



**Universidad Ramon Llull**

**DOCTORAL THESIS**

Title	<b>Understanding different dimensions of the family business from a contingency perspective</b>
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## **ABSTRACT**

Family businesses represent the majority of companies around the world, and are recognized as major employers and GNP generators. Given the important role they play in the economy, scholars have developed a major stream of research to understand family businesses as they are considered to differ from their non-family counterparts in various dimensions, thus the need to understand these sources of distinctiveness and how they can continue adding value to the common good.

This dissertation composed by five studies explore diverse interconnected dimensions of the family business from a contingency perspective, applying different theoretical frameworks. Using qualitative case-based research, this study offers in-depth insights about the sources of distinctiveness, processes behind the evolution of family businesses over time, and the emergent institutionalization of the field driven by professional associations.

The first article (chapter 2) studies whether familiness, the specific family bundle of resources can be either positive or negative and in which situation. The second article (chapter 3) focuses also on familiness investigating how familiness can be sustained over time as complexity increases. The third article (chapter 4) explores how family businesses professionalize their decision making domains, where more professionalized companies may sustain their familiness advantage. The fourth article (chapter 5) digs deeper into the family variable and centers its attention in parenting styles and its effect on next generation members' behavior towards the family business. The fifth article (chapter 6) broadens the perspective and deals with the role of professional associations in creating awareness among policy makers, tackling the institutionalization process the field is going through.

This research mainly contributes to the family business field by using an interdisciplinary approach combining different theoretical perspectives from a contingency perspective.



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## **Chapter 1: General Introduction**

### **1.1 Relevance of the topic**

Family businesses represent the majority of organizations all around the world (Sharma, Melin and Nordqvist, 2014). As such, they play a fundamental role in the economy (Colli, Fernandez-Perez and Rose, 2003), significantly contributing to the creation of new jobs and the development of communities and countries (Neubauer and Lank, 1998; La Porta, López-de-Silanes and Shleifer, 1999; Heck and Stafford, 2001). According to studies in the field, 60% to 90% of the businesses worldwide are family owned or family controlled. Percentages vary depending on the definition used by the researcher (Martinez and Aldrich, 2014).

In the US, several studies suggest that more than 50% percent of organizations are family owned (Dumas, 1992, Kets de Vries, 1993, Astrachan and Shanker, 2003), generating from 30% to 60% of the GDP and employment (Astrachan and Shanker, 2003; Dyer, 1986). Some studies even suggest that 90% of incorporated businesses in the US are family-controlled or family-owned (Poza, 2010). East Asian family businesses also account for a large portion of firms in that continent, accounting for over two thirds of the businesses and contributing to 65% of the country's GNP (Claessens, Djankov, Fan and Lang, 2002). In Latin America, family businesses contribute to about sixty percent of the aggregate GNP (IFERA, 2003). The European Commission estimates that European family businesses represent 1 trillion Euros in turnover (60% of all European companies) and create around 40-50% of all employment <sup>1</sup>. India's GDP depends in two thirds from family businesses contribution, and Indian family businesses generate 79% of private sector employment. The Middle East also shows a high percentage of family owned-companies, accounting for over 80% of all companies in the region (PwC, 2012)<sup>2</sup>.

Family businesses have been traditionally associated with SMEs. Yet family businesses range from "Ma and Pa" stores to large multinational corporations (Lansberg, 1983). The families behind these businesses not only own small and mediums sized firms, but they also control a large portion of large enterprises, as shown in various studies. For instance, Anderson and Reeb (2003) found founding

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<sup>1</sup> Final Report of the expert group. Overview of Family-Business-Relevant Issues: Research, Networks, Policy Measures and Existing Studies. EU Commission, 2009

[http://ec.europa.eu/enterprise/policies/sme/promoting-entrepreneurship/family-business/family\\_business\\_expert\\_group\\_report\\_en.pdf](http://ec.europa.eu/enterprise/policies/sme/promoting-entrepreneurship/family-business/family_business_expert_group_report_en.pdf)

<sup>2</sup> PwC (2012). The Family Firm: Central to the success of the Middle East

<http://www.pwc.com/m1/en/publications/documents/family-firm-english.pdf>

families own one third of all companies listed in S&P 500, with an average of 18% outstanding equity. In European and Asian countries a higher number of businesses are controlled by single majority block-holders (Becht and Mayer, 2001; Goetzmann and Koll, 2003; Morck and Nakamura, 2003).

The most important feature of family businesses, is that they are composed of families who are the motors in creating companies and making them grow (Aldrich and Cliff, 2003; Steier, 2003), and whose concentrated ownership constitutes an important element because families have the power to decide and to make things happen their own way. This is one important aspect that makes family businesses a specific arena. Family businesses are also unique because they face simultaneously typical business issues (such as growth, ROE, competitive advantage), while they have to deal with a “complex set of social and emotional relationships” (Fletcher, 2002, p. 4), derived from their overlapping systems, the family and the business.

Family businesses have been generally depicted as homogenous among them since they are embedded in these two different systems (Lansberg, 1983). Recent studies, however, highlight the heterogeneity of these firms (Corbetta and Salvato, 2004; Chrisman, Chua and Sharma, 2005; Chua, Chrisman, Steier, and Rau, 2012; Nordqvist, Sharma and Chirico, 2014; Wright, Chrisman, Chua, and Steier, 2014), pointing out the differentiating factors, mainly the family ownership effect (Brundin, Florin-Samuelsson, and Melin, 2014) that will differ given the unique family involvement, culture, and interactions that constitute idiosyncratic resources and capabilities (Habbershon and Williams, 1999), their different mental models and ways of managing the company (Gimeno, Baulenas and Coma-Cros, 2010), and their diverging goals, mission and strategy (Lansberg, 1983).

Since Weber (1921, 1968), family businesses are depicted as nepotistic organizations, that behave unprofessionally. Recent studies, however acknowledge that family firms outperform their non-family counterparts (Miller and Le Breton-

Miller, 2006a), because they “leverage entrepreneurial experience and knowledge that can shape local economic development” (Westhead and Howorth, 2007, p. 405), they are able to better configure their governance choices in a more balanced way (Miller and Le Breton-Miller, 2006a); and they have a unique bundle of resources that allow them to achieve competitive advantage (Habbershon and Williams, 1999).

There is ‘a clear need to focus research efforts on the uniqueness of family firms which differentiates them from other organizational forms’ (Gomez-Mejia, Cruz, Berrone, and De Castro, 2011: p. 695). There have been many efforts research wise to unveil this uniqueness, as previously explained, while using more sophisticated questions, methods and theories (Sharma et al., 2014). Many areas have been predominantly studied, for instance succession, governance, the resource-base of family businesses, or performance, as shown in the latest reviews about family business studies (Amit and Villalonga, 2014; Gersick and Feliu, 2014; Goel et al., 2014; Long and Chrisman, 2014; Rau, 2014). Yet, many areas remain superficially explored, and promising ones largely unexplored.

