used to describe who the organization sees as the primary target market: a business (B2B) or a customer (B2C). Buyers in these two contexts differ greatly and are likely to require and process information very differently. In the B2C context, buying decisions are likely to be made by one individual who relies on heuristics for their decision-making (Lynch and de Chernatony 2004). Heuristics are mental shortcuts that help individuals make decisions (Chaiken 1980). Thus, when communicating with consumers, organizations need to provide information that will activate positive heuristics in the mind of the consumer so that they buy the organization's product/service. In the B2B context, buying decisions are more likely to be made by groups and are likely to require the type of information that will help the group analyze and understand all of the options to make an informed decision. In this context, buyers process information more systematically (i.e., more comprehensive and analytically), and will require information that will help them analyze and understand better the product/service that the company is offering. Given this, we believe that the communication of the family business brand will be more explicit in B2C contexts. As individual customers seem to have mostly positive perceptions about family firms (Sageder et al.

2016), providing information about the family business brand is likely to activate positive heuristics in the minds of buyers. However, in B2B contexts, information about the family business brand may not be as relevant to the buyers as outlined above and will likely serve as a secondary brand characteristic. Thus, in B2C contexts, family firms will be more likely to use integrated family business branding strategies in their communication efforts. However, in B2B contexts, family firms will be more likely to use dormant or non-family business branding strategies in their communication efforts. Building on this argument, we advance the third proposition of our model:

Proposition 3: The market focus of a family firm will influence the type of family business branding strategy that organizations are likely to use.

Effects of Communicating the Family Business Brand on Stakeholder Perceptions

Although this project is presented from a sender perspective, the decisions that senders make regarding what to include in their branding efforts will affect the perceptions that different stakeholders create about family firms. Signaling theory (Celani and Singh 2011; Spence 1973) is a useful framework to understand how the communication choices of an organization affect the perceptions that stakeholders create about a firm. In the family business literature, signaling theory has primarily been used in the recruitment context (Botero 2014; Kahlert et al. 2017). However, it can also be useful to understand how information about the family's involvement in a firm can influence the perceptions that individuals develop toward a firm. This theory suggests that individuals interpret the information that they receive from an organization as a signal that influences how they evaluate a firm. When individuals receive information that is consistent with what they value and is important to them, they are likely to evaluate this information as a positive sign about the organization. On the other hand, when the information reflects aspects that they do not value, they will interpret this as a negative signal about a firm. Sageder et al. (2016) show that information about family ownership has activated positive, neutral, and negative perceptions about a firm. In particular, their research indicates that communicating the family business brand results in positive perceptions such as trustworthiness, social responsibility, customer orientation, authenticity, quality orientation, employee friendly, competitive, and committed. At the same time, family firms have been perceived as having

limited selection for customers, being greedy, offering limited career opportunities, remaining stagnant, and secretive.

The model presented in this chapter could help us better interpret these conflicting results. For example, it may be that stakeholders react differently to how family firms communicate their brand. Therefore, it may be that when a family firm uses integrated family business branding strategies, they are likely to activate positive signals in the mind of the consumers. However, when they use dormant or non-family business branding strategies, they are not able to activate any of these positive associations. Similarly, it may be that depending on the context of the firm, different stakeholders may be looking for different types of information. Thus, the type of family business branding strategy that the family firm decides to use cannot clash with the information expectations of the receiver. When there are clashes between the expectations of the receiver (i.e., stakeholder/consumer) and the sender (i.e., the family firm), there can be negative perceptions about the organization. Taken together, our model suggests that a better understanding of the sender perspective of branding in family firms can also inform and interpret the mixed results in the receiver perspective of branding in family firms.

Discussion

The study of branding in family firms has flourished since 2008 (Beck 2016; Blombäck and Botero 2013). The focus of this work has been on understanding the perceptions that customers and potential job applicants have about the "family business brand" (Beck and Prügl 2015; Botero 2014; Kahlert et al. 2017; Lude and Prügl 2016; Orth and Green 2009 for examples of this work), and understanding how family businesses communicate their brand to external stakeholders (Binz Astrachan and Astrachan 2015; Botero et al. 2013; Carrigan and Buckley 2008). Even though there has been some research showing that family businesses differ on the degree to which they promote their family business brand (Binz Astrachan and Astrachan 2015; Botero et al. 2013; Micelotta and Reynard 2011), we still know very little of why this is the case. This chapter addresses this gap, by presenting a model to explain the heterogeneity between family firms regarding their use of branding strategies.

Our model focuses on a sender approach to branding, and places the emphasis on the factors that organizational decision-makers consider when determining what to include in the communication toward external stakeholders. A sender approach is useful because it enables researchers and practitioners to

understand better the factors that play a role in the strategic decisions that family firms make. We suggest that the strength of the organizational identity of the family firm (i.e., family firm identity) and the market focus of a firm are the two important drivers that determine the type of family business branding strategies a family firm decides to use. Family businesses vary in the degree to which they integrate the family and their business identities (Sundaramurthy and Klein 2008; Zellweger et al. 2012). The degree to which these two identities are integrated determines how salient the family component is to a firm. This salience, in turn, is likely to be manifested in the communication of the family business brand. However, the perceived benefits of communicating the family business brand play a moderating role in this process. Family businesses differ in their market focus (i.e., B2C and B2B), and this focus can influence the information needs of consumers. Thus, market focus is likely to influence what decision-makers decide to include as part of their communication efforts with consumers as B2B professionals tend to be less sensitive about branding or in general view branding as being less relevant. In this model we argue that market focus determines the salience that information about the family business brand will have in branding strategies.

There are several boundary conditions for the interpretation of our model. First, it is important to acknowledge that our model is focused on the sender as a decision-maker. Thus, the reader should take the point of view of the one designing the branding messages when interpreting this work. Second, our model is built on the notion that the strategic decisions of the firm will have an effect on the buyer and their decisions. We believe that consumers will make buying decisions using the information that organizations provide as part of their marketing efforts. Third, our model focuses on the initial contact with the buyer. In recent years, there has been a move in marketing research to talk about the development of relationships with customers and maintaining these relationships over time (Fournier 1998; Gummesson 2004; Kumar 2015; Zhang et al. 2016). Therefore, the proposed factors and relationships in this model may work differently when we add the concept of time and the development of future relationship. Fourth, we suggest that the decision-making of organizational members follows a rational process. This implies that when family firms make decisions about their branding practices, they rely on facts, examine pros and cons of approaches, and use their knowledge about themselves and their costumer to make decisions about branding.

Implications for Theory and Research

Research in family business branding has mostly focused on the perceptions that external stakeholders have about a family firm (Beck 2016), and the effects of these perceptions for the performance of a firm (Binz et al. 2013; Gallucci et al. 2015; Memili et al. 2010). These approaches are reflective of a receiver approach to understanding family business branding. Our chapter complements and expands this previous research on branding in at least three ways. First, this chapter articulates different branding strategies that family businesses can use as part of their branding efforts. These strategies complement the work of Micelotta and Raynard (2011) by acknowledging that some family firms may completely separate the family and business identities in their branding efforts. Thus, an important contribution of the chapter is that it continues to highlight different family business branding strategies. Second, this chapter emphasizes a broadly neglected perspective to our understanding of marketing in the context of family firms: the sender approach (i.e., the organization and how they make decisions). By adding the sender perspective, we are better able to have an initial understanding of why family businesses vary in the degree to which they promote their family business nature, and address the question of heterogeneity in family firms (Chua et al. 2012). Thus, an important contribution of our work is that it introduces the sender perspective to understanding branding in family firms. A third contribution of our chapter comes from the theoretical basis of our conceptual model. Up to now, much of the research in branding has been more descriptive in nature (e.g., what do people think? What do family businesses do? For examples, see Blombäck and Botero 2013; Beck 2016; Krappe et al. 2011). However, descriptive information makes it difficult to build a theoretical understanding about branding decisions in family firms. Therefore, our model is a step toward a more theoretical understanding of family business branding decisions.

The most important contribution of our chapter is that it helps understand the heterogeneity of family firms regarding their branding practices. This chapter suggests that the variance in family business branding practices is a result of different degrees of integration between family and business identity of the firms that influence their strategic choices. Thus, our work helps to build a theoretical understanding of why different characteristics can affect the choices and behavior of the firm. This responds to the call from different researchers for the importance of considering the differences between family firms to better understand their behavior (Chua et al. 2012).

Our model also helps identify important gaps in the research on branding in family firms that need to be addressed. For example, this model shows that we have a limited understanding of why family firms favor communicating that they are family owned. Most of our understanding in this area is based on conceptual work, and there is very little on branding that considers the family perspective and how they make decisions. Thus, an opportunity for future research is to conduct systematic empirical research to understand why family firms make different branding decisions. This empirical research could test whether the ideas in this chapter work in the ways we expect it to work. A second gap in our understanding that this model highlights is the inclusion of market focus (B2C or B2B) when understanding branding processes in family firms. Based on what we reviewed for this project, most of the published work on branding does not consider the effect that market focus can have on how a family firm brands itself, or how customers in these two contexts perceive the family business. Thus, another opportunity for research that our model highlights is the need for empirical research to understand the role that B2C versus B2B market contexts have both in what organizations do and how customers in each market evaluate the family business characteristics. Finally, we believe that our interpretation of the receiver perspective of branding can also be affected by what this model proposes. For example, there have been mixed findings regarding the evaluations of consumers regarding family firms (Sageder et al. 2016). Based on what we present in our model, it may be possible that stakeholders may react differently to the different family business branding strategies that are used, and these mixed results are the reflection of different evaluations. Thus, another possible avenue for future research can be how stakeholders perceive family firms based on the type of family business branding strategy that they use.

Implications for Practice

Previous research has established that family businesses use different strategies to communicate their family business brand (Botero et al. 2013). However, managers in these contexts have not been provided with some ideas of what to consider when making decisions about branding in family firms and why these factors would matter. Thus, an important implication for practice that comes from our model is that it provides some initial considerations that family businesses can consider when thinking about their branding practices. For example, we suggest that B2B and B2C market characteristics have implica-

tions regarding how to approach the marketing and branding of a family firm because these choices can have an effect on how the customer views the family firm (Lennartz et al. 2015).

Conclusions

In this chapter we hope to provide a theoretical perspective for examining why there is diversity in the way family firms communicate their family business brand as part of their marketing efforts. The ideas presented here are important because they help researchers and practitioners better understand some of the considerations that can play a role when deciding whether to promote the family business brand as part of their marketing efforts. Additionally, we highlight the importance of considering the identity of the family and the market focus of a firm, especially from the sender perspective of branding.

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34

Could Nosy Family Members Be a Competitive Advantage? Familiness and Performance in Mexican Family Firms

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Introduction

Nosy relatives at times can be an asset given their excessive involvement in family business (FB) operations. This is one way to understand "familiness." Habbershon and Williams (1999) introduced the concept of familiness, and they define it "as the unique bundle of resources a particular firm has because of the systems interactions between the family, its members, and the business" (p. 11). They suggest that family involvement leads to familiness, which can be viewed as a unique, inseparable, and synergistic resource and capability arising from family participation and interactions. Chrisman et al. (2003b) later described the concept as the "resources and capabilities related to family involvement and interactions" (p. 468). Familiness is proposed as a source of competitive advantage that generates firm wealth and creates value. For this work, *familiness describes the positive influence of family involvement in the company* (Pearson et al. 2008).

We consider that the understanding of the construct of familiness and its effects on the goals, behaviors, and performance of family businesses is a prerequisite for furthering theoretical knowledge on family business (Hack 2009).

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E. Memili, C. Dibrell (eds.), *The Palgrave Handbook of Heterogeneity among Family Firms*,
https://doi.org/10.1007/978-3-319-77676-7_34

Specialized literature has identified several unique resources that are frequently referred to as the "familiness" of the firm (Cabrera-Suarez et al. 2001). Familiness has become a widely acknowledged and popular construct among family business researchers (Chrisman et al. 2003a; Habbershon and Williams 1999; Moores and Craig 2005; Nordqvist 2005; Matz and Ireland 2013). However, the sources and types of familiness are yet to be understood (Chrisman et al. 2003a). The construct itself—its dimensions, antecedents, and consequences—has been left almost unattended in the field (Sharma and Zahra 2004) and familiness remains a somewhat ambiguous concept (Moores 2009; Zellweger et al. 2010; Pearson et al. 2008; Rutherford et al. 2008).

Sharma (2008)—as well as Chrisman et al. (2005)—called for research to identify the uniqueness of family firms, focusing on how family involvement is an important element of company distinctiveness. Zellweger et al. (2010) contend that familiness is a multi-dimensional construct that needs to be better understood as it can affect the competitive advantage of family firms. The full specification of the familiness construct remains an active area of research (Pearson et al. 2008). For our purposes, familiness can be viewed as a continuous concept ranging from firms with very high family involvement having a strong familiness resource set (i.e., many unique family firm resources) to companies with no family involvement and thus having no familiness resources. Characterizing familiness as continuous in nature rather than strictly a dichotomy between family and nonfamily captures the variability of familiness as a resource across family firms (Habbershon and Williams 1999). Furthermore, this characterization helps capture the overall unique essence of family firms, in line with other researchers who have employed similar concepts of family involvement, family influence, and family control (Konig et al. 2013).

Some scholars have recently proposed that, considering the dynamics of overlapping family and business systems, organizational identity may be a key source of competitive advantage for family firms (Sundaramurthy and Kreiner 2008: 416). Adding organizational identity to the components of involvement and essence approaches to explaining family firm performance seems warranted, given preliminary research by Zellweger and Kellermanns (2008) showing that identity concerns in family firms explain a significant portion of performance variance within these types of businesses. Moreover, departing from the components of involvement and essence approaches, Eddleston (2009) argued that family involvement was based on family configuration and explained how some family firms are particularly proficient at creating a competitive advantage. In accordance with this author, we perceive family business as heterogeneous and acknowledge that while some families can be assets to an enterprise and build familiness, other families could be characterized more as liabilities.

To understand familiness, we need to identify the core dimensions that constitute the construct; otherwise, it risks remaining a broad concept that lacks conceptual clarity (Lambrecht and Korainen 2009). Therefore, the purpose of this chapter is to provide conceptual clarity by identifying the main dimensions of this family business resource. In this chapter, we offer an overview of family firms in Mexico and subsequently review the effects of familiness on company performance using the resource-based view approach, employed to explain theoretically the distinct competitive advantage resulting from familiness. In doing so, we take familiness from a conceptual construct to a more measurable dimension. Afterwards, we go on to outline the method adopted for our research design, then report the results and present a discussion of their implications. Finally, we conclude with limitations and suggestions for future studies.

The importance of our study is that each dimension used in our research (human resources, organizational resources, and process resources) is related to the way each company uses and transforms each one of the resources. Therefore, instead of considering the construct "familiness" as a resource, we can consider it a capability of the company. Our work aims to complement the content of familiness construct. We identify the three dimensions of familiness that can serve as dimensions in future researches.

Theoretical Background and Hypothesis Development

Family Firms in Mexico

Family-owned firms are the main form of business organization in Latin American countries, a phenomenon which has been true for some time, even among large listed companies. The presence of family groups among owners of such businesses is notable (La Porta et al. 1999; Castañeda 2000; Santiago and Brown 2009), with control being exercised through the use of pyramidal structures that enable controlling shareholders to separate their voting and cash flow rights (Mendes and Mazzer 2005). The family who owns the business usually plays an active role in management (La Porta et al. 1999), with over 90% of the 33 largest businesses in Latin America being family-owned and managed (La Porta et al. 1999) in the early 2000s.

Family businesses generate 60% of Latin America's gross domestic product (GDP) and employ 70% of the workforce in the region. If the management of these companies is broken down into generations, it can be seen that 47%

are managed by the first generation, 29% by the second generation, 14% are jointly managed by the first and second generations simultaneously, and only 10% are led by the third or fourth generation (E&Y 2014).

In Latin America, particularly in Mexico, family firms are smaller and younger than their counterparts in the rest of the world: almost half of them are in fact first-generation controlled. Research shows that there is both centralized decision-making and a lack of strategic planning (Burgoa et al. 2013; Durán and San Martín 2013). This situation implies a major problem for Latin American entrepreneurs because they need faster and more modern organizational systems to compete globally. However, only 15 years ago, it was unusual for a Latin American family company to have an international presence. Since then, several regional champions have internationalized their businesses in a series of well-planned opportunistic moves, as is the case with the following Mexican family firms: Bimbo, América Móvil, Cemex, and Televisa.

Regardless of size, Mexican family firms are owned and managed by one or more families or descendants of the founding family. As mentioned in a previous work (Ramírez Solís et al. 2016), five of the top ten biggest companies in Mexico are family businesses (Expansion 2015). These companies are América Móvil, Cemex, FEMSA, Telmex, and Telcel. The other five companies in the top ten are Pemex, CFE (government companies), Walmart, GM, and BBVA-Bancomer (Global Companies) (Avendaño et al. 2009). More than 90% of firms listed on the Mexican Stock Exchange (*Bolsa Mexicana de Valores* or *BMV*, in Spanish) have clear family representation in both capital and control (KPMG 2013).

In Mexico, micro and small and medium-sized (SMEs) enterprises represent 99.8% of total businesses, contribute 52% of GDP, and generate more than 71.9% of jobs (INEGI 2010). According to the SME Observatory (*Observatorio Pyme*, in Spanish), 65% of these companies are family businesses (CIPI 2003), meaning that family businesses represent the largest number of enterprises that currently exist in Mexico. Additionally, 60% of jobs are generated by FB, and they contribute half of the gross domestic product (GDP); around 90% of the more than three million businesses are managed by a family. According to the National Institute of Statistics, Geography, and Informatics (*INEGI*, in Spanish), 57% of these companies have been in existence for less than five years, and these small, more recently founded enterprises are comprised of one family and several non-related workers. They also experience family conflicts in the course of their day-to-day operations, with the younger generations facing more challenges than the founders (García Fuentes 2015).

As reported by Castañeda (2000), in most Mexican family firms the president of the Board of Directors is the main stockholder and the general manager, who therefore experiences little in the way of opposition from independent board members. This author shows that, on average, only 20% of firms allow a majority of external members on the board, and this fact does not necessarily mean independence since those external members can also be involved with another company within the same business group. Besides, an average of 35.2% of board members belong to the president's family, while 38.7% are executive managers and around 57% are employees or relatives of the president. A total of 76% of Mexican family firms lack policies regarding succession, and in 78% of these kinds of companies, family members do not compete with other candidates for a position in the business (Durán and San Martín 2013).

Effects of Familiness on Performance

Rutherford et al. (2008) documented 23 studies in their meta-analysis of the link between performance and familiness, almost all of which were published after 2000. Nine of those studies demonstrated support for a positive relationship between family involvement and company performance, with only one paper (Lauterbach and Vaninsky 1999) finding a negative relationship between business performance and familiness: nine studies demonstrated neutrality. Four studies in the same sample indicated partial support for a positive relationship. Galve and Salas (1996), for example, found no difference in profitability between a sample of family and nonfamily firms but did find that family firms are more efficient than nonfamily businesses.

Several results relevant to our argument are documented in the literature. For example, Schulze et al. (2001) found that the longer the CEO remained in their position, the weaker the performance of the enterprise. Zahra (2003) examined the impact of familiness on company performance in the international arena and found it to be associated with significantly higher performance, measured by the percentage of international sales. Olson et al. (2003) looked at 673 family businesses and found partial support for familiness and performance. They also found that multigenerational family businesses are associated with more revenues. Lee (2004) looked at a sample of 63 firms from the largest 150 family businesses in the United States and found that family firms had a lower profit margin, but a higher return on assets (ROA). Rutherford et al. (2006), using a sample of 934 family firms, found that multigenerational family firms were associated with greater performance, while tension (represented by the divorce rate) is associated with lower firm performance.

As we observed, the level of rigorous empirical study has significantly increased in the last ten years, and the relationship between familiness and performance is gaining more relevance. Despite this, however, the familiness construct is simply not clear enough, and further study is warranted. "The fact that research has not yet produced a dominant theory or conclusive evidence about how and why familiness is so ubiquitous and dominant makes this field of family business interesting and exciting" (Rutherford et al. 2008: 1106).

To understand the effect of family involvement on business performance, we used perceived financial performance, measured with a six-item scale, in our research. Participants reported the extent to which they were satisfied with three financial performance indicators: return on investment (ROI), profits, and sales. We also used three non-financial indicators: customer satisfaction, employee satisfaction, and general results.

Familiness and the Resource-Based View (RBV)

Several authors have applied RBV to the study of family businesses (Chrisman et al. 2009; Eddleston et al. 2008; Habbershon and Williams 1999). According to the RBV of the firm, resources are at the heart of competitive advantage and, therefore, business success; the RBV remains one of the most prominent theoretical foundations of today's management research (e.g., Newbert 2007). RBV describes how resources can contribute to the competitive advantage of organizations, and it is regarded as a good basis for developing a business strategy (Barney 1991). According to the RBV, companies survive by having a sustainable advantage resulting from the ability to combine their resources (Penrose 1959; Peteraf 1993; Wernerfelt 1984).

From the RBV point of view, familiness refers to the idiosyncratic company-level bundle of resources and capabilities that a particular firm has because of the systemic interaction between the family, its individual members, and the business (Habbershon and Williams 1999; Habbershon et al. 2003). Therefore, familiness is often used as a unique way of differentiating between family and nonfamily firms and between high-performing and underperforming family firms (Pearson et al. 2008).

Familiness is an important part of the family firm's resource portfolio; however, from recent extensions to the resource-based view approach, we know that directly owned or controlled resources do not directly produce positive outcomes. Indeed, resources must be managed for their value-creating potential to be reached (Chirico et al. 2013; Sirmon et al. 2007). Following on from this logic, resource management with a focus on structuring the resource portfolio has emerged. This highlights the importance of managers bundling

resources into capabilities and leveraging those capabilities in market conditions (Sirmon et al. 2007, 2011).

RBV distinguishes the nature, characteristics, and potential of a firm's complex and unique internal processes and intangible assets, including the values, beliefs, symbols, and interpersonal relationships possessed by individual members of those groups interacting inside the organization (Barney 1991). The mixing of the resources mentioned above plus the total capabilities will together generate a unique competitive advantage for the firm (Irava and Moores 2010).

Sirmon and Hitt (2003) stated—regarding family firms and the RBV framework—that nonfamily firms acquire, shed, bundle, and leverage their resources differently from family-run enterprises. This usually happens because of the specific differences that family-owned businesses have, particularly Mexican ones. An example would be the way family members get involved in the firm as managers or CEOs even if they do not have the knowledge or the experience to hold this position in the firm.

We agree with Irava and Moores (2010) that familiness is composed of three main dimensions: human resources (*reputation* and *experience*), organizational resources (*decision-making* and *learning orientation*), and process resources (*relationships* and *networks*). To describe the variables used in our research, we must first define the kind of resources we considered to categorize them.

As a synthesis, we can say that the RBV framework assumes that business, diverse in resources and capabilities, is an antecedent for the creation of sustainable competitive advantage (Irava and Moores 2010). RBV has provided a better conception of family firms from an internal perspective. In family-owned firms, the presence of familiness has been related to the generation of sustainable competitive advantage, as each enterprise manages resources in a unique fashion (Irava and Moores 2010).

Many authors claim that as a resource, familiness yields both advantages and disadvantages for family firms (Sirmon and Hitt 2003; Habbershon and Williams 1999; Rutherford et al. 2008). Habbershon et al. (2003) label these as distinctive and constrictive familiness, respectively. We proposed that familiness is not only a resource but also a capability since the definition maintains that a capability is the way resources are used.

Process, Human, and Organizational Resources as the Main Dimensions of Familiness

The research of Irava and Moores (2010) attempted to identify what resources or resource category had more relation to familiness. They described a case-

study methodology of four family-owned firms with similar characteristics, conducting interviews with family members in those companies using three distinct categories: physical, human, and organizational. Irava and Moores employed these specific divisions in accordance with the distinctions made by Barney (1991) who also defined resources as "all assets, capabilities, organizational processes, firm attributes, information, knowledge, etc. controlled by a company that enables the firm to conceive of and implement strategies that improve its efficiency and effectiveness" (Irava and Moores 2010: 102).

Irava and Moores (2010) found in their research that in the four cases analyzed there were six coincidences, among others, that were particularly important to mention as familiness dimensions. Those six dimensions were experience, reputation, decision-making, learning orientation, networks, and relationships. They further divided the six dimensions into three groups (human, organizational, and process resources), following the grouping of resources described by various authors (Barney 1991; Chatterjee and Wernerfelt 1991).

Familiness has been found to have positive (e.g., Tokarczyck et al. 2007) and negative (e.g., Leenders and Waarts 2003; Stewart 2003) effects on company performance. Habbershon et al. (2003) refer to these positive and negative outcomes as arising due to the distinctive and constrictive natures of familiness. However, the field has yet to determine the conditions and factors that cause the specific outcomes (Chrisman et al. 2003a).

Experience is often associated with a variety of assets, which may include managerial and technical skills (Urbano et al. 2013). Besides, it has been argued that because top managers of family firms are there for the long haul, they possess deeper informal firm-specific experiential knowledge that is used to develop the appropriate and enduring networking relationships with external stakeholders (Miller et al. 2009). Chief executives and top management team (TMT) members are instrumental in shaping the strategic direction of a firm (Ensley and Pearce 2001; Rajagopalan and Finkelstein 1992) and hence firm performance (McNamara et al. 2002). Their cognitive understanding and assessment of the business environment are critical in strategy development. For most family firms, the utilization of external networking relationships by top management is a means of acquiring the financial, human, and other strategic resources and capabilities for the strategic organization of their business activities (Acquaah 2012). Networks may also help to understand how resources are integrated and recombined in firms with dynamic capabilities (Grant 1996). In the Mexican context, which in general can be characterized as a transition economy, there is a shortage of experi-

enced management with technical skills, knowledge and expertise, funding sources, and technology, and also exists what is known as institutional voids (Khanna and Palepu 1997). Therefore, human, organizational, and process resources enhanced and exploited by experienced family members in top management positions will positively influence firm's performance. This led us to formulate our first hypothesis:

H1. Family businesses with higher human, organizational, and process resources are more likely to have higher performance.

Concerning generational ownership, we argue that first generations are more apt to result in performance advantages when the family is more involved in the firm. This is probably due to the "founder effect" of first-generation family firms. Founders, by definition, are entrepreneurs (Salvato 2004). The founder built the business out of nothing, knows the business better than anyone, and sees the business as a vehicle to nurture the family in the future (Miller et al. 2008). Also, the founder is looking for additional skills or other attributes to increase his own and the firm's welfare and to enhance the family reputation (Block et al. 2011). Some researchers, such as Anderson and Reeb (2003), Barontini and Caprio (2006), Villalonga and Amit (2006), Adams et al. (2009), and Fahlenbrach (2009), found a positive impact of the family founder CEO on the firm performance. Founder successors may follow the same strategy as they see the firm as a heritage that may be preserved. Although due to less status and power compared to founder, they may be less devoted to the business (Breton-Miller et al. 2011). Family managers may enhance family socio-emotional wealth at the expense of financial performance (Block et al. 2011; Gomez-Mejia et al. 2007). Therefore, the firm valuation may be diminished.

On the other hand, some authors argue that descendant-controlled firms are more efficient and profitable than founder-controlled firms even though founder-controlled firms tend to grow faster and invest more in capital assets and research and development (McConaughy and Phillips 1999). However, recent studies have shown that founder-led family firms outperform nonfamily firms as well as family firms led by later generations (Miller et al. 2007). As such, first-generation family firms are unique, in that they are headed by entrepreneurial founders who recognized a business opportunity that they were able to exploit through the creation of a new business (Aldrich and Cliff 2003). In turn, these founders may be most capable of utilizing their firm's capabilities to further its success. Being entrepreneurs, many founders can create companies that stress the continuous exploitation of core competen-

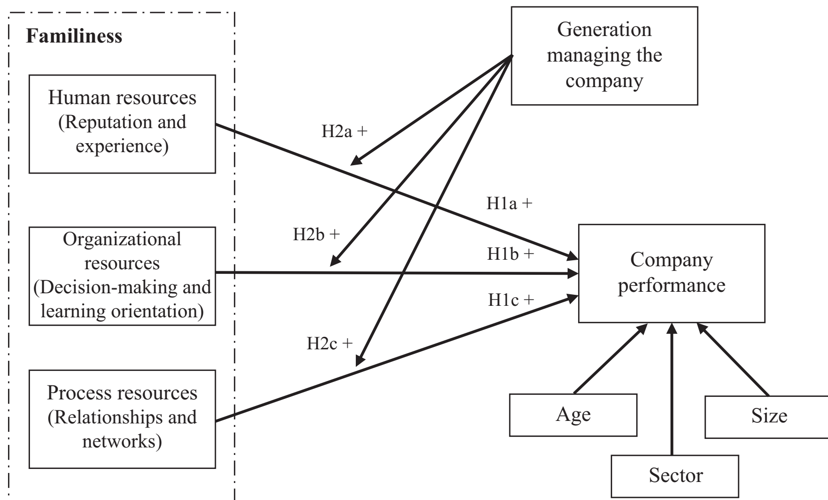


Fig. 34.1 Research model

cies, thus remaining successful, entrepreneurial, and growth-oriented. As such, founding generations may be best able to capitalize on their human, organizational, and process resources. This led us to formulate our second hypothesis:

H2. Family businesses managed by the first generation of owners/managers are more likely to report a positive and stronger relationship between familiness (human, organizational, and process resources) and company performance than those managed by the second, third, or fourth generation.