One of the areas that deserves attention is the resource-based view of the family business (e.g. Habbershon and Williams, 1999). Even though largely explored, fundamental questions remain unattended. As Rau (2014) observes in her review about the state of RBV in family businesses, efforts have been mainly done towards theoretically developing the concept of familiness (e.g. Habbershon and Williams, 1999; Habbershon, Williams and MacMillan, 2003; Nordqvist, 2005; Sharma, 2008). Some empirical studies developed further familiness (e.g. Craig et al., 2008; Danes et al., 2008), yet, empirical validation still lacks in several steps, hence important gaps are still to be covered (Rau, 2014). Some of the relevant gaps that have been highlighted are whether family-specific resources are positive (Sharma, 2008); whether familiness can also be detrimental to the performance of the family firm

(Sirmon and Hitt, 2003); or whether positive family-specific resources could become negative. (Rau, 2014, p. 322). Chapters 2 and 3 in this dissertation aim to cover these gaps in the literature.

In another line of research, as exposed by Sharma et al., (2014), “scholars are challenging the notion of assuming that family members or family firms are less professional than their non-family counterparts (e.g., Hall and Nordqvist, 2008). Instead multiple dimensions of professionalization are being explored (e.g., Stewart and Hitt, 2012; Dekker et al., in press)” (p.13), but professionalization is still lacking further understanding in many dimensions. Stewart and Hitt (2012) mention that we need to take into consideration contingent factors such as family characteristics (generation and family orientation) (Bennedsen et al., 2007; Lumpkin, Martin, and Vaughan, 2008); business characteristics (firm size and governance) (Chrisman et al., 2009; Kotey, 2005); and managerial approach (use of internally or externally developed knowledge (Oxfeld, 1993; Ram, 1994), among others to better understand professionalization. Following these previous suggestions chapter 4 goes one step further in exploring professionalization.

In rethinking the future of family business studies Sharma et al. (2014) also mention that so far the main focus in the field has been on the business side, leaving aside the family side (James et al., 2012; Yu et al., 2012). Sharma et al. (2014) encourage the use of theoretical perspectives that can incorporate the family dimension in the equation, especially considering that the family is the differentiating element among other types of organizations. Including the family in the studies of family businesses can cover an important gap in the existing literature. A suggested source of inspiration to inform family businesses is the field of psychology where diverse theories may bring the family in (Von Schlippe and Schneewind, 2014). This conversation is joined in chapter 5 of this dissertation adding the family dimension in the study of family businesses.

While significant evidence points to the fact that family businesses are omnipresent and generate high economic value and social development, family business as a research arena has started to become relevant and accepted as a field of enquiry only in the past two decades (Benavides-Velasco et al. 2013; Chrisman et al. 2008; Collins and O'Regan 2011), despite the fact that family business studies can be traced back to the 1950s when Calder (1953) studied the problems of small manufacturing family firms in his doctoral dissertation and the first business center was founded in the 1960s (Sharma, Hoy, Astrachan, and Koiranen, 2007). The interest to study family businesses has raised leading to an increasing institutionalization of the field (Melin and Nordqvist, 2007). Sharma et al. (2014) highlight that “the legitimacy and importance of family business studies in relation to other scholarly fields is on an upswing (Craig and Salvato, 2012; Pérez Rodríguez and Basco, 2011; and Sirmon, 2014)” (p. 2). Yet, there is still a long way to go to reach a fully institutionalized status particularly regarding external stakeholders. This is a topic that deserves more exploration to understand how the family business field can become more legitimated within external and macro stakeholders, such as policy makers, given its importance in the greater economy. This important aspect is tackled in chapter 6.

In summary, family businesses deserve attention and need to be studied to better understand their idiosyncratic nature and how they can survive over time continuing with their role in value creation, job creation and community development. The purpose of this thesis therefore is to cover some of the existing gaps in the family business field by unveiling the following topics mentioned above: the resource-based view of family businesses, professionalization process, the family as a main variable affecting the family business, and the broader institutional environment. My hope is to shed light on existent gaps and enhance our understanding about particular aspects in the family business in this study.



## 1.2 Family Business Definition

Even though everyone seems to understand what a family business is, articulating a unique definition seems a difficult task (Lansberg, 1988). As in many other disciplines, achieving consensus about the definition of specific concepts is not easy, especially in a field that is in its developmental phase. There are many definitions coined to define a family business (Desman and Brush, 1991), which are full of ambiguities (Upton, Vinton, Seaman, and Moore, 1993). The boundaries and source of distinctiveness are not fully agreed on (Zahra and Sharma, 2004).

Two dominant approaches are used to define family businesses: family component-approach (Chua, Chrisman, and Sharma, 1999; Vallejo, 2007) in ownership and management (Handler, 1989), leaving room for interpretation (Siebels and Knyphausen-aufseß, 2012), and the essence-based approach (Chua et al., 1999; Habbershon, Williams, and MacMillan, 2003; Litz, 1995), complementing family involvement with “behaviors that produce certain distinctiveness before it can be considered a family firm” (Chrisman et al. 2005, p. 557).

For the purpose of this dissertation I consider that an appropriate definition should consider both dimensions: the involvement and the essence approach. Therefore I build on Chua et al. (1999) who suggest that “The 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 in a manner that is potentially sustainable across generations of the family or families” (p.25).

## **1.3 Understanding family business from different perspectives**

This dissertation draws on a diverse array of theoretical perspectives that complement each other to understand three main issues. First, I focus on understanding the way family businesses change and renew processes over generations, a promising line of research that is especially studied in the STEP Project<sup>3</sup> (cf. Habbershon et al., 2010) (Sharma et al., 2014). This broad topic encompasses issues related to entrepreneurial behavior, resources and capabilities or structures and leadership types suited for each stage of evolution of an enterprise (Sharma et al., 2014). In trying to address such calls, chapters 2 and 3 in this dissertation draws on the resource-based view of the firm (cf. Barney, 1991), digging deeper into familiness (Habbershon and Williams, 1999) as a source for sustainability over time, and how it changes over time.

Chapter 4 broadens the scope, by exploring literature on professionalization and decision making, focusing on how family businesses professionalize their decision making domains, a necessary step to support next generations at different stages of the enterprise evolution.

Second, many scholars emphasize the lack of attention paid so far to the family variable in family business research (e.g. Aldrich and Cliff, 2003; Danes, 2014; Dyer Jr., 2006; James et al., 2012; Litz et al., 2012; Nordqvist and Melin, 2010; Rogoff and Heck, 2003) arguing in favor of a more balanced perspective or family oriented

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<sup>3</sup> The STEP Project (Successful Transgenerational Entrepreneurship Practices) was launched in 2005 by six founding schools (Babson, ESADE, HEC, JIBS, WITTEN, and St. Gallen). By 2015 there are 45 academic institutions all around the world that take part in the project. The aim of the project is to understand how can family businesses “pass on the entrepreneurial mindset and capabilities that enable them to sustain and create new streams of wealth across many generations”.

perspective. Sharma et al. (2014) insist on the need to incorporate the family dimension to better understand family business heterogeneity. Family businesses will be undoubtedly better understood if we understand the family variable, since, the family is what makes the family business distinct from other forms of organizations. It provides with unique resources and capabilities (Habbershon and Williams, 1999); and as an institution the family shapes the values of its members. In turn, these values influence the attitudes and behavioral choices of family members (Sharma et al., 2014). Moreover, it is argued that family business dynamics highly depend on the way each family works (Corbetta and Salvato, 2004; Nordqvist et al., 2014).

Following these calls for including the family as the unit of analysis and understanding the family, a first query that emerges is which aspects should be looked at to understand how a family works. One dimension that I consider is how parents exercise their role. Drawing on psychology theories about parenting (cf. Baumrind, 1966; 1989), chapter 5 develops a framework to better understand how parenting affects next generation development and its effect on the family enterprise.

Lastly, I look at family business from a broader perspective to understand how the field is becoming institutionalized. As previously mentioned the importance of family businesses as an engine in the economy and the development of society has started to be acknowledged in recent years, leading to an increasing institutionalization of the field (Nordqvist and Melin, 2007), developing the research arena (Collins and O'Regan 2011), expanding research and practice (Sharma, Hoy, Astrachan and Koiranen, 2007), and creating a pool of diverse institutions to support the field (Nordqvist and Melin, 2007; Sharma et al., 2014). This process can be observed in the appearance of journals that disseminate knowledge, the foundation

of family business centers in universities, and the appearance of professional associations to give support to this type of organizations (Sharma, et al., 2007).

In that sense an important aspect to consider is how far we have gone with the institutionalization of the family business field. In doing so, an important connection between the micro and the macro environment are professional associations, who play a substantial role in driving and legitimating change (Greenwood, Suddaby and Hinings, 2002) and are instrumental in the dissemination and institutionalization practices of governance practices, such as values (Parada, Nordqvist and Gimeno, 2010), and governance structures (Parada, 2015). Yet, the role of such associations, in the legitimation of family businesses in the broader environment, or in defending family business interests has barely been studied in the management literature (Fernandez and Puig, 2009). This topic is relevant because family businesses, as important players in the global economy, deserve attention in terms of specific policies and processes, which can be achieved if awareness is created at the macro level, namely among policy makers.

Drawing on literature on professional associations (cf. Bennet, 1998; DiMaggio and Powell, 1983; Harvey, 2004; Harvey, Mason and Ward, 1995), lobbying (Andersen and Eliassen, 1991; Bennet, 1988), and education and learning (cf. Watson, 1930; Skinner 1953) chapter 6 is devoted to a still little explored area. From a more macro perspective chapter 6 delves into the role that professional associations play as a bridge between the family business field and the macro environment to attain visibility and create awareness among powerful stakeholders.

### ***1.3.1 Family businesses change and renew processes over generations***

The uniqueness of family businesses can be understood when observing how they change and renew processes over generations. The time dimension plays a central

role as it usually implies the arrival of new generations to the family business, meaning increasing family complexity (Gimeno, 2004; Gimeno et al., 2010), and with them, the need to reconfigure different aspects in the family and the business to be sustainable over time (Nordqvist et al., 2014).

Family businesses are considered to outperform their non-family counterparts as a result of their unique resources and capabilities. Therefore their sources of competitive advantage have been widely studied using the Resource-based view approach (cf. Barney, 1991). Resource-based view is a dominant theory to explain how organizations attain competitive advantage. In the family businesses field, this view has been adapted to the family business characteristics with the development of a specific concept called familiness, coined by Habbershon and Williams (1999). Familiness is defined as a distinctive bundle of resources that arises from the interaction between the family, its individual members, and the business systems leading to competitive advantage (Habbershon and Williamson, 1999; Habbershon, et al., 2003).

To attain competitive advantage resources have to be rare and inimitable (Barney, 1991), and therefore they can create value (Ireland, Hitt, and Sirmon, 2003). This is something that seems to be present in family businesses, given the unique combination that stems from the different systems or institutions, which portray different rules, values, and expectations (Lansberg, 1983).—“sharing certain characteristics that render them unique in terms of patterns of ownership, governance, and succession (Chrisman, et al., 2005; Chua, et al., 1999)” (as cited in Merino et al., 2015, p. 1167). Many studies have addressed familiness as a source of competitive advantage (Chrisman, et al., 2005), highlighting the bright side of familiness, where intangible resources, such as strong organizational cultures based on family rooted values, reputation (Sirmon and Hitt 2003; Sirmon et al. 2008), or tacit knowledge (Nelson and Winter, 1982) are developed within the family business

giving them a unique positioning and hence a competitive advantage. Other studies suggest that family “familiness qualities, including, but not limited to, strategic focus, customer orientation, family relationships, and operational efficiency, do contribute to a propensity for execution of an effective market orientation” (Tokarczyk, Hansen, Green and Down, 2007, p.17).

Few studies, if any, however, focus on familiness from a dynamic point of view, besides the fact that the bright side is usually highlighted. Chapters 2 and 3 aim to cover these gaps by exploring familiness from a dynamic perspective. Whereas chapter 2 suggests that the familiness advantage can become a disadvantage when resources are not reconfigured over time when new generations come on board, and the focus is mainly in the type of resources, chapter 3 goes one step further to explore how the familiness advantage can be sustained or diluted over time. In doing so, it proposes that governance structures should be developed to cope with the increasing complexity while evolving from a solo-owner model into an entrepreneurial family team to sustain the familiness advantage over time.

In another line of research that allows to understand how processes are renewed or changed in the family businesses, professionalization has been studied as a replacement of the founder and its founder-centric management style to the inclusion of non-family managers (Chittoor and Das, 2007), mainly suggesting that family firms are not professional, since they have family members running the firm, and hence the need to hire external professional managers (Bennedsen et al., 2007; Hall and Nordqvist, 2008). Stewart and Hitt (2012) broaden the scope of professionalization by using a contingent approach to define that professionalization of a company depends on the family leaders’ capabilities. Some scholars challenge the assumption that family firms are not professional if managed by family members and only become professional when they incorporate non-family managers (e.g. Stewart and Hitt, 2012; Hall and Nordqvist, 2008), while

highlighting the lack of discussion about the meaning of professionalization. Studies on professionalization are related to succession processes and passing the baton, implicitly dealing with decision-making, but there is not clear understanding on how decision making is professionalized in family businesses, considering the fact that coming generations may have a different way to make decisions. In fact, decision-making processes beyond the founder's life cycle have seldom been viewed from a professionalization perspective. Chittoor and Das's (2007) link succession performance with the professionalization of management. Chapter 4 explores this link, to add knowledge on the professionalization of family firms, explicitly relying on decision-making literature to connect with different domains of professionalization.

### ***1.3.2 Introducing the family as the unit of analysis***

Family business studies have mainly focused on the business system almost forgetting the family system (James et al., 2012). Many scholars from different fields advocate for the need to pay more attention to the family variable (e.g. Aldrich and Cliff, 2003; Bertrand and Schoar, 2006; Danes, 2014; Dyer Jr., 2006; Litz et al., 2012; Nordqvist and Melin, 2010; Rogoff and Heck, 2003), as families are the distinguishing feature from other forms of organization, as well as to better capture and understand family business heterogeneity (Sharma et al., 2014). Moreover, the family is seen a transferor of different forms of capital (e.g. social, cultural, financial, and human) (cf. Danes, 2014; Sorenson, 2014), requiring a deeper understanding of how this unfolds.