In Fig. 34.1, we show the model we are proposing for our empirical research, which represents the variables mentioned in the hypothesis.

Method

Data and Sample

For our work, we designed an empirical quantitative research instrument and implemented a survey as a data collection method. The sample consisted of small and medium-sized companies located in the four largest cities in Mexico regarding degree of industrialization: Mexico City, Guadalajara, Monterrey, and Puebla. Cluster sampling was performed according to the distribution shown in Table 34.1. In total, 360 companies were selected. Data collection

Table 34.1 Sample procedure

Sector	Industry	Services	Commerce	Total surveys by company size
Micro	12	12	12	36
Small	12	12	12	36
Medium	6	6	6	18
Total surveys by company sector	30	30	30	

Note: The distribution was the same for each city: Mexico City, Monterrey, Puebla, and Guadalajara. In total, the sample was of 144 micro, 144 small, and 72 medium businesses

took place in February 2014. In particular, personal interviews at the corporate facilities with directors, owners, and managers of the businesses with power over the decision-making process were the main source of our data. Specifically, one person per firm was interviewed, the majority being family members with a clear idea about the dynamics within the company.

The information gathered was validated by a special intelligence system called CS PRO which reduces human error (i.e., ranges, sequence, and internal consistency). Before any analysis, we tested for differences between the early and late respondents, and we found no statistical significance between the groups. The validation of data was carried out using SPSS, and finally, as we did not use incomplete questionnaires in our analysis, a total sample of 194 family businesses was yielded. It is a fact that the sample is not representative of all the family businesses in Mexico, but it does provide an overview of the specific context.

Variables and Operationalization

The dependent variable in our model corresponds to financial and operational performance. The independent variables consist of three dimensions: human, organizational, and process resources. We also controlled for variables that are likely to affect company performance, including the age of the business, size, and sector. We briefly describe each of the components of the model in the following paragraphs.

Dependent Variable

Financial and operational performance (Venkatraman and Ramanujam 1986) was measured with five items on a five-point Likert scale ranging from "inferior 1" to "superior 5." The scale was adapted from two different scales used previ-

ously, one proposed by Gupta and Govindarajan (1984) and the other by Kirca et al. (2005). The respondents indicated if their companies were inferior or superior in each of the following financial criteria: sales growth rate, gross profit margin and return on investment. Besides, respondents evaluated operational criteria: customer satisfaction, employee satisfaction, and global results.

Independent Variables

The human resources dimension was measured with seven items on a five-point Likert scale that merges two different constructs: experience and reputation. The experience scale was adapted from the ones previously used in O'Reilly and Chatman (1986), Allen and Meyer (1990), Carlock and Ward (2001), as well as Klein et al. (2005). The scale focuses on the quality of the suppliers, customers, and allies when compared to the industry norm, but also considers the commitment of family members to working towards business success. The reputation scale was adapted from instruments used previously in Cohen (1963), Delgado-Verde et al. (2011), as well as Fombrun et al. (2000). The scale measures products, services, leadership, vision, and financial reputation.

The organizational resources dimension was measured with seven items on a five-point Likert scale that combines different constructs: learning orientation and decision-making. Learning orientation measures the commitment to learning as part of organizational values and as a necessity to guarantee survival. The scale was adapted from Sinkula et al. (1997). Decision-making was adapted from empirical studies that previously measured the support (Lee and Rogoff 1996; Zellweger et al. 2011), control (Lee and Rogoff 1996; Klein et al. 2005), and emotional attachment (O'Reilly and Chatman 1986; Allen and Meyer 1990; Carlock and Ward 2001; Eddleston and Kellermanns 2007) of family members in decision-making within the firms.

The process resources dimension was measured with nine items on a five-point Likert scale that merges two different constructs: *relationships* and *networks*. On the one hand, *relationships* focus on analyzing the quality of social ties with employees, allies, and family members. On the other hand, *networks* concentrate on how the quality of social links with customers and suppliers feeds back into the firm to develop solutions. Both scales were adapted from previous empirical studies (Miller and Le Breton-Miller 2005; Miller et al. 2009; Cruz et al. 2010).

Moderating Variable

For the moderating variable, we asked the respondents which generation of the family was in charge of managing the firm. Four options were given, first, second, third, or fourth generation. The responses were dichotomized to enable the comparison to be made: the first group corresponding to the first generation and the second group representing the second, third, and fourth generations (Uhlaner et al. 2004).

Control Variables

To capture other organizational and environmental forces related to familiness and company performance, our analysis included three control variables. We asked the respondents the year of the company's foundation, the sector in which it could be classified (e.g., industry, commerce, or services), as well as its size regarding the number of employees. We expressed the age of the company in years (calculated as 2017 minus the founding year). Also, the company was classified according to size: "micro" from 1 to 10 employees, "small" from 11 to 30 employees, and "medium" with more than 30 employees (Mexican Economy Ministry 2002).

Results

Table 34.2 presents the descriptive statistics for the variables analyzed. Due to the use of Likert scales to measure the dependent and independent variables, their means and standard deviations are relatively similar, with organizational resources being the highest (mean = 4.08) and company performance the lowest (mean = 3.65). Regarding company size, 91 of the family businesses surveyed were micro enterprises (i.e., 0–2 employees), comprising 46.9% of the sample. Concerning corporate sector, the sample is distributed more or less equally between industry, services, and trading. The average age of the companies involved in the study is 21.3 years with a standard deviation of 17.8 years.

Regarding the correlations, Table 34.2 shows that company performance is significantly correlated with human resources, organizational resources, and process resources. The correlation level is less than 0.5 but highly significant. It is noteworthy that the correlation between company age and human

Table 34.2 Means, standard deviations, and correlations

	Mean	SD	1	2	3	4	5	6	7
1. Company performance	3.65	0.747	1						
2. Human resources	4.02	0.664	0.475**	1					
3. Organizational resources	4.08	0.631	0.395**	0.679**	1				
4. Process resources	3.92	0.669	0.468**	0.745**	0.712**	1			
5. Generation managing the company	0.69	0.463	0.058	0.069	−0.010	0.060	1		
6. Company age	21.3	17.8	−0.133	−0.142*	−0.100	−0.100	−0.475**	1	
7. Company size	1.72	0.765	0.012	−0.069	−0.102	−0.117	−0.288**	0.138	1
8. Company sector	1.95	0.810	0.070	−0.058	−0.118	−0.062	−0.038	0.034	0.063

$N = 194$

*$p < .05$, *$p < .1$

Table 34.3 Human resources, organizational resources, process resources, and company performance

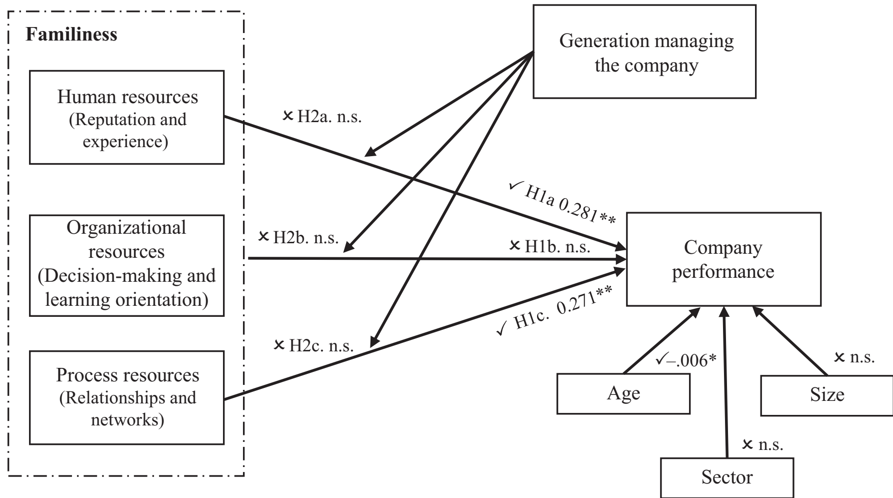
	Dependent variable: company performance				
Variables	1	2	3	4	5
1. Intercept	3.59** (0.185)	0.915** (0.386)	1.945*** (0.543)	1.341** (0.681)	1.468** (0.568)
2. Human resources		0.281** (0.111)	0.371*** (0.121)		
3. Organizational resources		0.076 (0.111)		0.489** (0.147)	
4. Process resources		0.271** (0.115)			0.497*** (0.130)
5. Generation managing the company			−0.986 (0.619)	0.110 (0.729)	−0.159 (0.630)
6. Human resources X Gen. managing the company			0.249 (0.151)		
7. Organizational resources X Gen. managing the company				−0.008 (0.174)	
8. Process resources X Gen. managing the company					0.044 (0.157)
6. Company age	−0.006* (0.003)	−0.003 (0.003)	−0.003 (0.003)	−0.004 (0.003)	−0.004 (0.003)
7. Company size	0.026 (0.071)	0.067 (0.062)	0.035 (0.065)	0.070 (0.069)	0.026 (0.041)
8. Business sector	0.067 (0.066)	0.097 (0.067)	0.102* (0.059)	0.109* (0.062)	0.093 (0.060)
R square	0.024	0.276	0.253	0.184	0.243
Adjusted *R* square	0.009	0.253	0.229	0.158	0.218
F-statistics	0.155	11.89	10.54	7.043	9.981

Standard errors are in parentheses
Probabilities of all F-statistics are less than 0.001, except for model 1
*$p < 0.10$ two-tailed test; **$p < 0.05$ two-tailed test; ***$p < 0.01$ two-tailed test

resources is negative. Besides, the correlations between the three independent variables are highly significant and close to 0.7.

To test the hypotheses, we used regression analysis due to the characteristics of the data, which consists of a mix of numerical and categorical measures. Before the analysis, we tested the reliability of the scale and found no statistical issues. Finally, we tested a variety of models to ascertain which gave the best fit (see Table 34.3).

Table 34.3 also shows that all models were significant except for model 1, which only included the control variables. In model 3, we regressed the three independent variables and the control variables. We found that human resources and process resources are highly significant, although this is not the case for organizational resources or any of the control variables. Also, model 3



Note: n.s. means not significant.

Fig. 34.2 Research model and results (Note: n.s. means not significant)

has the highest adjusted *R* square suggesting that human resources and process resources explain performance variance of 25.3% in the companies studied.

Concerning the moderating variable, the generation managing the business was not significant in any of the models. Regarding control variables, company age was only significant in model 1; business sector was significant in models 3 and 4, and company size was not significant in any model. In sum, model 2 presents the best fit. In Fig. 34.2, we present the final results based on our research model.

In sum, the results obtained lead us to accept hypothesis 1 partially, as only human resources and process resources are positively and statistically related to company performance. Regarding hypothesis 2, we found no evidence to support it, as the results in models 3, 4, and 5 show no statistical significance in any of the interaction variables. Nevertheless, it is noteworthy that the effect of the moderating variable in model 3 is the highest. In Fig. 34.3a, b, and c, the effects of the moderating variable are shown.

Figure 34.3a shows that even though the moderating effect is not significant, it is interesting how for those companies managed by the first generation the effect of human resources on performance is higher compared to the effect in companies run by other (second, third, and fourth) generations. In the following section, we present our discussion and conclusions regarding the results and the particular context of the study and the characteristics of the sample.

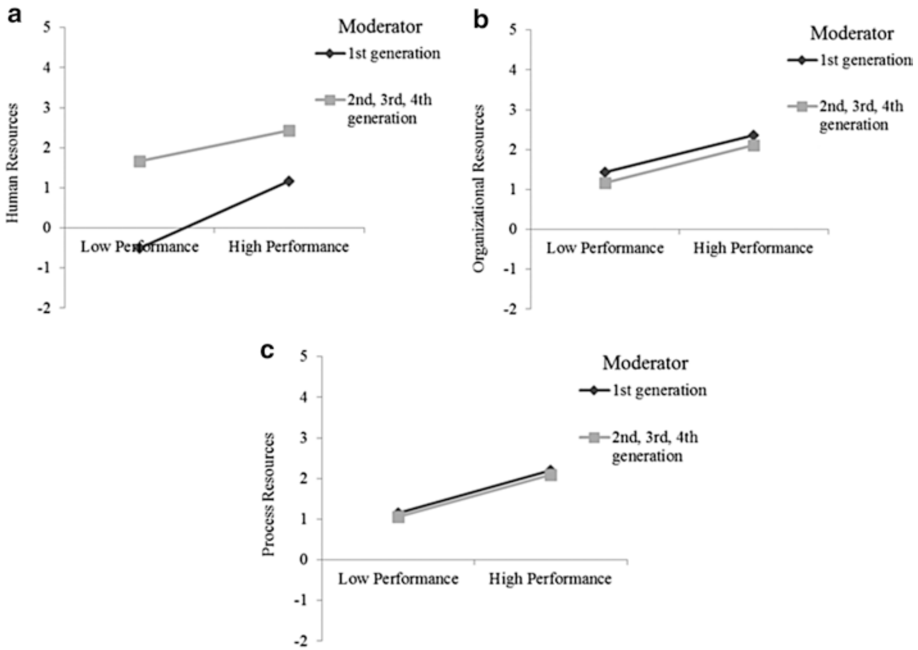


Fig. 34.3 **(a–c)** Interaction effects of moderating variable

Discussion

The involvement of family members in business gives rise to an idiosyncratic resource called familiness, which is widely accepted and studied in academic and non-academic business literature (Cabrera-Suarez et al. 2001; Pearson et al. 2008; Rutherford et al. 2008; Zellweger and Kellermanns 2008). Even though familiness helps to differentiate family businesses from other forms of business, we do not fully understand the nature of familiness nor the components of this construct yet (Chrisman et al. 2003a; Moores 2009).