Family business dynamics highly depend on the way each family works (Corbetta and Salvato, 2004; Nordqvist et al., 2014). Martinez and Aldrich (2014) in their book chapter about "*sociological theories applied to family businesses*", explain the high

recognition families have in sociology for different reasons. On the bright side, a stream of scholars praise families for their capacity to create social and geographical mobility, and to socialize and nurture children and adults (Parsons and Bales, 1955). In contrast, another stream of scholars (Marxists), depict families as dominant relations of production that are reproduced over time (Yanagisako and Collier 2004), therefore family businesses perpetuate inequality because entrepreneurial values are transmitted across generations (Miller and Swanson 1958), as they usually possess wealth and provide the necessary resources to pursue entrepreneurial activities (Aldrich and Kim 2007). Interestingly, empirical studies have found no consistent relationships between levels of wealth and a propensity to create businesses (Kim, Aldrich, and Keister, 2003).

In any case, families play an important role in the development of their children as they nurture and socialize them (Parsons and Bales, 1955) while they transmit values of differing indole in relation to business and business development. This is an important issue to consider in the study of families in the family business field, because the way a family works will determine the family business dynamics (Corbetta and Salvato, 2004; Nordqvist, et al., 2014), and therefore the future behavior of children toward the family business.

Previous studies that take the family in the equation have contributed interesting insights to the field of entrepreneurship and provide food for thought to family business field. Some studies have found that entrepreneurial parents increase the probability to be self-employed in the next generation (Scott and Twomey 1988; Matthews and Moser 1996; Arum and Mueller 2004). The existence of strong ties has a positive effect in the motivations to start a business (Sequeira, et al., 2007). Cohesion within entrepreneurial families can develop behaviors, and perceptual models that make them more prone to be entrepreneurial (Kolvereid, 1996), but too much cohesion can hinder the ability to innovate (Sequeira and Rashhed, 2006).



While some efforts have been done to consider the family variable in family business studies, the way families work and its effect on the business remains highly unexplored. Chapter 5, in this dissertation aims to join this conversation by exploring one of the many variables that may explain how a family works and how it affects the family business, that is, how parents exercise their role. Building on Baumrind's model (1966) we develop a framework that takes into consideration how children are nurtured and socialized (Parsons and Bales, 1955) according to the parenting style. Parenting styles will condition the way children behave toward the family business. Previous studies suggest that entrepreneurial parents transmit entrepreneurial values (Miller and Swanson 1958), yet levels high levels of wealth do not necessarily lead to propensity to create businesses (Kim et al. 2003). Parenting styles may explain why this happens. This is why wealth and family complexity are contingent variable used in this chapter.

### ***1.3.3 Understanding the institutionalization of the field***

In their 25 years, Family Business Review, the leading journal in the family business field has published the article of Sharma, Chrisman and Gersick (2012) about reflections on the past and perspectives for the future. In their article they provide with an overview of how the field has moved forward, particularly in terms of research, achieving worldwide recognition from scholars that family businesses are ubiquitous and they face complex issues given the overlap of the family and the business spheres. There is still "exiting work to do" they claim (P. 5).

Family business as a field has developed thanks to the interaction of scholars and practitioners (Sharma et al., 2014) and has increasingly institutionalized (Melin and Nordqvist, 2007) thanks to the appearance of practitioner oriented institutions (Family Firm Institute), outlets to disseminate the specific logic and knowledge

(Family Business Review, Journal of Family Business Strategy, Journal of Family Business Management), chairs and institutes for family enterprises in universities to pursue research and to develop and socialize management students into family business issues, academic associations (IFERA, FERC, EIASM), and even global research projects (e.g. STEP Project), as well as professional associations to support family businesses in diverse affairs .

While there has been an increasing attention to family businesses from a practitioner and an academic view, the institutionalization toward external stakeholders is still incipient. This is an observable fact in policy making regarding family businesses. When we observe the EU Commission policies regarding enterprises, we see that most of them are developed for SME's, where family businesses are considered SMEs.

This issue is important, given the impact family businesses have on the economy and society at large. Therefore there is a need to create awareness among key external stakeholders to increase institutionalization in the macro environment.

In this regard, professional associations are seen as powerful tools to transmit institutionalized practices (Parada et al., 2010), as well as important legitimizers (Greenwood et al., 2002). Professional associations can be seen as the bridge between the micro and the macro environment. Hence they can act as educators to create awareness about a specific phenomenon. While many studies explore the role of professional associations as translators and enhancers of institutionalized practices and structures (Greenwood et al., 2002; Parada, 2015; Parada et al., 2010), very little research can be found regarding the role of such institutions in creating awareness via education and learning processes toward the macro environment.

Chapter 6 aims to cover this gap by using literature on professional associations, learning and education and lobbying to understand the role they play in the education and learning of policy makers with regard to family enterprises.

## 1.4 Methods: Using Qualitative Approach

Qualitative research is gaining momentum in organizational studies (Reay and Zhang, 2014), given its capacity to unveil, “the processes and meanings that occur naturally” (Denzin and Lincoln, 2000, p.8) from unstructured data, and to respond to how and why things occur (Denzin and Lincoln, 2005, Silverman, 2001). Qualitative research leads to the discovery of different, often wise complementary, things than those that can be found with quantitative methods (Silverman, 2001).

I share the view that qualitative research relies on social constructionism (cf. Berger and Luckmann, 1967), as Berger and Luckmann suggest inspired by the work of Schutz (1967), meaning that the world in which we live is socially constructed by the meanings that we create. This socially constructed reality in turn influences our behavior, actions, decisions and thinking. Therefore it is central to study the topic within its real-life context (Stake, 1995), since “... stable phenomena is actually put together by its participants” (Silverman, 2001, p. 44). It requires “highly contextualized individual judgements” (Van Maanen, 1998, p. xi), and flexibility and openness to embrace unanticipated events (Gephart, 2004). Qualitative methods are appropriate to study phenomena that unfold over time (Silverman, 2001).

In the family business field, qualitative methods have been highly recommended, as way to complement the dominant quantitative works, by capturing “the specific complexity and dynamics unique to family businesses” (Nordqvist, Hall, and Melin 2009). Using qualitative research helps in explaining the heterogeneity of family businesses by capturing the nuances and subtleties in the micro-processes (De Massis and Kotlar, 2014; Nordqvist, et al., 2009) that quantitative methods cannot.

Reay and Zhang (2014) encourage the use of qualitative research in family business, because, many of the important research questions that are still to explore are related to “how” things are done in family businesses by family members. In

addition the use of qualitative research provides a strong foundation for understanding dynamic processes within organizations. Qualitative approach is a powerful tool for theory-building that can move the field of family business forward (Nordqvist et al., 2009; Reay and Zhang, 2014).

Qualitative methods are suitable to study family businesses because of the time dimension, critical in the family businesses field, given that generational transitions and transgenerational processes can only be captured in longitudinal studies.

In this dissertation I rely on qualitative methods because all chapters focus on why and/or how things evolve, change over time, with regards to family business (see table 1.1.).

Chapter	Title	Main Research Question
2	The Dynamics of Familiness: An Asset or a Liability?	Is familiness always a positive asset over time?
3	Dealing with increasing family complexity to achieve transgenerational potential in family firms	How some of the resources that create the familiness advantage are sustained or diluted over time?
4	Professionalization of the family business: decision-making domains	How family businesses are professionalized in terms of decision-making domains?
5	Parenting and Next Gen development	How do parenting styles impact the development of adaptability and cohesion generation family members?
6	The impact of professional associations on the education, learning and action of policymakers with regard to family enterprises	The role professional associations in the education and learning of policy makers with regards to family businesses

**Table 1.1:** Research questions

All empirical chapters in this dissertation rely on qualitative research, where four of them (chapters 2, 3, 4 and 5) deal with the heterogeneity of family businesses (Nordqvist et al., 2009). All of them have a longitudinal perspective (Stake, 1995).

### ***1.4.1 Interpretive approach***

In all of the chapters, following the suggestion of Nordqvist et al. (2009), I rely on interpretive approach (Lincoln and Guba, 1985), using open-ended interviews to understand the meanings, the actions, the dynamics and motivations of actors (Elsbach and Kramer, 2003, and open to unexpected events. Interpretation is at the heart of qualitative research because the researcher interprets the actions of the actors in focus (Stake, 2010), while the main actors who tell their story, also interpret their own actions, in a double hermeneutics (Denzin, 2001). Diverse interpretations and understandings may collide (Ricoeur, 1974). The interpretive approach relies on the researcher's capacity to define and redefine the meanings of what they see and hear (Stake, 2010, p.39). Interpretation is also a temporal process where past interpretations influence present interpretations delineating future interpretations (Denzin, 1984).

### ***1.4.2 In-depth Case studies***

The aim of the five chapters, regardless of the different topics, was to understand in-depth complex phenomena and their dynamics within single settings, related to family business, in a real-life context (Stake, 1995). The goal of using cases is to produce fine-grained details and to fully understand the phenomenon, whether working with single or multiple cases (Punch, 2000). Stake (2005) explains the different situations in which the case study method is used. He suggests that intrinsic cases are used when we focus on a single case (individual, group, organization), with the aim to explore the uniqueness of that particular case. Chapters 2, 4 and 6 of this dissertation use intrinsic cases, focusing on a single case that can provide enough richness to understand the uniqueness of that particular case.

Chapters 2 relies on multiple-case design (Yin, 2009). Collective cases are instrumental, involving the analysis of multiple cases that might be similar or different, allowing the study of a general phenomenon leading to better understanding and theorizing (Stake, 2005).

Chapter 5 is a hybrid. While it uses multiple cases, these cases are instrumental, as they play a secondary role, serving to illustrate and facilitate the understanding (Stake, 2005) of a specific parenting style in combination with the contingent variables of family complexity and wealth. This is why 9 cases were chosen to illustrate each of the parenting styles in the different contextual situations.

Chapter	Title	Case studies	
		Type	Number
2	The Dynamics of Familiness: An Asset or a Liability?	Single	
3	Dealing with increasing family complexity to achieve transgenerational potential in family firms	Multiple	3
4	Professionalization of the family business: decision-making domains	Single	
5	Parenting and Next Gen development	Multiple	9
6	The impact of professional associations education, learning and action of policymakers with regard to family enterprises	Single	

**Table 1.2.** Case study selection

### ***1.4.3 Selecting cases purposefully***

For developing the different chapters I used purposive sampling to choose the cases and the respondents. As Denzin and Lincoln (1994) explain, purposive sampling is used to look for cases that will likely show the features and/or processes in which we are interested (Denzin and Lincoln, 1994). All chapters, except for chapter 6, use cases from the STEP Project. These cases have been carefully chosen for their

likelihood to shed light on the main questions related to transmission of entrepreneurial behavior across generations. Departing from there, they have also been chosen adequately to explore specific topics of each chapter in this dissertation.

All STEP cases used in this thesis are Spanish case studies. Exemplary studies in the field, have previously relied on cases that were part of a larger research project (e.g. Steier, 2001). Following the project guidelines, chapters 3 and 5 (see table 2.2.) rely on multiple case study design (Stake, 2005) allowing to understand in detail a complex process that unfolds over time (Nordqvist and Zellweger, 2010). Chapters 2 and 4 also build on STEP cases, using single cases as a source of illustration and theory building.

I have been able to use these cases because the topic of study was transparently observable (Pettigrew, 1990), and they were accessible and local (Steier, 2001). In addition, since I or my co-authors have been following them for an extended period of time we have created a trusting relationship, especially with the key informants, allowing to gain access to relevant but sensitive information, and to go back and forth several times.

#### **1.4.4 Data Collection**

Regarding data collection, I used multiple sources of data to enhance credibility (Patton, 2002), interviews, observations and secondary data (company documents and press releases) (Stake, 2010), to better understand certain, sometimes complementary aspects of the picture (De Massis and Kotlar, 2014). The main source of inspiration derives from the in-depth interviews done to family and non-family members in the first four chapters and to important stakeholders regarding professional associations in chapter 6.

Open-ended interviews were used in all five studies, because it allows to collect data from various individuals as well as to gaining insights from unobservable elements about how actors interpret and experience their day-to-day actions (Stake, 2010).

Interviews were type recorded and transcribed verbatim, since transcriptions are a “powerful act of representation”, and using naturalism was important, to capture every word and expression in as much detail as possible (Oliver, Serovich and Mason, 2005, p. 1273). As Hall (2013) defines them, interviews are fluid conversations between the observer and the main actor, guided and targeted dialogues to address the research topic. Interviews cover facts and meanings (Kvale, 1996) as they are aimed to be insightful to allow drawing inferences and explanations from the data gathered (Yin, 2009). The use of open-ended interviews permits us to ask broad questions regarding “how” or “tell me about”... (Becker, 1998). This leaves room for following the topic we are interested in, but also let new topics emerge. Open-ended, broad questions also allow the respondents to develop ideas, actions, interpretations and meanings.

## **1.5 Connecting the dots: Common Threads.**

For the past ten years, I have been developing a line of research with a contingency perspective to approach family businesses. The five chapters included in this dissertation are a result of this path of thinking. The first article (chapter 2) addresses the, probably, main basic historical discussion in the field, that is, to what extent family business perform better or worse than non-family business. In other words to what extent the fact of being a family business (familiness) affects in a positive way, a negative way or maybe both according to specific contingency factors. In the second paper (chapter 3) I go deeper into the time dimension, trying



to understand how time influences the increase of family complexity and how this affects family business.

Chapters 2 and 3 are highly connected as they deal with familiness. This is the way family businesses configure and deploy their resources in a unique way given the interaction of family and business systems. Both chapters focus on the dynamic view of familiness. The former focusing on the configuration of resources in the founding generation that, over time can become a liability if not renewed and showing how this configuration changes as new generations come on board. The latter goes one step further and focuses on how these resources can be transformed into familiness advantage dynamically, introducing the concept of Entrepreneurial Family Teams (EFT) as an evolution from solo-owner model to sustain familiness advantage. In doing so, it introduces various elements that need to be managed, such as relations and governance structures, to cope with the increasing complexity that arises as time passes by.