The results presented in this chapter contribute to clarifying the familiness concept. We have demonstrated how RBV provides a useful approach in the conceptualization of the idiosyncrasy of familiness. We started from the familiness resource model presented by Irava and Moores (2010) composed of a unique bundle resources like reputation, experience/insights, and skills (human resources), learning orientation and decision-making (organizational resources), and relationships and networks (process resources). Using the social capital framework (Pearson et al. 2008), we relate the basic three dimensions of this model with the components of social capital: structural (process

resources), cognitive (human resources), and relational (organizational resources). The influence of the family through these resource dimensions provides a theoretical body that can assist in understanding the impact of familiness.

However, in accordance with previous research (Sirmon and Hitt 2003), we agree that the mere presence of the three dimensions mentioned alone does not constitute a competitive advantage in performance. The characteristics of the resources also help to clarify the conditions associated with familiness advantage.

When we analyzed our sample and the results we obtained, we observed that only two of the three dimensions had a substantial impact on performance. Those dimensions were human resources and process resources, which together explain 25% of performance. These results made sense to us because in the field of family business, and specifically in Mexican firms, specific behaviors can be observed. For example, the company founder works harder on building relationships with suppliers and clients; consequently, this first generation is preparing and training their children and almost all other family members involved in the company to continue preserving those relationships for the future. In that sense, the founder of the enterprise is attempting to preserve reputation and obtain more experience through developing skills related to relationships, which has much to do with the way Mexican entrepreneurs behave.

It is important to mention that almost 50% of our samples are classified as micro businesses, comprising 1–10 employees including family and nonfamily members (Mexican Economic Ministry 2002). The results showed that company size was not determined by performance (−0.01). However, the age of the business has a critical level of significance (−0.16), meaning that to us the younger the company, the weaker the performance results. This makes sense because the mean of the age of the companies involved in the study was 18.5 years, and according to what we have experienced, we see that nowadays, second and third generations are likely to expect quick and easy results from the company they have inherited. Unfortunately, the lack of resilience of these subsequent generations frequently leads the company to rapid bankruptcy. Contrarily, those companies with experience and which were able to overcome challenges had the pace, resilience, and experience to make better decisions. Furthermore, those companies are well adapted because they already have significant long-term relationships with both suppliers and clients.

Conclusions

As we saw from the results obtained from the analysis, we must also conclude that regardless of how the generation running the company makes decisions, familiness is a factor that directly affects performance. This is also related to the fact that when making important decisions, especially those linked to continuing the business such as buying a new company, generating new products, or changing processes, generations get together and make the decision by debating about the future of the family as well as the company. It is very common for most second-generation CEOs to be less likely to make decisions on their own that may negatively affect the future of the family business (Kellermanns et al. 2012). In these circumstances, the second (or subsequent) generation is more likely to call for the advice and assistance of the founders of the enterprise, even when the founder has retired, and the relationship between the parties is less than ideal. However, an exception is made for the overall good of the company, with the younger generations willing to ask for assistance with collective decision-making (Alderson 2009).

According to the results we obtained, we can conclude that, in at least two of the three dimensions in which we divided the construct (human resources and processes resources), familiness does affect the performance of the enterprise. Also, we discovered that although the relationship between organizational resources and performance is weak, it still has an impact on the general results of the company. From our point of view, this could be explained by our experience with owners of family firms in Mexico, who experience difficulty making efficient decisions and do not learn from their mistakes.

We think the moderation of variable "number of generation" that acted differently in "human resources" of Fig. 34.3a was due to CEOs (individuals who own and manage simultaneously) begin their leadership hiring a team. Because this hiring process is executed directly by the owner and since in this initial stage involves little to none formal process, candidates are chosen based on closeness to the proprietor. "In the first generation, all the power tends to be concentrated in a single individual: the founder" (Dyer 1986: 72). The founder's stage is characterized by high cohesion that tends to diminish in later generations when more family members are involved in the operation, and family ties become more distant. Therefore, when the second generation takes control of the company, although there will be more formal and established processes, it is less likely that managers are aware of who is being hired and how this person will help the company in the future. This creates distance

between the second generation and employees, and we believe the results obtained in Fig. 34.3a can be ascribed to this factor.

Our most important contribution to the field of familiness studies is that each dimension used in our research (human resources, organizational resources, and process resources) is related to the way each company uses and transforms each one of the resources. Therefore, instead of considering the construct "familiness" as a resource, we can consider it a capability of the company. This conclusion was reached when we analyzed the characteristics of the sample and observed that each company demonstrated commonalities in the way they manage and bundle their resources.

We agreed with Habbershon and Williams (1999), Sirmon and Hitt (2003), and Irava and Moores (2010) about familiness as a resource being misconceived as a capability. In our study, we separated the dimensions of familiness, seeing each dimension as a resource forming part of the Familiness construct. Familiness, therefore, is capability because according to Camisón (2002) "a capability is the know-how of a company." This is the way each firm manages bundles and optimally uses its resources," and this is exactly what familiness means to a business.

In brief, our study answers the "what" question in establishing the content of familiness. We identify the three dimensions of familiness that can serve as dimensions in future theory-building exercises.

Limitations and Future Research Directions

Our research presents some limitations, and we hope that recognizing them could be a catalyst for additional studies. The objective of the survey was to provide a deeper and richer description of the phenomenon of familiness. For that reason, we selected a sample from the most important cities in Mexico. The study, however, is cross-sectional: in the future, a longitudinal study will provide richer information and greater certainty in the effects of causality. Besides, the study was conducted using a sample of companies in Mexico: in the future, it could be extended to other countries and specific industry sectors.

Data collection was based on interviews with company owners and CEOs, regarded as reliable sources. However, future studies may use the opinion of multiple actors per company. Finally, there are more sophisticated methods for quantitative research (e.g., structural equation modeling), which are regarded as more robust than multiple regression analysis, the method we

used in this chapter. For further research, a structural equation model should be utilized as the method of analysis.

Regardless of these limitations, we are confident our study provides opportunities for future research in this area. Our hope is a multigenerational family firms study in different contexts emerges from our work to determine how patterns differ. A change in culture may lead to different firm models, leading to specific feedback for firm owners and leadership in other regions. Another possibility is that future research will determine overall performance implications of our familiness resource dimensions and their patterns regardless of regional and cultural influence. May our proposals prove fruitful in advancing familiness studies and shaping future research.

Implications

Beyond the theoretical contributions of our work, there are also important practical implications to be considered by family firms in their efforts to enhance their sustainable competitive advantage. One of the primary interests of family businesses is to maintain control of the company to preserve the well-being of the household, the family legacy, and fulfill various family-related needs (Gomez-Mejia et al. 2007). However, to develop a competitive advantage and continue being positioned and embedded in their communities and business environments, family firms must innovate, seek opportunities, and take risks, but making decisions taking into account the different generations involved in the management of the business. Younger generations could provide a fresh perspective to the firm and renew the competitive advantage, while older family members could bring an experienced point of view to the decision-making process.

Due to the importance of various generations managing together family firms, it is crucial to strengthen the relationships with them and thus enhance the relational capital for the family businesses through activities that create significant connections with each other (e.g., learning activities like seminars, specialized workshops, etc.).

Not to be underestimated is the importance of training and education of family members involved in the business, as well as exposing them to the operations of the firm early on, so as to capitalize on the unique resource of the family firm that is the family unit and the inherent shared knowledge and vision, social and business relationships, and strong familial ties.

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Competitive Advantage in Long-Lived Family Firms: Implications of Market Characteristics and Strategically Relevant Knowledge

Britta Boyd, Susanne Royer, and Toshio Goto

Introduction

Succession in family firms and its consequences for competitive advantage is a widely discussed topic in family business research (Astrachan et al. 2003; Chirico and Nordqvist 2010; Huybrechts et al. 2011; Lussier and Sonfiled 2012; Nordstrom and Steier 2015; Molly et al. 2010). Existing literature identifies a number of factors, which may favor or hinder successful successions (e.g., Barach and Ganitsky 1995; De Massis et al. 2008). Individual and contextual factors are especially interesting when we consider the issue of a family insider being a more suitable successor in certain situations (e.g., Dalpiaz et al. 2014; Howorth and Ali 2001, Royer et al. 2008). Factors that may play a role here are, for example, culture (Goto 2013), number of

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© The Author(s) 2019

E. Memili, C. Dibrell (eds.), *The Palgrave Handbook of Heterogeneity among Family Firms*,
https://doi.org/10.1007/978-3-319-77676-7_35

potential successors, company size, ownership dispersion or industry context (Wiklund et al. 2013; Boyd and Royer 2012).

Our point of reference in terms of the gap in the literature to be addressed is that relatively little is known about the impact of internal successions on keeping strategically relevant knowledge inside a family business. As shown above succession is widely researched from different perspectives. However, investigating the suitability of an internal versus an external successor in terms of sustaining strategic competitive advantage is still limited to our knowledge. Dominant theoretical fundaments in family business research stem from agency and stewardship theory as well as the resource-based view (Siebels and zu Knyphausen-Aufseß 2012). These theoretical fundaments highlight that efficiency aspects as well as strategic issues are highly relevant when wanting to come to a better understanding of family firms.

We investigate the interplay of market context and strategically relevant knowledge resources in long-lived family firms. We explore how such firms create competitive advantage by using valuable knowledge resources to adapt to their market environments. Combining the market- and resource-based view, we are striving to come to a better understanding of how family firms can sustain generated knowledge-based competitive advantage by internal successions.

Here, we take into account efficiency-related and strategic effects: Handing down knowledge to an internal successor may cause less transaction costs. Family members are able to acquire valuable implicit and experiential knowledge that is hard to codify and verbalize in life-long learning processes. The value of knowledge understood as a strategically relevant resource differs with the market characteristics a firm is embedded into. Dynamic market contexts obviously have to be taken into account since knowledge may lose its value for competitive advantage generation for instance due to new technological developments.

Our point of reference is the contingency model of family business succession (Royer et al. 2008). While the contingency model gives a broad overview of possible knowledge-market constellations, we here want to come to an in-depth understanding of those markets where insiders seem to be in a favorable position to take over a family firm compared to outsiders and thereby sustain the competitive advantage of the family firm. To reach this aim, we further develop the chain of arguments from the mentioned model by formulating propositions, which are then contrasted with six case studies of long-lived family firms from different markets.

In summary, we want to address this complex topic on a sound theoretical fundament. Therefore, we have to blend elements from perspectives that contribute to the explanation of efficiency-related advantages (of handing down knowledge from one generation to the next) as well as strategic advantages of firms (reflected in the fact that valuable resources may be kept in a company). We take a resource-oriented perspective (Barney 1991; Peteraf 1993) as well as elements of Michael Porter's (1980, 2008) market-based perspective to investigate the strategic effects in terms of valuable family firm resources and attractive market contexts which fit with these. Efficiency considerations from a new institutional economics perspective with a focus on transaction cost considerations (Williamson 1975, 1981, 1985) complement our reasoning. Doing this we link into the contingency model of family business succession (Royer et al. 2008) which we aim to further develop to come to a better understanding of market characteristics that may bring insiders in a favorable position to take over a family firm and sustain competitive advantage.

The remainder of the chapter is structured as follows: First, the state of the literature is sketched. It follows the elaboration of our conceptual framework and the resulting propositions. These are contrasted with the case material collected for six long-lived family firms. The chapter ends with concluding remarks.

Literature Review: Knowledge-Related Aspects of Family Business Successions

Research (Dalpiaz et al. 2014; Howorth and Ali 2001) indicates that industries, which especially tend to favor insiders as successors, are design, furniture, crafts or wineries. One explanation for this attitude may be that the transfer of relevant knowledge to an outsider is relatively difficult in certain contexts (Bjuggren and Sund 2002; Lee et al. 2003; Royer et al. 2008). For example, Chirico (2008) investigates "knowledge-related human capital" and its transfer (as well as creation and sharing) in two family businesses from the wine and liqueur business. On the other hand, Trevinyo-Rodríguez and Bontis (2010) focus on kinship ties and emotions in family firms in their model of knowledge transfer to better understand competitive advantage in family businesses and highlight the effect of kinship relations in family businesses on knowledge transfer. Similarly, the socioemotional wealth approach sees the family firm as a unique entity and helps to explain why family firms behave distinctively from a social perspective (Berrone et al. 2012; Breton-

Miller and Miller 2013). Duh (2014) takes a strategic focus when she investigates succession in family businesses as an organizational knowledge creation process. Based on four modes of knowledge conversion (socialization, externalization, combination and internalization), she identifies relevant activities to create (tacit and explicit) knowledge (Nonaka and Takeuchi 1995) in family firms.

An organizational knowledge creation process next to inter-generational knowledge transfer also refers to how an internal successor further develops the knowledge after he or she takes over the business. In different studies valuable idiosyncratic knowledge of family members is regarded as a strategic rationale specifically for internal succession (Bjuggren and Sund 2002; Lee et al. 2003; Royer et al. 2008; Sardeshmukh and Corbett 2012). Boyd and Royer (2012) focus on strategically relevant experiential knowledge with idiosyncratic, subject-related and network-related elements to come to a better understanding of the factors influencing knowledge transfer when handing down a family business in the family.

Furthermore, based on a transaction cost perspective (Williamson 1975), the contingency model of family business succession demonstrates the relevance and possible developments of different knowledge types (Royer et al. 2008). It suggests that—taking into account contextual factors—the relevant type of knowledge to generate competitive advantage is an indicator for the performance of an internal compared to an external successor. This model has been empirically tested for 860 Australian family firms. The core finding was that internal succession was preferred when there was a high relevance of tacit family-business-specific knowledge to gain competitive advantage. In follow-up studies, a more qualitative approach has been taken to get more in-depth insights into the knowledge transfer in family firms in different country contexts (Boyd et al. 2015) as well as in a longitudinal case of one very old family firm (Boyd and Royer 2012).