In the third paper (chapter 4) the focus is on the management side of the family business. I address the issue of how family businesses are managed using the driver of the professionalization. Following the contingency approach I try to identify specific factors that may lead to success and failure in the process of professionalization. Chapter 4 continues in the line of understanding how we develop structures and resources to be sustainable over time, particularly how next generations may build on different resources. This chapter focusing on professionalization contends that intuition and analytics are needed depending on the level of professionalization at an organizational level. This is important, since, the strategic level of professionalization might come at later stages when next generations take the lead and the familiness advantage sustained by the founder needs to evolve.

In the fourth paper (chapter 5) I turn the perspective to the family side trying to identify to what extent the way parents develop their parental role affects the development and behavior of the offspring's in the family business. In the fifth paper (chapter 6) I turn my focus to the family business` environment, addressing one of the possible contingency factors of family business development, its institutional environment.

Other common elements are related to the methodology used. The topic under study is family business investigated by means of a qualitative methodologies to understand in-depth how and why some things happen. Family business studies have covered a wide range of topics in a rather superficial way (Zahra and Sharma, 2004), therefore opportunities exist for exploring in much more detail family business issues to understand the nuances of the issues of interest (Nordqvist et al., 2009).

To understand the phenomenon I rely on a case-based approach, basing my data analysis on interpretivism, an appropriate methodological when dealing with family business topics (Nordqvist et al., 2009). In four of the five chapters (chapters 2, 3, 4 and 5) I use case studies that belong to the STEP Project, with which I have been working for more than 10 years. All of the chapters are related to my research pursued within the STEP Project, either as part of the main STEP framework or new findings derived from studying in-depth cases for so long.

## **1.6 Main Contributions**

This dissertation aims to contribute to the family business field by exploring different aspects of the family business from a contingency perspective. In doing so, this study addresses the call for studies to capture the complexity, the

heterogeneity, and the nuances that make up family business (cf. Corbetta and Salvato, 2004; Nordqvist et al., 2014) a unique arena worth to be studied. The compilation of five articles form the central part of the document where empirical research has been pursued longitudinally in different domains.

Each chapter addresses a specific research question that is encompassed within a broader theme of the dissertation. The first theme “Family businesses change and renew processes over generations” is linked to the Global STEP Project (cf. Habbershon et al., 2010). Chapters 2, 3 and 4 are directly related to this topic of research.

Chapter 2 presents the first manuscript titled ‘the dynamics of familiness: an asset or a liability?’ has been presented in EIASM and IFERA conferences benefiting from feedback and reviews that have enhanced the paper. This paper is coauthored with my two supervisors Dr. Alberto Gimeno and Dr. Leif Melin. The target journal for this paper is Family Business Review, the first and referent journal in our field, with an impact factor of 5.528. The main contribution of this article lies in the dynamic view of familiness questioning the bright side of familiness as time passes by, given the founder-centric familiness advantage, and the way resources might be reconfigured to adapt to the next generation needs.

The second manuscript (Chapter 3) titled ‘Dealing with increasing family complexity to achieve transgenerational potential in family firms’, as in the first manuscript, also contributes to the resource-based view of the family firm. This chapter extends the contribution of the former chapter by suggesting that familiness advantage, which is usually founder-centric, needs to evolve in order to be sustained. As complexity increases the familiness advantage can be sustained via the development of the Entrepreneurial Family Teams (EFT) to deal with increasing family complexity. EFT allows role differentiation and development of governance structures, important elements to reconfigure the familiness advantage to the

evolution of the family business. This chapter, already published in the form of book chapter with my co-authors (Dr. Eugenia Bieto and Dr. Alberto Gimeno), is part of the book published from STEP material 'Transgenerational Entrepreneurship: Exploring growth and performance in family firms across generations'.

The third manuscript (chapter 4) titled 'Professionalization of the family business: decision-making domains', contributes to the literature on professionalization by coining a specific definition of what professionalization means. Based on this definition, the chapter extends our knowledge on professionalization processes regarding decision making by introducing two important factors. The first one is related to the domains of professionalization, showing that family businesses may need to professionalize in a step wise mode, according to specific needs in specific moments. The second element introduced is the use of analytics and intuition and the importance of combination of both with different degrees according to the level of professionalization. While this paper is very specific regarding professionalization and decision-making, the overall contribution can be linked to resources and capabilities. In relation to the first two chapters on familiness, making decisions in a specific way is a resource that can become a familiness advantage, but depending on the context the way you make decisions might need to change. This chapter, already published in the form of book chapter with my co-author (Dr. Alberto Gimeno), is part of the global STEP book 'Exploring Transgenerational Entrepreneurship: The Role of Resources and Capabilities'.

The fourth manuscript (chapter 5) titled 'Parenting and Next Gen development'<sup>4</sup>, is especially new in terms of contribution as it draws from psychology theory to

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<sup>4</sup> This research has been recently presented at FFI Conference in October 2015 with good comments from the audience, praising the usefulness of the framework as well as the applicability and need to spread it.

develop a framework about parenting in the family business. The adaptation of Baumrind's model on parenting generate interesting insights about the effect on socialization, individualization, flexibility, cohesion, roles and competencies. In combination with contingent factors of family complexity and wealth, parenting styles clearly produce different outcomes with regards to the behavior and interaction of next generation members toward the family business. This chapter, accepted for publication in the form of book chapter with my co-author (Dr. Alberto Gimeno), will be part of the second global STEP book: Developing next generation leaders for transgenerational entrepreneurial family enterprises.

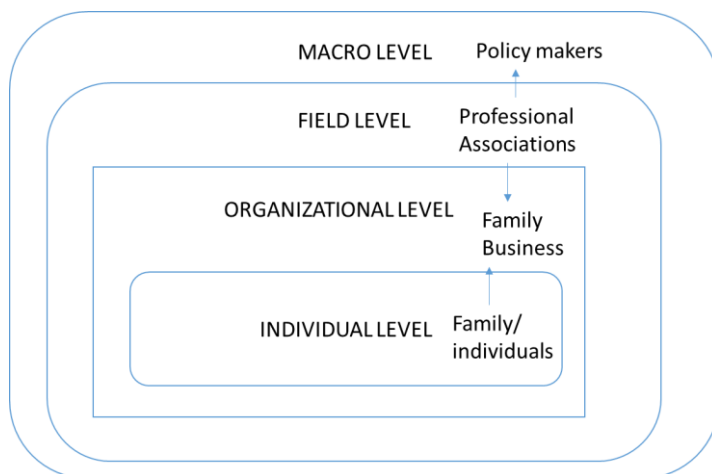
The fifth manuscript (chapter 6) titled 'The impact of professional associations on the education, learning and action of policymakers with regard to family enterprises' goes one step further with regards to the study of family businesses and focuses on the institutionalization of the family business in the broader context. This topic is considered relevant in the field, since there has been an increasing institutionalization (Melin and Nordqvist, 2007), where research has taken off and developed outstandingly (Sharma et al., 2012; Sharma et al., 2014), but reality shows that at the broader context, family business are not yet considered a business category itself, but rather SMEs integrate those family-owned businesses. This may be related to the widespread adoption of the term SME in the media and business environments as well as the unawareness of the effect of family ownership.

This study provides with evidence that family business awareness has grown in the last years at the macro level, and part of this awareness comes from the work made by professional associations who devote time and effort to lobbying and education of policy makers with regard to family enterprises leading to a higher degree of institutionalization. The main contribution of this paper lies in the insights provided about the role of professional associations as educators and lobbyists. With my co-

authors (Dr. Alberto Gimeno, Dr. Leif Melin, and Jesús Casado) we aim to target Family Business Review, because of the relevance of the topic for the field.

In general this dissertation contributes to the family business field by combining different topics of relevance for the field: resources and capabilities, professionalization, the role of parents in the development of next generation leaders and the role of professional associations in institutionalizing further the field (Nordqvist et al., 2014) (not necessarily life cycle to avoid a deterministic approach), family and business complexity (Gimeno et al., 2010), the type of family (Danes, 2014); and the institutional environment of the family business. Using a longitudinal perspective (Danes, 2014), it provides rich insights at the micro, mezzo and macro level, that are highly interconnected among chapters (see figure 1.1).

In summary, it is difficult to understand family businesses in general (As a homogeneous group of organizations), this is why it is necessary to increase the level of resolution, using contingent factors to capture the heterogeneity of family businesses.



**Figure 1.1.** Connecting different levels of analysis.

## **1.7 Thesis Structure**

The thesis is structured as follows. The introductory chapter has shared the relevance of the topic, the definition used for defining the boundaries of the study, the main theoretical perspectives used, the qualitative method applied, the common threads that the chapters share and the main contribution of this compilation of articles, finalizing with their respective references. Chapters 2, 3, 4, 5, and 6 develop individual papers with their own theoretical framework, methodology, findings, conclusions and references. The final chapter, chapter 7, develops the general conclusions, implications of the study as a whole and future research venues connecting the different ideas.

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# Chapter 2: The Dynamics of Familiness: An Asset or a Liability? <sup>5</sup>

## 2.1 Introduction

The family business context is said to be unique and different from other organizational contexts, as family components shape the business in a way it is only possible in this particular setting (Chua, Chrisman and Sharma, 1999). This is due to the different systems that overlap and interact (Gersick et al, 1997). Consequently their idiosyncratic resources and capabilities (Habbershon and Williams, 1999) such as the family involvement, its culture and values, and behavior, to name some, resulting from these interactions, make them outperform in some ratios and domains compared to non-family firms (e.g. Anderson and Reeb, 2003; Villalonga and Amit, 2006), and therefore achieve competitive advantage (Habbershon and Williams, 1999).

Habbershon and Williams (1999) coined the term “familiness” to define “the unique bundle of resources a particular firm has because of the systems interaction between the family, its individual members, and the business (p. 11). Resources have to be rare and inimitable to develop a competitive advantage (Barney, 1991), and thus create value (Ireland, Hitt, and Sirmon, 2003).

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Many studies have been conducted to theoretically operationalize, define and extend the concept of “familiness” (e.g. Chrisman, Chua and Litz, 2003; Habbershon and Williams, 1999; Habbershon, Williams and MacMillan, 2003; Pearson, Carr and Shaw, 2008; Sharma, 2008). Likewise some attempts exist to empirically develop “familiness” or the resources that make family firms unique and outperformers (e.g. Craig, Dibrell, and Davis, 2008; Ensley and Pearson, 2005; Minichilli, Corbetta and MacMillan, 2010; Sirmon, Arregle, Hitt and Webb, 2008). Some studies use the familiness dimension in their research to extend knowledge on other issues (e.g. Craig and Moores, 2005). These empirical studies usually focus on quantitative data and deal with the relationship of those idiosyncratic resources and performance. Thus they leave aside the sustainability of those resources over time albeit the fact that resources need to be accumulated, combined, re-combined and exploited to generate a competitive advantage (Sirmon and Hitt, 2003).

According to Pearson et al. (2008) theoretical perspectives are useful in identifying the role of familiness in creating competitive advantage for the firm but fail to illuminate the specific components of the construct (p. 952). Chrisman, Chua, and Steier (2005) highlight that sources or types of familiness are still unclear.

While Habbershon, Williams and McMillan (2003) have theoretically described the attributes of family firms to predict enhanced organizational performance and have also highlighted the possibility of having positive and negative resources, this view is static. Other researchers have extended the concept, and some empirical research has been conducted on this arena, but there is still a dearth of empirical studies that go beyond the relationship of resource and performance and focus more on the behavioral side of familiness (for an exception see Ensley and Pearson, 2005).

Our study is motivated by a number of reasons. First, there are still significant gaps in our understanding about the categorization of those resources that conform the

familiness which makes family businesses outperform and to regard them as a unique context (Pearson et al., 2008). Sharma (2008) and Pearson, et al (2008) try to cover this gap by theoretically developing the constructs.

Second, empirical studies mainly focus on the “bright side” of family involvement on the firm (Minichilli et al., 2010, p.205) showing how these resources lead to competitive advantage and thus become an “asset”.

Lastly, the temporal dimension in empirical studies is missing. Thus, there is a lack of understanding on whether those resources still prevail over time as a positive asset or whether they become a negative asset hindering performance. Resources are seen as a bulk of elements that compose familiness without considering the evolution of each component over time. That is they focus mainly on a static point of view. Covering these gaps in the literature we extend this topic by framing the following research question: Is familiness always a positive asset over time?

In doing so we draw on qualitative case based research to further extend this topic. We deal with an in-depth single case study to study the topic. The case has been chosen for its potential to clearly expose familiness from a dynamic perspective. It is also for accessibility reasons that we targeted this company. The Spanish case has been analyzed using an interpretive approach. Seven family members, including two in-laws have been interviewed.

Findings suggest that family firms heavily rely on active involvement of the founder as CEO, father figure and solo owner showing a high entrepreneurial behavior reflected in his leadership style, risk-taking, intuitive decision making, experiential knowledge acquisition and tacit knowledge. Hence, the founder and founders' involvement with entrepreneurial characteristics become a key resource, and potentially a key competitive advantage. Over time these set of elements, mainly entrepreneurial behavior and leadership, especially in generational transitions, are reconfigured into a different set of resources, as family and business complexity

tend to increase. Results also highlight that the family is a key resource in the equation, which needs support and development to become part of the pool of positive resources over time.

We see a number of contributions emerging from this study. First, this paper contributes to the family business literature by empirically exploring more in-depth the Familiness concept, going into the behavioral side of it. Second, it adds to it by digging deeper into the dynamic approach of resources, that is how they are renewed over time to sustain competitive advantage.

## **2.2 Theoretical Framework**

### ***2.2.1 Familiness***

Familiness has been coined to show the “idiosyncratic, immobile, inimitable and intangible bundle of resources” as an essential feature of family businesses (Habbershon and Williams, 1999, p.11). It refers to the unique bundle of resources that family firms possess as a result of the overlapping and interacting systems (Cabrera-Suarez et. al. 2001; Habbershon and Williams, 1999). Systems theory underlies the idea of familiness as an inseparable and synergetic set of elements that create competitive advantage (Pearson et al., 2008). In other words family firms differ from their non-family counterparts given the unique resources and capabilities they develop (Minichilli et al., 2010, p. 206).