Still however there is limited knowledge concerning succession preferences in different industry contexts, its development over time and the relation to competitive advantage generation. Schlepphorst and Moog (2014) argue the relevance of how to assess which family member best fulfils the requirements and suggest research in different sectors of the economy when applying selection criteria for family business successors. Favoring qualitative inquiry, Fletcher et al. (2016) found that contextual and industry-specific aspects of family business behavior should be one focus of future research. Therefore, family-business-specific knowledge as a potentially highly valuable resource to achieve competitive advantage in a certain market place can be regarded as a relevant research topic.

Conceptual Framework: Knowledge Types, Market Contexts and Longevity

Taking together the findings from the literature review, we suggest that long-lived family firms can achieve competitive advantage in situations with a higher strategic relevance of experiential firm-specific knowledge types (where internal successors are more suitable than external ones). We want to provide a conceptual framework to explore the relationships between certain knowledge types, particular market contexts and the longevity of family firms.

Following Boyd and Royer (2012), we divide family-business-specific experiential knowledge into idiosyncratic, subject-related and network-related knowledge types. "While idiosyncratic knowledge refers to detailed knowledge about time- and location-specific conditions that cannot be formalized, subject-related experiential knowledge refers to knowledge that can be experienced without a relation to time or location conditions but depends on skills or abilities in relation to a certain material or product" (Boyd and Royer 2012: 367). In addition, access to family networks may lead to a valuable network-related knowledge for internal successors.

According to the resource-based view of the firm (e.g., Barney 1991; Peteraf 1993), competitive advantage can be generated when resources are valuable and difficult to imitate and the resulting rents are appropriable for the firm. Isolating mechanisms (Barney 1986) such as physical uniqueness, path dependency, causal ambiguity or economic deterrence (Collis and Montgomery 2005) make it difficult for others to copy a valuable resource. Knowledge can therefore be a very valuable resource (Peteraf 1993). Table 35.1 categorizes relevant knowledge types and links them to strategic considerations.

Building on these insights into knowledge types and their relationship to competitive advantage generation, we want to better systematize and understand the characteristics of market contexts and investigate their relation to strategically relevant knowledge. Since we are interested in efficiency-related as well as strategic aspects, we refer to Chandler's (1962) suggestion that "structure follows strategy." An understanding of strategic requirements of a market context is required to develop adequate organizational structures. The market task a company fulfils is our point of reference for analysis (see Picot 2005 and also Nordsieck 1934 and Kosiol 1976 for early approaches in which the task is the point of reference regarding organizational design).

In summary, to come to insights about efficient organizational structures, the task to be fulfilled in the marketplace is a useful first analytical step. The market context—as perceived by the respective firm—can be described by the characteristics of the central tasks to be fulfilled. This gives a systematic insight

Table 35.1 Knowledge categories and types relevant for understanding family business competitive advantage

Knowledge category	Knowledge type	Relevance for strategic competitive advantage generation	Examples
Industry-specific explicit (codable) knowledge	General knowledge that can be transferred at low transaction costs	Low due to lack of isolation mechanisms	A particular way to store files in the office of a firm
	Technical knowledge that can be transferred at low transaction costs to experts in the respective field	Depending on the scarcity of experts in the particular field, certain isolation mechanisms may exist	A formula of a medication a company produces and sells
Family-business-specific experiential (tacit) knowledge	Idiosyncratic knowledge in terms of time and location-specific knowledge that causes high transaction costs when being transferred (especially when transferred to family outsiders)	When such knowledge is strategically relevant, it is valuable to the family firm since it is protected by isolation mechanisms	Procedures that have been further developed over time in a path-dependent fashion regarding cultivating and growing wine including introducing new varieties in a given location
	Subject-related experiential knowledge in terms of knowledge related to material- or product-specific skills that causes high transaction costs when being transferred (especially when transferred to family outsiders without previous experience)	When such knowledge is strategically relevant, it is valuable to the family firm since it is protected by isolation mechanisms	Special skills with regard to designing a product in an old-fashioned way given from generation to generation in a family firm and otherwise fading in the marketplace. The limited market-size may be sufficient for a few "survivors" here
	Network-related experiential knowledge in terms of natural access to family-related networks that are also valuable for business (and may not at all be transferred to family outsiders when these are not included in private family activities)	When such knowledge is strategically relevant, it may be valuable to the family firm since it is protected by isolation when the access is exclusive to family members	Interdependent social and business networks used by a family firm to get access to new customers that for outsiders can hardly be understood so that causal ambiguity hinders imitation

Source: Knowledge categories and types adapted from Royer et al. (2008) and Boyd and Royer (2012) and their cited literature

into the specific market context a firm is embedded into and reflects the firm-level nature of this type of market context analysis.

We use complexity and variability as two relevant task characteristics (see for this approach Picot 2005; Picot et al. 2008: 216–220, 2015: 305–308 and their cited literature). Complexity means "the number of elements that have to be considered and their connection" (Picot et al. 2008: 216), while variability of a task refers to the quantity and predictability of changes regarding qualities, prices and so on (Picot et al. 2015: 306). Further task characteristics are frequency and similarity, which are relevant when investigating potential economies of scale and scope related to the fulfilment of a given market task.

Finally—referring to transaction cost economics (Williamson 1985)—the specificity of a task and the resources needed to fulfil a certain task give insights into potentially necessary safeguards against one-sided dependencies (Picot et al. 2015: 308).

We suggest using all these task characteristics to describe a family firm's tasks in a market context to come to a better understanding of the fit between the market task and potential competitive advantage based on existing family-firm-specific knowledge types. This has to be set into a context of the overall market attractiveness. Therefore, we suggest to further describe the attractiveness and the structure of an industry, respectively, as a relevant part of the market along Porter's (1980, 2008) five forces, that is, bargaining power of suppliers and buyers, threat of new entrants or substitutes and rivalry among existing competitors. It is relevant to take a useful definition of the investigated market to have a sound fundament for analysis (Porter 2008: 91).

Analyzing the structures of a certain market place based on Porter's model happens on the industry level. In addition, we need the firm-level perspective described before to come to a deeper understanding of the requirements of the market environment for a particular firm. Therefore, we suggest including an investigation of the complexity, variability, frequency, similarity and specificity of the particular market task to come to an understanding of the market context from the perspective of a single (family) firm.

Bringing these considerations together leads us to a first proposition regarding the competitive advantage generation in long-lived family firms. The family-business-specific experiential knowledge can be more or less valuable regarding the fulfilment of the particular market task of a business:

Proposition 1: The relevance of family-business-specific (1) idiosyncratic, (2) subject-related experiential and (3) network-related experiential knowledge is closely connected with the particular market task of a business in terms of its complexity, variability, frequency, similarity and specificity.

We further assume an accumulation of family-business-specific knowledge over time. The stock of such knowledge should grow with the age of a family firm because with a family member as successor the knowledge should stay in the family business. If the family firm is embedded in a market where such knowledge is staying valuable over time, strategic relevance increases. In line with a resource-based reasoning, we would expect the development of isolating mechanisms. Family business research on socioemotional wealth illustrates how changes in patterns of family involvement can influence the behavior of family firms over time (Breton-Miller and Miller 2013; Chua et al. 2015). The following proposition results:

Proposition 2: Family-business-specific (1) idiosyncratic, (2) subject-related experiential and (3) network-related experiential knowledge accumulates over time and increases in strategic relevance with the age of the family firm.

Family-business-specific experiential knowledge is only one knowledge category next to others such as general and technical knowledge. Even though family firms may have an advantage handing down experiential firm-specific knowledge from generation to generation, this does not make them to be the success model per se. Other types of organizations may be better regarding the attraction of highly qualified employees or the creation of an especially innovative environment. Long-lived family firms may be especially successful in markets that they know longer than others do and which do not have a clear growth perspective, for example, those which are locked into old technology (Goto 2013). Here we assume that family firms possess a valuable stock of knowledge and can efficiently give it to successors. At the same time, other players are not so attracted to these markets because of the mentioned structures. The isolation mechanisms of family firms are suggested to be at work, leading us to the final proposition:

Proposition 3: The strategic relevance of family-business-specific (1) idiosyncratic, (2) subject-related experiential and (3) network-related experiential knowledge tends to increase with the decreasing size and overall attractiveness of the market (segment) in which a firm competes.

Figure 35.1 summarizes our conceptual framework.

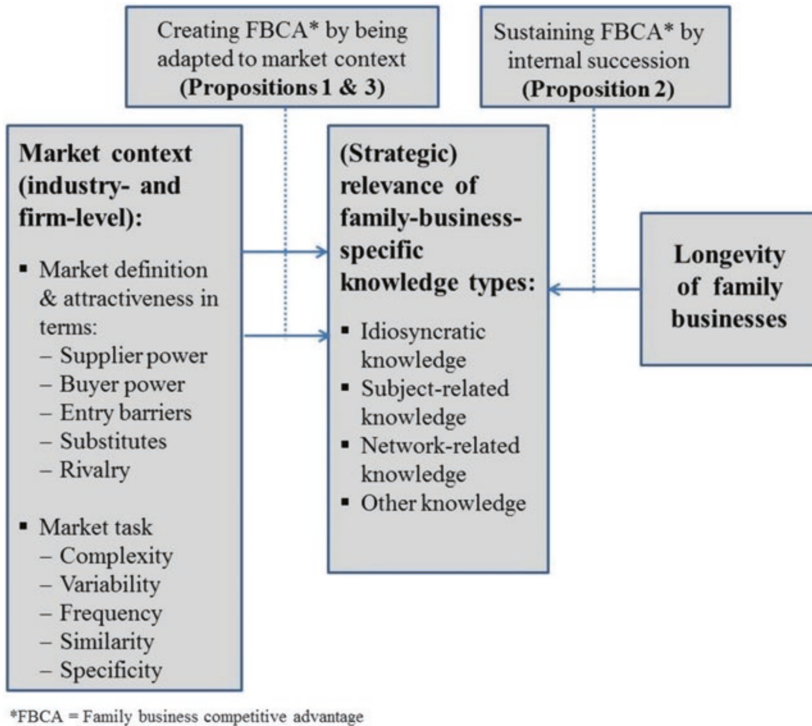

Fig. 35.1 Conceptual framework

Research Methodology

Our aim is to contrast our understanding of transferring strategically relevant family-business-specific knowledge with the reality of family firms in different market contexts. According to Yin (2003), the case study method is a useful approach when "how" and "why" questions are addressed and researchers have no or little control over events. We want to come to a better understanding of succession in different contexts and study a complex contemporary phenomenon within its real-life context so that a case study methodology is useful (Yin 2003).

One advantage of this research strategy lies in the possibility of using the triangulating approach including multiple data sources, which should be used when striving for validity and reliability (Yin 1981). The pattern matching approach where we contrast our conceptualization with the reality of family businesses in different contexts enhances the internal validity. By investigating the propositions developed in this chapter for six cases of family businesses,

we use replication logic in a multiple-case study design (Yin 2003). Reliability is ensured by disclosing the research process and documenting the different cases in a structured way. We strive for theoretical generalization that can be built on case studies (Tsang 2014: 372).

In this study, we use the LLFB (long-lived family businesses) Database 3 as one of the sources of data. A Japanese family business researcher has developed the LLFB for the past decades and it contains more than 18,000 centennial family businesses worldwide including information such as name, location, year of foundation, type of industry and number of generations involved (Goto 2013). In addition to the database, interviews with family business owners from different industries have been conducted and industry- as well as firm-related documents have been studied.

Regarding the selection of the cases, our starting point was the mentioned LLFB Database 3. We concentrate on Germany with the second highest amount of long-lived family firms behind Japan (Goto 2013), which prevents bias due to different legal, technological, cultural or institutional context. The LLFB Database 3 contains information on 3982 German family businesses. The industries represented most are listed in Table 35.2.

In this study, we contrast our propositions with case studies of six family firms that bring tangible products to the market in different industry contexts: (1) Breweries, (2) Wineries, (3) Bakeries, (4) Metalworking, (5) Timberworking and (6) Distilleries. We thereby choose, according to the LLFB Database 3, the six most relevant industry contexts in which long-lived family firms in Germany exist and operate. For each of these industries, we study one exemplary long-lived German family firm and compare the results with our initial propositions. Table 35.3 sketches the researched cases.

In each of the listed companies, an expert has been interviewed. An interview guideline has been developed for the expert interviews containing questions related to contextual factors in the specific industry and how these can have an impact on successions. In a second part, the expert was asked to evaluate the relevance of networks with customers, suppliers, employees and competitors. Following questions referred to the importance of general managerial skills and knowledge of a potential successor. The last part focused on the significance of family relations and previous successions (full interview guideline is available upon request).

Interviews were conducted in 2015 in German language and have been transcribed; relevant passages have been translated into English for the purpose of quoting. Fictional names were used to assure anonymity of the case results. The evaluations of the interviews were complemented with additional insights from company documents as well as industry descriptions and reports.

Table 35.2 Industries and number of German centennial family businesses in the LLFB Database 3

Industry	Number	Industry	Number	Industry	Number	Industry	Number
Brewery	1191	Pharmacy	241	Restaurant	100	Bookstore	40
Hotel	625	Winery/ wine	197	Metalworking	71	Timberworking	36
Sports	262	Bakery	171	Hospital	49	Distillery	32

Source: LLFB Database 3, as of May 2015

Table 35.3 Exemplary long-lived family business studied in this research

(Fictive) Name	Industry context	Age of business/generation/family members involved today	Employees
Alpha	Brewery	>125 years, family members in charge only in the holding	~200
Beta	Winery	~70 years, third generation, today managed by two brothers, in total four family members involved	~20
Gamma	Bakery	>110 years, third generation, today managed by one family member, no other family members involved	~200
Delta	Metalworking	>140 years, fifth generation, today managed by one family member, no other family members involved	~175
Epsilon	Timberworking	>275 years, eighth generation, today managed by one family member, no other family members involved	~160
Zeta	Distillery	>130 years, fourth generation, two family members involved in management and operations today	~5

Quotes from the interviews and findings from the document analyses are used in an exemplary fashion for each of the propositions.

The NVivo 11 software package has been used to facilitate the data analysis. A matrix coding (Houghton et al. 2013) was conducted with all relevant sources (industry descriptions and transcripts) and nodes related to the industry attractiveness, market tasks and family keywords (see Appendix 1). This type of word frequency query shows how often specific wordings were used during the interviews and in the industry description (Bazeley and Jackson 2013). Especially for the first part of the interview investigating the industry attractiveness and market tasks, this NVivo matrix coding was relevant. In the second part of the interview, the expert had to evaluate the relevance of management skills in their specific industry context. The word counts for all industries show a high frequency for buyer/customer, rivalry/competitor and also family value (see Appendix 1).

For the following case analysis contrasting the propositions with the case material, all documents (industry descriptions, transcripts, other documents about the companies and industries), the NVivo matrix and the ratings of the management skills are included.

Case Analysis and Findings

The findings are organized according to the conceptual fundament of this study[1]. We investigate the relevance of different knowledge types along the propositions for all six cases. Table 35.4 gives a summary of our findings from evaluating the case material regarding the strategically relevant family-business-specific knowledge types since these constitute an important part of all propositions. Building on the overview provided by Table 35.4, we discuss the propositions related to the market task (proposition 1), the age of business (proposition 2) and the industry attractiveness (proposition 3).

Family-Business-Specific Knowledge in the Investigated Cases

In five of the investigated cases, family-business-specific idiosyncratic knowledge has been assessed as high and in one case (Delta) as medium. Overall, this indicates a rather high relevance of this knowledge type for the competitive advantage in the investigated cases. Subject-related experiential knowledge was regarded as having medium strategic relevance in most cases (four cases) and as highly relevant in the two remaining cases (Gamma and Zeta). Consequently, this indicates a medium relevance of this knowledge type for the competitive advantage across the investigated cases. Regarding network-related experiential knowledge, we obtained mixed findings across all cases (low-medium-high) so that we were unable to clearly assess the level of relevance. This assessment is reflected in the case material as illustrated with some examples in the following paragraphs:

With regard to idiosyncratic knowledge, a high relevance of regional embeddedness of marketing activities was identified as crucial for Alpha, while in this case subject- and network-related knowledge was of medium

[1] Internal sources for the case analyses have been the company homepages, firm brochures and chronicles where available as well as one to two interviews per case. Quotation marks in the text highlight when we directly quote from these sources. The external resources we refer to are shown as references in the text.

Table 35.4 Case findings summarized

Industry, task and knowledge characteristics	Alpha Brewery	Beta Winery	Gamma Bakery	Delta Metalworking	Epsilon Timberworking	Zeta Distillery
Market definition	German beer market	Regional/national wine market	Local market for baked goods	Global market for silver tableware and cutlery	Regional market for building and construction materials	Local market for spirits
Industry attractiveness	Low (price competition, buyer power and substitutes)	Moderate/low (high price competition and buyer power)	Moderate (fierce price competition)	High (but limited growth)	Moderate (fierce price competition)	Moderate
Supplier power	**Low**	**Low**	**Low**	**Low**	**Medium**	**Low**
Buyer power	**High to medium**	**High to medium**	**Low**	**Medium**	**Low**	**High to medium**
Entry barriers	**Low to medium**	**Low to medium**	**Low to medium**	**High**	**Low to medium**	**Low**
Substitutes	**High**	**Low**	**Low**	**Low**	**Low**	**Medium**
Rivalry	**High**	**High**	**High**	**Medium**	**High**	**High**
Market task						
Complexity	**Low**	**Low to medium**	**Low**	**Low**	**Medium**	**Low**
Variability	**Medium**	**High**	**Low**	**Low**	**Medium**	**Low**
Frequency	**Medium**	**Medium**	**Medium to low**	**Medium to low**	**Low**	**Medium to low**
Similarity	**Medium**	**Medium**	**High**	**Rather high**	**Rather high**	**Rather high**
Specificity	**Medium**	**High**	**Medium to low**	**High**	**Medium to high**	**High**
Family-business-specific experiential knowledge						
Idiosyncratic knowledge	**High**	**High**	**High**	**Medium**	**High**	**High**
Subject-related knowledge	**Medium**	**Medium**	**High**	**Medium**	**Medium**	**High**
Network-related knowledge	**Medium**	**High**	**Low**	**High**	**High**	**Medium**

relevance. Emotional bonding of family members with the business is seen as more relevant than professional experience in the business.

Beta's "former owner-manager passed his knowledge and the passion for wine not only to his two sons but also to his grandchildren. […] We profit from different life experiences." The family members in the business meet regularly and loyalty is regarded as very important. The two brothers currently owning and managing the family business have been involved in everything from early childhood. The high dependency on a good location and weather conditions results in a high relevance of idiosyncratic knowledge. Subject-related knowledge about (the more standardized) wine growing process is important to a medium degree. Network-related knowledge is assessed as highly relevant. That is reflected in the identification of the current owners with the location in which they work and live.

In the case of Gamma Bakery, the relevance of understanding the (local) market and addressing to special needs of customers documents the high relevance of idiosyncratic knowledge and subject-related knowledge to stay competitive. Gamma's owner could accumulate relevant family-business-specific experiential knowledge from a young age onwards: "As a kid to grow up in such a company lets you be in contact with it all the time… I was the oldest and always wanted to take over the firm." The family lived at the same location where the production and shop was located. And, Gamma's owner sees the strategic relevance of this knowledge: "When I every now and then take the old recipe books of my grandfather that is important for a family business … we can pull something out of the magician's hat that the industrial players cannot." Networks with others are regarded as less essential. Gamma, for example, was never too dependent on the goodwill of banks.

In the case of Delta Metal Works, the business has been usually passed down to the next generation in a life-long process. The father of the current owner "[…] at the dinner table and at the weekend often thought and talked about business issues." Till the late 1950s, Delta did not employ sales representatives but family internal staff went out to visit the customers. Until today, a very close relationship between the family and the specialized retailers exists. The owner is highly committed and motivated by all the efforts of the previous four generations about whom he "knows so many stories […] and does not want to be the one who sells to externals no matter how arduous it may be." The family history is an important strategic asset of the company which nowadays plays a major role regarding marketing the products. The core of the valuable brand lies in the linked family history, where the adherent idiosyncratic knowledge may be difficult to transfer to a family-external successor. The successful designs as relevant subject-related knowledge can be attributed

to the talent of the current owner's father. Delta is very committed to the products and designs developed over history.

In the case of Epsilon Timberworking, idiosyncratic and network-related knowledge is regarded as highly important for the competitiveness. Subject-related knowledge also plays a relevant role: "Our customers are business customers such as small trade companies and private costumers. The latter tend to buy more online [...]. Our main customers are the business customers from the construction businesses." Needed in the relationship to our customers is "knowledge which develops and is transferred via apprenticeships, experience, showing what has to be done, etc." The firm philosophy is regarded as essential as Epsilon builds "on the tradition, on the long activity within the family [...]. Informal relationships are important [...] also with the business customers." The company tried not to grow too much: "My grandfather always said: 'If we had grown in the past we would have been more vulnerable' – regarding the firm size not the maximum but the optimum is relevant." Crucial success factors are "modesty and economy [...] continuous change as a success recipe that let us become so old [...], relationships to the customers and knowledge about the specific needs of a customer." The current owner manager has a very close relationship to the firm and grew up in the business. Regarding the next generation he states: "My boys [...] have experienced it in a similar way and they in the real sense of the word grew into it."

Idiosyncratic knowledge plays a role for Zeta Distillery in terms of the influence of weather conditions on the spirit consumption. Idiosyncratic and subject-related knowledge were also central to the ability of producing the same quality in every production process. The basis for the produce "already is very old when it is used and after the processing the rum gets stored for a time so that the different ingredients can mix with each other and take the sharpness out of the product [...]. I believe that it is possible to taste quality." Differentiating the product is relevant: "If we put a bit of love into the products we can also sell them." The business also was characterized by the fact that early on children were encouraged to participate in the business actively: "My sister and I and the stepsiblings, we all have worked in the business but without being forced." Relevant experiential knowledge could be handed down in a learning-by-doing fashion in the business. The family members who work in the business meet every day. "It is the secret of each single rum maker with which flavor enhancing ferment cultures he works with [...] when he starts the fermentation." Loyalty plays a prominent role for the family structure especially for the older family members. Long-standing relationships with suppliers can be identified: "Suppliers are not completely the same since 1800 but we basically still get the ingredients from the same suppliers." Network-

related knowledge is assessed as relevant but not as essential as idiosyncratic and subject-related knowledge.

The assessment of the different relevant knowledge types and skills in the investigated cases is shown in Appendix 2. The focus of this analysis was to come to an understanding of family-business-specific experiential knowledge as relevant resources in the market competition. The findings document that our conceptualization of knowledge types and their relevance in certain industry contexts is reflected in the assessments of the interviewed family business owners who rated the importance of various knowledge types. It becomes obvious that the family-business-specific knowledge types in all cases are more relevant than other knowledge.

Comparing the First Proposition with the Case Material

Proposition 1 refers to how family-business-specific (1) idiosyncratic, (2) subject- and (3) network-related experiential knowledge can be more or less valuable for the fulfilment of the particular market task. The latter is described in terms of its complexity, variability, frequency, similarity and specificity.

The production processes in the investigated firms have not changed very much over time. Thus, the interviewed experts rated the **complexity of the market tasks** as low in four cases, low to medium in one case (Beta) and medium in one case (Epsilon).

The assessment of a low complexity of the market task in the case of Alpha refers to the fact that brewing processes have not changed much over the last century. In the case of Gamma, some of the baked products are always in the product line, others change every three to four weeks due to seasonal changes, certain festivities and so on. Delta is a "manufactory in the true sense of the word." Task complexity is rather low. The complexity is also low for Zeta: "In principle it is a very structured production process. However, we also do a lot of bottling manually […]. For the whole year we have a fixed, organized program."

Beta's value creation process is a "natural process beginning with the agricultural production of the grapes outside and […] weather patterns can have a very strong influence." Wine production differs with the type of wine produced but the process from grapes to wine is always the same (Die Weinexperten 2016) so that in sum, the task complexity is low regarding the production process but more complex regarding the harvest. "The processes […] are somehow standardized" for Epsilon Timberworking. However, dealing with

business customers requires “a lot of experience: Where can I get something that solves a specific customer’s problem” and “it is essential to underpin this trust-based relationship that differentiates us from the standardized chain store business.” The complexity of Epsilon’s market task therefore is assessed as medium in sum since it does not follow a structured process especially with business customers.

Since the complexity was rated as low in four cases (Alpha, Gamma, Delta and Zeta) overall, a rather low extent of market task complexity can be assumed across all the investigated cases. This leads to the following specifications of the suggested proposition.

A connection can be identified between a high strategic relevance of family-business-specific idiosyncratic knowledge and a low to medium complexity of market task. The tendency was rather towards a low than a medium complexity here. We can further identify a connection between a medium strategic relevance of family-business-specific subject-related experiential knowledge and a rather low complexity of market task. Network-related experiential knowledge has to be investigated further since our data material does not provide a clear picture. Therefore, network-related experiential knowledge is not discussed any further with regard to the following findings about the remaining characteristics of the market task.

The **variability of the market task** was rated medium to low in most cases as reflected in the case material shown below. However, with one exception: For Beta Winery it becomes obvious from the description of the agricultural process and the dynamics of distribution that a “very high extent of flexibility [is needed] – what you have said this morning may be completely wrong at lunch time.”

For Alpha Brewery in total, a medium extent of variability is assessed since the process technology has further developed and leads also to a significantly more stable quality product: “Sales may vary due to weather, sport events and so on.” For Epsilon: “there is not a certain standard for the building that is the output in the end of the day, every architect has different ideas.” The types of issues, however, are relatively similar over time.

Statements in the cases of Gamma, Delta and Zeta suggest a low variability of their market tasks. The volumes of Gamma’s baked products have changed and the trend goes towards more gastronomy-related fresh products. “Where freshness still counts and where ingredients still count, where not the cheap ingredients attract the customers, but the quality,” there are strategic possibilities for traditional bakeries to adapt to market changes and increase variability. However, overall variability is assessed as low. For Delta Metal Works, it

was possible not to adapt quickly to fashion or trends because of Delta's preference for internal instead of debt financing. When the founder of the firm would walk through the production today, he would "recognize most things." Delta's products have not changed to a high degree over the past decades; new designs are only carefully added to the range of products, that is, variability is rather low. Zeta works with own recipes to refine the alcohol and it is "important to always make an invariable, never changing product" leading to a rather low variability. Next to a classical range of products, new products are developed to react to new trends but not to "swing aboard on every train."

Overall, we come to the assessment of a medium to low variability of the market task for the investigated cases. This leads to the following specifications of the suggested proposition: A connection can be identified between a high strategic relevance of family-business-specific idiosyncratic knowledge and a medium to low variability of market task. A further connection is identified between a medium strategic relevance of family-business-specific subject-related experiential knowledge and a medium to low variability of market task.

Regarding the **frequency of the market task**, the analyzed material suggests a medium to low extent (medium for Alpha and Beta; medium to low for Gamma, Delta and Zeta; and low for Epsilon).

Alpha can realize economies of scale to a certain extent because all functions are centralized in one location. Beta also to a certain extent generates economies of scale since "larger entities can better use technical machines at the vineyard." Economies of scale only play a medium to low role for Gamma. In Delta mostly small series are produced: "In the area of cutlery usually between 200 and sometimes 900 pieces are produced. Regarding corpus parts such as bowls however often just one piece at a time is made and delivered." Thus, frequency is moderate and economies of scale are not central. Epsilon realizes certain economies of scale by centralizing the stock of materials and uses an IT-driven system to optimize its logistics. Finally, Zeta's volume is rather low and economies of scale are not realized to a high extent. Zeta produces according to demand. The sale of some products such as punch also depends on the weather and season.

Overall, we come to the assessment of a medium to low frequency of the market task for the investigated cases. This leads to the following specifications of the suggested proposition: A connection can be identified between a high strategic relevance of family-business-specific idiosyncratic knowledge and a medium to low frequency of market task. A further connection is identified between a medium strategic relevance of family-

business-specific subject-related experiential knowledge and a medium to low frequency of market task.

The **similarity of different elements of the market task** implying potential for the realization of economies of scope is assessed as medium (Alpha and Beta) to (rather) high (Gamma, Delta, Epsilon, Zeta) across all cases.

As most players in the German brewing industry, Alpha has enlarged the range of products and included beer mixes and alcohol-free beer. Economies of scope result from the production processes as well as the bottling, the logistics and marketing of all types of drinks produced and sold. However, still the classical Pilsner beer constitutes their core product. Beta produces still and sparkling wine. Economies of scope can be realized regarding packaging and marketing. Similarity for Alpha and Beta can be assessed as medium.

Gamma produces baked goods and sells them directly to customers such as hospitals or restaurants. The rest is sold in their own outlets with direct sales and gastronomy. “In our outlets we generate 50% of the sales with gastronomy.” Economies of scope play a role here as products have similarities regarding the ingredients, production and distribution process. Consequently, similarity was assessed as high. Delta realizes scope economies due to the similarity of the different cutlery designs and the other silver products. Epsilon tries to continually improve the processes to realize economies of scope here and “has very competent employees who can program adequately.” The range of Zeta’s products contains rum, aquavit and whisky. These are similar products but “they have to be made in a certain sequence. I obviously cannot make an aquavit after rum; the equipment has to be cleaned.” However, all the products can be made with the same equipment. In sum, that translates into a rather high similarity in the cases of Delta, Epsilon and Zeta.

Overall, we conclude a medium to high similarity of the market tasks for the investigated cases. This leads to the following specifications of the suggested proposition: A connection can be identified between a high strategic relevance of family-business-specific idiosyncratic knowledge and a medium to high similarity of market task. A further connection is identified between a medium strategic relevance of family-business-specific subject-related experiential knowledge and a medium to high similarity of market task.

The **specificity of the market task** has been high in three cases (Beta, Delta, Zeta), medium to high in one case (Epsilon), medium in one case (Alpha) and medium to low in one case (Gamma). Here we have quite mixed findings and cannot come to clear conclusions. Thus, specificity is not further discussed in this chapter. In sum, no clear pattern of specificity regarding the market task could be identified.

Comparing the Second Set of Proposition with the Case Material

The second proposition suggests a link between the accumulation of family-business-specific (1) idiosyncratic, (2) subject- and (3) network-related experiential knowledge and the age of a family firm. We in the following section undertake the pattern matching regarding family-business-specific (1) idiosyncratic and (2) subject-related experiential knowledge due to the mixed findings regarding network-related family-business-specific experiential knowledge.

Alpha is more than 125 years old. It has been decided to withdraw the owners from the direct management of Alpha. The owners now are active in the family holding: "We have a clear budget process and strategy process once a year […]. We jointly set goals […] and then we mainly care for the corporate culture." Beta is a third-generation family firm managed by two brothers and in the family for about 70 years. Gamma is a third-generation family firm with a lifespan so far of more than 110 years. Delta is a more than 140-year-old fifth-generation family firm. Epsilon is a more than 275-year-old family firm in the eighth generation. Zeta is a small family business in the fourth generation refining rum and other spirits for regional demand in Germany since more than 130 years.

The oldest of our firms investigated is Epsilon with almost 300 years of firm history. Delta, Zeta, Alpha and Gamma follow, with firm histories well beyond a century in the hand of the same family. The youngest business investigated is Beta.

In the second proposition, we suggested that there is a link between the different family-business-specific knowledge types and the age of family firms—here we could however not find significant differences between the investigated cases. From the data material, we can conclude that the relevance of family-business-specific idiosyncratic knowledge is regarded as relevant across all the cases. We thus could not find that the older the companies were, the more the relevance becomes obvious. Similarly, we did not observe the accumulation over time. However, we have to investigate cases in old non-family businesses to come to conclusions here. What we can conclude from the investigated cases is that family-business-specific idiosyncratic knowledge appears to be a valuable resource of long-lived family firms.

Contrasting the Third Proposition with the Case Material

The third proposition suggests a link between the strategic relevance of family-business-specific (1) idiosyncratic, (2) subject- and (3) network-related experiential knowledge and the decreasing size and overall attractiveness of the market (segment) in which a firm competes; again we exclude network-related experiential knowledge from further discussion since we have no clear results regarding network-related knowledge types.

The **German beer market** is characterized by declining attractiveness: To brew beer according to the German purity legislation, the commodities malt, barley, water and yeast are needed. Further, packaging material and machines are necessary (e.g., Niederhut-Bollmann 2006). The variety of possible packages reduces the bargaining power of suppliers of one of the materials so that their bargaining power is rather low, while buyers' bargaining power can be assessed as medium to high. Rather fragmented restaurants and pubs are often locked into long-term contracts with the breweries and have a low bargaining power. Large supermarket chains however have quite a high bargaining power because different beer brands fight for shelf space.

The beer market is becoming more global but also micro-breweries are established that serve small local markets. Due to German market specificities such as the bottle deposit system or the purity legislation, entering the German beer market implies some challenges and it may be difficult to overcome customer loyalty towards domestic brands (Niederhut-Bollmann 2006). Large corporations such as AB InBev are however able to enter by acquiring German players. Entering into segments with larger volumes can be difficult because the capacities and distribution channels have to be built up. In addition, due to the declining market, "foreign breweries […] do not push into the market at the moment." In sum, entry barriers are considered as low to medium.

The popularity of other drinks and increasing health concerns led many breweries to also produce alcohol-free beers and beer mixes. The danger of these substitutes is assessed as relatively high. Finally, a relatively high rivalry can be observed. Recently, several players have been fined for price-fixing (Bundeskartellamt 2015). The market is characterized by concentration but also differentiation where branding plays a relevant role. Decreasing beer consumption in the German market is one relevant facet, while export possibilities to growing markets such as China or South Africa constitute new opportunities.

In summary, the industry attractiveness of the German beer market can be evaluated as low due to the price competition, the high bargaining power of some buyers and the increasing threat of substitutes.

The **wine market in Germany is dynamic but also differentiated** reflected in the dominance of small and medium-sized businesses (MWVLW 2016). The industry structure is "non-homogeneous, since many smaller, regional wineries exist […]. There is a certain number that act Germany-wide, European-wide or even world-wide." In Germany, the number of wine growing businesses decreased from 34,000 to 24,400 between 1999 and 2007, of which about 56% (2007) and 63% (1999), respectively, operated less than two hectares. In the larger category with more than 5 hectares vine area (24% of all businesses), the number was stable since 1999 and they produce 72% of the German wine (Rheinland-Pfalz Bank 2016).

Usually wine makers grow grapes and have direct access to the central input. Other inputs such as bottles, corks and so on are commodities so that supplier power is low. Individual customers are quite fragmented with a low bargaining power. Marketing is central to attract these customers and create loyalty. Cooperative marketing strategies of regions evolved to foster (inter) national sales (DWI 2015). Retailers and gastronomic businesses are relevant business customers. German discounters have been very successful in becoming wine-buying places selling a large part of the demand of private households (DWI 2015). For the requirements of these buyers, large businesses with high volumes and standardized quality from the new world are much better prepared than producers in the different, mostly small-structured wine areas in Europe (Hoffmann 2006). Retailers in Germany started to follow the trend towards more regional products (DWI 2015). In sum, buyer power is high due to the relevance of large retailers.

Competition from the new wine world such as Australia or Chile has forced the domestic wine growers into an international price and quality competition requiring structural changes and the introduction of cost-saving technology (Hoffmann 2006). Entry barriers may lie in getting access to retailing shelf space. The trend towards more regional products may harm international players. In sum, entry barriers are assessed as low to medium. Recently, more people started to consume wine (BMEL 2016). "Wine is a unique cultural product" so that the threat of substitutes can be assessed as rather low. Industry rivalry is rather fierce, especially because of the price-driven competition. German wine makers internationalize to get out of this competition focusing on high quality so that the global export of German wines increased recently (DWI 2015); however, the global market share is rather low (Rheinland-Pfalz Bank 2016). In sum, the rivalry can be regarded as relatively

high. This leads to a moderate to low attractiveness of the German wine market due to high price competition and bargaining power of certain buyers.

The **German bakery industry** is characterized by many small local players; however, a concentration can be observed with the number of firms decreasing and the firm size of the remaining players increasing; the average bakery has 22.6 employees (ZDB 2016). "The craft-based part which was 80% in the past meanwhile has been significantly reduced." The attractiveness of the many local markets for baked goods can be evaluated as moderate. Inputs are all relatively easy to access so that supplier power is rather low. Costs for energy, logistics, packaging and personnel are of a higher relevance than crop prices that have a rather low share of total costs (Spiegel Online 2016). The most critical inputs are human resources. Especially equipping outlets with sales staff leads to high costs and shows the attractiveness of the self-service concept for baked goods. End consumers are highly fragmented so that bargaining power of buyers is low even if single business customers may have a better position towards a certain actor in the local market place.

Entry barriers are high for new entrants, but relatively low for established retailers: Two German discounters recently started selling baked goods (Handelsblatt 2012). Discount baking store chains emerged with impact on local markets (Tagesspiegel 2016). Cafés and coffee shop chains offer snacks which are also sold in bakeries. Substitutes such as cereals or frozen bread rolls to bake at home are not a big threat since the product range can be easily extended. Further, a lot of baked products are consumed in Germany (ZDB 2016). The rivalry is quite fierce because discounters gain market share. Traditional bakeries are disappearing because of economic problems and difficulties to differentiate or find successors (Handelsblatt 2012). These mostly small and medium-sized bakeries especially feel the pressure of increasing costs for personnel, ingredients and energy (Tagesspiegel 2016). With many bakeries closing, however, opportunities arise for traditional craft-based businesses. In summary, the local markets for baked goods in Germany are assessed as being moderately attractive mainly due to the fierce price competition.

The market for metalworking is among the ten largest German industries and characterized by many small and medium-sized players (BMWi 2016). Delta specifically is active in the **global market for silver tableware and cutlery**. The attractiveness of this niche market for the incumbents meanwhile can be described as relatively high: The high material-intensity leads to the situation that "[s]ilver prices are the sword of Damocles hanging over our business." However, silver is a commodity bought in the form of coated sheets where suppliers do not have a high bargaining power. Buyer power is rather medium since the target group is quite small and specialized retailers are the main distributors.

Since their number is declining, Delta, for instance, has established their own distribution outlets and sells directly to large individual customers or their interior designers. The bargaining power of the fragmented individual customers is not high but customers who buy complete equipment and recommend the products are important. Due to a shrinking market and established brands, potential new competitors face high entry barriers. Substitutes are tableware and cutlery made from other materials than Sterling silver. Due to the attractive price-quality relation of high-grade steel, these substitutes' success is documented in the here investigated industry's decline towards a niche market with few active players. However, regarding the target group, these substitutes play a minor role. Due to small industry size, the rivalry is not so fierce but competition for the budget of the customers in the premium segment can be considered as high. In summary, the industry attractiveness of this niche market can be regarded as high but limited with regard to growth.

The German timberworking industry is quite differentiated and includes raw timber, sawing processes, timber-based material, pulp and paper industries, furniture and packaging material industries as well as timber trading companies. We here focus on **regional markets for building and construction materials** with regional generalists and (inter)national specialists in an increasingly dynamic environment. The market attractiveness is especially moderated by a fierce price competition. Some suppliers sell high-tech products and want to interact with specialized intermediates and not with generalists. Suppliers are mainly interested in selling high volumes so that smaller players form buying cooperatives. The products and services of regional timber trading companies and do-it-yourself stores overlap with mixed business models coming up. In the last two decades, a significant concentration process happened on the supplier side (HDH 2016) which increased their bargaining power but also led to the development of a "counterpart in terms of a large cooperative buying group." In sum, supplier power is assessed as medium. Private customers have low bargaining power due to high fragmentation. The construction industry is characterized by smaller units so that the bargaining power may be higher but not extensive. Both customer groups show a tendency to favor one partner who offers the whole range of products.

Entering the industry may not be attractive due to fierce competition. Especially in the B2C-business and business customers with material in stock, there is the possibility for online traders to enter the market. Globalization led to increasing international competition and to changing price levels in the industry (Holznews 2016). However, regional markets for building and construction materials are still not so affected by new competition from abroad in spite of rather low to medium entry barriers. Online intermediaries and direct

sales from the suppliers could also be classified as substitutes for brick-and-mortar-intermediates. However, with a rather low danger for the incumbents, the traditional players may establish online channels as well. Further, traditional intermediates do not only sell construction material but also provide related services. In addition, transport costs of the sold products are rather high so that the distance between warehouses and customers is of relevance.

Price pressure is high due to the price-driven competition that only recently forced a large do-it-yourself chain into insolvency (Handelsblatt 2014). Differentiation is difficult especially in the B2C-segment. This is different in the B2B-segment where one group works on construction sites and "they often need the products just-in-time and also depend on weather conditions." Business customers such as cabinetmakers need the material for their in-house value creation activities. On the regional level, several competitors of different sizes compete for the same customers leading to a price competition like on an "oriental bazaar." But this is not true for all customer groups: "Especially the business customers want to have trust in reliability and performance capability." The material costs are often less relevant for them than personnel costs. Rivalry became fiercer and more multi-faceted since players with different backgrounds compete for different customers (Holznews 2016). In summary, regional German markets for building and constructions materials are moderately attractive with the attractiveness mainly being reduced due to the fierce price competition.

The attractiveness of the **local market for spirits** is moderate: Relevant suppliers are Jamaica rum and other alcohol wholesalers. It sometimes can be difficult to get certain alcohols such as whisky in times when it is fashionable to drink it, but usually there are possibilities to buy the basis for making the final product. Bottles or other containers for the spirits are a commodity. Thus, supplier power is low. Individual buyers have low bargaining power due to their fragmentation and the low annual per-capita spirit consumption in Germany of 5.4 liters (Wiesgen-Pick 2015). German retailing is characterized by a high degree of concentration and fierce price competition which gives retailing actors high power in bargaining processes (Haucap et al. 2013). One solution can be to directly sell the spirits in own sales outlets or online. It needs time to come up with special products as "some rum varieties are 14 years or older, we cannot start producing and selling such rum tomorrow" but new technologies make it possible to produce cheap rum in relatively short time. Entry barriers are thus higher regarding premium-quality rum than mass-produced rum. Substitutes take the form of the many other types of strong alcohol. Fashions and trends favor one or the other variety over time. However, distillers can include new varieties into their range of products.

In the spirits industry, a concentration process could be observed in recent years (BSI 2015). Possibilities for smaller players to survive with niche products exist as described above. In the mass-market segment, price competition plays a relevant role. Regional brands and adherent market niches are central here. Due to the internet, competition however also became more (inter) national for such actors. "It is important to establish a brand name […] we want to be a brand and market ourselves accordingly […] our name should be somehow linked with rum and our region." In sum, rivalry can be assessed as relatively high and the attractiveness can therefore be assessed as moderate.

All the investigated industry contexts show certain elements that lead to a decline of the attractiveness. Main reasons lay in fierce price-based competition as well as bargaining power of large buyers and relatively low entry barriers. The only exception was the global market for silver tableware and cutlery, which appears to be quite attractive for the few incumbents active in this segment. The segment as such however is getting smaller and further the incumbents do compete with other producers of luxurious products for the budgets of their wealthy customers.

Discussion

The research aim of this chapter was to obtain more in-depth insights into the relationship between the suitability of an internal successor and market characteristics in industries where many long-lived family firms survived. We have undertaken an in-depth analysis of six cases to understand these linkages better. We could especially see that family firms are successful in certain niches and the ones we looked at all decided for a differentiation strategy. This differentiation in the eyes of the customers was often based on aspects, which have a clear connection to the family.

Alpha Brewery is operating in a market of declining attractiveness, forcing the incumbents to either participate in the price-driven competition of the large brewers or select a small niche with a differentiated product. Alpha here is somewhat in-between as a "small-large player" with a path-dependent and hard-to-copy brand name on which Alpha's competitive advantage mainly rests. Low complexity combined with a medium degree of variability as well as frequency, similarity and specificity characterizes the company task. The investigated knowledge types suggest that for Alpha especially idiosyncratic family-business-specific knowledge that refers to the special branding of the beer is crucial for competitive advantage generation while subject- and network-related knowledge lost relevance.

Beta Winery is operating in a moderately attractive market (especially in the low-cost segment). However, it positioned its own business in the quality segment and differentiates their own products by marketing activities that to a high extent build on the family and location. Beta performed relatively well in terms of getting awards for their wines that facilitate the brand establishment. Beta's market task is characterized by a low to medium complexity combined with a high degree of variability. The business is a comparatively large vineyard in the German market, which is dominated by small and medium-sized players so that frequency and similarity were assessed as medium. Idiosyncratic and network-related knowledge has been handed down from generation to generation and played a crucial role regarding the competitive position. Subject-related knowledge is regarded as a necessary but not sufficient condition here.

Gamma Bakery is operating in a moderately attractive local market for baked goods especially affected by a fierce price competition in the overall industry. Gamma did react to the changes by building more outlets and committing to high-quality craft-based baked goods. Complexity and variability of the market task are relatively low. However, the latter seems to increase since more segments are to be covered (e.g., snacks) and new competition develops (e.g., self-service bakeries in discounters). Although Gamma's growth volumes of single products are still not high and the craft-based activity makes a high extent of scale economies difficult to realize, distribution cannot be centralized. Thus, frequency is only low to medium, while the similarity of the different products is high with regard to the making and selling process. Gamma's resources are of rather low specificity. The case analysis for Gamma shows a high relevance of idiosyncratic local market knowledge as well as subject-related knowledge in terms of producing and selling the craft-based products.

Delta Metalworking is operating in a small niche market, which for the few incumbents (of which Delta is the largest) shows a relatively high attractiveness. Buyer and supplier power as well as new entrants or substitutes cannot be seen as major threats. However, the shrinking market size is a concern. Growth possibilities are clearly limited especially for Delta which already serves customers worldwide. In its industry context, Delta however performs quite well and has built a favorable competitive position. Delta's market task is characterized by a high degree of specificity, a rather high similarity combined with a low to medium frequency, low complexity and low variability. Sticking to how things have always been done is one relevant facet of Delta's competitive advantage. Network-related as well as certain subject-related and idiosyncratic knowledge has been passed down to the current generation in the firm.

Epsilon Timberworking is operating in a moderately attractive market characterized by relatively fierce price competition. Epsilon builds on its long

history and reputation as a trustworthy partner especially for business customers from the construction industry with a high need for customized service. Epsilon has reached a reasonable size and is one of the larger players in the market. Complexity and variability of the market task are not very high but also far from being in the low category—especially the business customers value the flexibility of their distribution partner. Task complexity has increased due to newly developed materials as well as online channels for selling activities and offering services such as tutorial videos.

Finally, **Zeta Distillery** is operating in a local market for spirits where the company has positioned itself as an old family firm with regional links. Industry attractiveness is moderate. In the local market, they compete with larger (inter-)national players that increase rivalry. Zeta's market task is characterized by a high specificity of the firm resources, which are dedicated to the business and leave not many exit options for the family. Zeta generates competitive advantage by relying on family-business-specific experiential knowledge, especially in terms of idiosyncratic and subject-related knowledge that has been handed down in the family.

The gap in the literature we addressed was to gain a better understanding of how strategically relevant resources in the form of certain knowledge types can be better protected by internal succession in family businesses. We here blended elements from economic approaches in strategic management, that is, the market-based and the resource-based view, to explain strategic competitive advantage of family businesses in certain market contexts. Complemented by efficiency considerations, we were able to give a good description of how long-lived family firms could keep certain types of knowledge—which would cause high transaction costs when transferred to outsiders and thereby sustain competitive advantage.

In this work, we developed a framework that helps to describe market contexts as well as strategically relevant knowledge resources to sustain competitive advantage in these contexts and put them in relation with each other. Our framework thus contains elements that make an in-depth exploration of the relationships between valuable resources in terms of certain knowledge types, particular market contexts and the longevity of family firms possible.

The strategic relevance of family-business-specific idiosyncratic knowledge has been assessed as rather high across the cases. At the same time, the attractiveness of the markets the investigated firms competed in has shown a decreasing size and in five of the six cases also a low or moderate attractiveness. This is compatible with our suggestion made in Proposition 3 regarding family-business-specific idiosyncratic knowledge. With regard to the suggested connection between a strategic relevance of family-business-specific subject-related experiential knowledge, the data are less supporting since over all the cases, the relevance of this knowledge type has been assessed as rather medium.

The markets investigated had different structures and we could see that the market task of a specific firm seemed to be a better indicator for the suggested relations in this research than the general industry characteristics. One reason for that finding may lie in difficulties to choose a useful market definition before investigating market attractiveness. All of the investigated family companies operated in niches of their markets that may have shown different market characteristics. For example, in the wine industry, the bargaining power of buyers in the form of large retailers and discounters may lead to an unattractive market structure for wine producers with a cost-oriented strategy. However, those players that differentiate via the quality of their produce would not sell via these powerful channels and thus not be affected as much by this structural disadvantage of the market. The differentiation between family-business-specific and other knowledge types showed what relevance the single knowledge types have in certain markets. This might give family business owners in specific industries an indication of which types of knowledge they should emphasize to gain competitive advantages and longevity.

The conceptual model in Fig. 35.1 indicates that family firms can create and sustain family business competitive advantage by adapting to the market context and favoring internal succession. The high relevance of family-specific knowledge in connection with the market context was reflected in some dimensions of socioemotional wealth in long-lived family firms (Berrone et al. 2012; Chua et al. 2015). The NVivo matrix coding indicates that network- and family-related wordings were mentioned to a high degree (see Appendix 1). From this angle, we can identify the competitive advantage of long-lived family businesses in the investigated industries.

It also becomes obvious that certain differences exist between the six cases. For Delta, the only global player studied, family-business-specific idiosyncratic knowledge plays a less relevant role than for the other family firms. The smaller the geographic marketplace of the firms investigated, the higher the relevance of family-business-specific idiosyncratic and subject-related knowledge.

Based on the findings of case study research, family business scholars often suggest formulating propositions as an outlook for future confirmatory research (De Massis and Kotlar 2014). We want to follow this suggestion and come to a specification of our original propositions as the basis for further research as a result of our case study investigation. This leads us to the following supported propositions PI, PII, PIII and PIV:

PI: High strategic relevance of family-business-specific idiosyncratic knowledge is positively connected with market tasks of businesses that are characterized by a rather low complexity, a medium to low variability and frequency as well as a medium to high similarity.

PII: Medium strategic relevance of family-business-specific subject-related experiential knowledge is positively connected with market tasks of businesses that are characterized by a rather low complexity, a medium to low variability and frequency as well as a medium to high similarity.

PIII: Family-business-specific idiosyncratic knowledge is a valuable resource of long-lived family firms.

PIV: High strategic relevance of family-business-specific idiosyncratic knowledge is positively connected with the decreasing size and overall attractiveness of the market (segment) in which a firm competes.

Conclusions and Outlook

In general, we found our conceptualization useful to highlight advantages of internal successions in family firms and think that further studying knowledge transfer based on our findings and propositions is a fruitful avenue in family business research.

Future Research Directions

Future research should address the limitations of our case-based approach. It is, often not possible to separate "the knowing how (the tacit knowledge) […] from the knowing about (the codified knowledge)" (Ancori et al. 2000: 257). Here, more work is needed regarding the operationalization of the knowledge types. That may also help to make more sense of our mixed findings regarding network-related experiential knowledge with family-business-specificity.

Alpha as a holding with more limited family influence may be a starting point for further investigations—compared to the other cases, we found a lower overall industry attractiveness in this case. High competition in the German beer market made it necessary for Alpha to diversify into other areas of interest managed by a family business holding. Future research could start here by investigating one market context in more depth. Insights on the relevance of knowledge types could then help family businesses to survive in a more competitive market context.

Another path for further research could be a comparison with old non-family businesses to explore the heterogeneity of the investigated cases in more detail. Analyzing the differences of family and non-family businesses in certain market contexts could then lead to valuable information on the relevance of family-business-specific knowledge types.

Implications for Practice

Understanding the relevance of handing down relevant knowledge to the next generation in order to sustain competitive advantage in the market context should sensitize family business to invest into the creation and development of an internal management pool. Linking efficiency-related and strategic advantages with each other in the way we did in this chapter may add new perspectives on internal versus external succession for family firm owners.

Another implication to practice can be derived from the selection of the six cases, which each represent an industry where many long-lived family firms in Germany exist. Each case involved in a specific industry context can be viewed as best practice example on how to gain longevity in family business management.

Moreover, the categorization and application of knowledge types relevant for understanding family business competitive advantage can help family firms to decide which path to follow during succession planning. The given examples of knowledge types in the categorization also show the relevance for generating strategic competitive advantage.

Concluding Remarks

Building on insights into knowledge types and their relationship to competitive advantage generation, we came to a better systematization and understanding of the characteristics of different market contexts in which family firms have survived for many generations and clarified their relation to strategically relevant knowledge in terms of competitive advantage generation.

In summary, the complexity of succession in family business has been broken down in this work to internal versus external succession. Building on that, we systematized certain valuable knowledge types of family firms which can be handed down from generation to generation and thereby contribute to sustaining competitive advantages in certain market contexts. Our approach thereby helps to explain why in certain markets and industries family firms may perform better than non-family businesses.

Acknowledgments We would like to thank Tomasz Olejniczak from Kozminski University for his helpful comments and the interview partners for their willingness to share information and knowledge about their businesses with us. Finally, we thank Christin Lemcke for assisting us regarding the data collection in the investigated industries.

Appendix 1

NVivo Matrix Coding

	Industry characteristics	Supplier	Buyer/ customer	Entry barriers	Substitutes	Rivalry/ competition	Market task	Complexity
Alpha industry	1	1	1	1	1	2	0	1
Alpha transcript	1	1	3	2	1	5	4	0
Beta industry	3	0	5	1	1	5	0	1
Beta transcript	1	1	1	1	1	1	2	1
Gamma industry	3	2	0	2	1	4	0	0
Gamma transcript	2	1	2	0	0	1	1	2
Delta industry	1	1	0	0	0	1	0	0
Delta transcript	2	2	7	0	0	7	3	1
Epsilon industry	2	0	0	0	0	1	1	1
Epsilon transcript	2	2	2	0	0	2	2	1
Zeta industry	3	0	2	1	0	2	0	0
Zeta transcript	1	2	2	1	0	5	4	1
Sum	22	13	25	9	5	36	17	9

Variability	Frequency	Similarity	Specificity	Family value	Competences	Employees	Succession	Other networks
1	1	1	2	0	0	0	0	0
3	4	2	3	7	5	1	2	2
0	0	0	0	0	0	0	0	0
1	1	1	1	2	1	0	2	1
0	1	1	1	0	0	0	0	0
2	1	1	1	2	6	2	4	1
0	0	0	0	0	0	0	0	0
2	1	1	1	4	3	1	3	2
1	0	0	0	0	0	0	0	0
1	1	1	0	4	4	0	4	1
0	0	0	0	0	0	0	0	0
5	1	1	1	4	1	0	2	2
16	11	9	10	23	20	4	17	9

Appendix 2

Importance of Industry-Related Knowledge and Skills

Rated on a scale from 1 (not important) to 5 (very important). Family-business-specific knowledge types: I = idiosyncratic, S = subject-related, N = network-related, O = other knowledge.

	Know. types	Alpha Brewery	Beta Winery	Gamma Bakery	Delta Metalworking	Epsilon Timber working	Zeta Distillery
(a) Relationship with customers:							
Knowledge of customer needs	I	5	4–5	5	4	5	5
Formal relationships	O	5	2–3	1	1	1	4
Informal relationships	N	3	4	4	5	5	5
(b) Relationships with suppliers:							
Knowledge of supplier needs	I	5	2	2	2	4	5
Formal relationships	O	4	2	1	3	4	3
Informal relationships	N	3	4	1	3	3	3
Regional integration	I	5	4–5	4	3	4	3
(c) Relationships with employees:							
Knowledge of employee needs	I	5	5	5	4	5	4
Formal relationships	O	4	5	2	3	4	3
Informal relationships	N	4	5	4	5	5	5
(d) Relationships with competitors:							
Knowledge about regional competition	I	5	4	5	n.a.	5	5
Linking to networks	N	3	3	2	4	5	4
Other activities/networks	–	4	3	2	4	4	3

(e) Understanding of relationships between abovementioned stakeholder groups	–	4	3–4	3	3	2	4
(f) General corporate understanding:							
Relationships within the company	N	5	4–5	3	5	5	4
Business philosophy	I	5	4–5	4	5	5	5
Commitment to corporate values	I	5	4–5	4	5	5	5
Knowledge of the produce range/services	S	5	5	4	5	4	5
(g) Management skills:							
Above-average performance in terms of the management task	O	5	4–5	5	4	5	5
Experience in the company before handing over	I	3	5	5	2	4	5
Understanding of undocumented processes in the company	I	3	4–5	5	3	4	5
Experience in business in the form of documented knowledge	S	3	2–3	4	3	4	5
Experience in business of the same industry	S	5	4–5	3	2	5	3
Experience abroad	O	3	4–5	1	2	2	1

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