Habbershon, Williams and McMillan (2003) argue that there are positive and negative factors that influence the familiness. These unique resources stem from its culture, reputation, decision making processes, relationships (Habbershon and

Williams, 1999), their management practices and business values (cf. Aronoff, and Ward, 2001), in other words it is about their behavior. Resources are classified into 4 main categories: physical, human, process and organizational (Barney, 1991, Grant, 1991) (See table 2.1).

<b>Physical</b>	<b>Human</b>	<b>Organizational</b>	<b>Process</b>
Plant	Skills	Competencies	Knowledge
Raw Materials	Knowledge	Controls	Skills
Location	Training	Policies	Disposition
Cash	Relationships	Culture	Commitment
Access to Capital	Capabilities	Information Technology	Leadership
Intellectual Property		Reputation	The team

**Table 2.1.** Resources

Chrisman, Chua and Litz, (2003) have attempted to integrate these ideas by focusing on wealth creation instead value creation. Recent theoretical extensions include social capital theory in the familiness equation (e.g. Arregle et al., 2007; Pearson et al. 2008). Arregle et al (2007) develop a framework for understanding the origins of organizational social capital (OSC). They argue that there is a link between OSC and family social capital (FSC) due to isomorphism, organizational identity and rationality, and networks that overlap. They also argue that there are contingent factors that affect the link between FSC and OSC, such as stability, interdependence, closure, size, commitment, and ability to provide critical resources. Pearson et al., (2008) highlight that familiness is about behavioral and social resources (p. 950). In that sense, family businesses have been described as flexible, efficient in decision making, they have less organizational structures and lower monitoring and control

costs (cf. Daily and Dollinger, 1991), they have the ability to adapt fast without losing momentum (Moscatello, 1990). Included in the familiness equation are processes such as increasing trust, enhancing reputation, gaining flexibility, building alliances, fostering R&D and creativity (Habbershon and Williams, 1999) as well as innovation. Thus these processes have to do with entrepreneurial behavior and leadership.

Both studies mention stability, adding a temporal dimension. Sharma (2008) builds on social capital theory and extends Pearson et al (2008) and Arregle et al (2007) studies. She suggests that familiness has to do with content and flow of social capital in family firms. 4 main issues underlie her conclusions: first familiness is a combination of stocks of social, financial, human and physical resources. Adding the temporal dimension she suggests that over time changes in familiness are reflected in the stocks available as a consequence of the “flow of capital from one system to the other” (p. 975). Familiness can be either distinctive or constrictive depending on the type of capital stocks as a consequence of the flow.

Familiness has been mainly dealt theoretically, some empirical studies emerged even though the concept is somehow difficult to capture. For instance empirical developments of “familiness” have tackled it from an upper echelon perspective focusing on Top Management Teams (Minichilli, Corbetta and MacMillan, 2010). Craig, J.B.; Dibrell, C.; and Davis, P. S., (2008) studied family brand identity as a key resource for generating competitive advantage. Sirmon, Arregle, Hitt and Webb, (2008) indirectly tackle familiness by studying the role of family influence on firm’s strategic response to the threat of imitation. These exceptions focus on quantitative data and deal with the relationship of those idiosyncratic resources and performance, leaving aside the sustainability of those resources over time an important dimension to be taken into consideration, as Pearson et al. (2008) suggest. Other studies have concentrated on the involvement of family members in



top management positions and their effect on financial performance (Anderson and Reeb, 2003; Villalonga and Amit, 2006) comparing them with non-family firms.

Nordqvist (2005) argues that family businesses compared to their non-family counterparts, are able to complement their unique resources with their social relations and therefore show higher cohesion, higher potential and be able to better manage conflicts while being able to elaborate a shared strategy. He further notices that the mere presence of the family on the top management may generate familiness and hence a competitive advantage. Lindsay and Craig (2002) highlight that familiness can also be negative as it can inhibit growth.

The value of the familiness concept lies in that the analysis is focused on identifying the family dimension and values its impact on strategic capabilities more than on finding out how family businesses can achieve or not a competitive advantage. (Habbershon and Williams, 1999). According to Pearson et al. (2008) these theoretical perspectives are useful in identifying the role of familiness in creating competitive advantage for the firm but fail to illuminate the specific components of the construct (p. 952). Chrisman, Chua, and Steier (2005) highlight that sources or types of familiness are still unclear. While Habbershon, Williams and McMillan (2003) have theoretically described the attributes of family firms to predict enhanced organizational performance, other researchers have extended the concept, and some empirical research has been conducted on this arena, there is still a dearth of empirical studies that go beyond the relationship of resource and performance and focus more on the behavioral side of familiness.

Previous studies take for granted that resources are there, they lead to competitive advantage and implicitly they will last over time. Furthermore, it has been highlighted that it is not easy to empirically capture those resources, which in part may be due to the lack of qualitative studies dealing with this issue. Research in this

arena has largely overlooked the sustainability of these resources that compose the familiness over time.

Likewise, the familiness construct has not focused on the dynamic view of these resources, which seem to be crucial for the sustainability of competitive advantage over time, even though research shows that the family is continuously and significantly influencing the family business as the business grows in complexity by growing in size, professionalizing, incorporating new and simultaneous generations (Aldrich and Cliff 2003; Rogoff and Heck 2003; Davis and Harveston 1998). Therefore this study intends to look at the dynamic component of these resources that conform the familiness by investigating to what extent these resources may be sustainable over time.

## **2.3 Method**

Given the need to better understand the evolution of resources over time, we chose a qualitative method and relied on in-depth case study approach. We have conducted a single case study for digging deeper into whether familiness is always an asset over time. In other words we focused on (a) which resources are key to the sustainability of the family business and (b) to what extent these resources can be sustained over time? Why despite the pool of unique bundle of resources family firms possess may not prosper through succeeding generations. This approach allows us to gain in-depth knowledge that may lead us to generate new and meaningful understandings of the phenomenon (Stake, 1994). We used case studies for its richness and the importance of taking context where the phenomenon takes place into consideration (Eisenhardt and Graebner, 2007)

The strategy we used to analyze the data is based on interpretive approach (Alvesson and Sköldbberg, 2000). By doing interpretive research we have followed an iterative process going back and forth between our theoretical framework, based on the familiness concept and the empirical material we gathered allowing us to extend and build new theoretical insights (Alvesson and Sköldbberg, 2000; Burrell and Morgan, 1979; Nordqvist et al., 2009). As such, case studies are suitable to build theory being able to combine the case data, emerging theory, and later, extant literature (Eisenhardt and Graebner, 2007).

The single case was selected for its potential to shed light on the topic (Eisenhardt, 1989) and for accessibility reasons. To study the issue raised in this study we looked for a family business that would have two generations working together hand by hand, in a moment of generational transition and that would show the involvement of family in the different spheres. For accessibility to information and to facilitate rich data collection, we looked for a family business that had already some contacts with us, though theoretical reasons for selection prevailed over practical ones. For confidentiality matters, we use a pseudonym for the company and actor's names to avoid identification, but relevant data about the family business is kept for analysis purposes.

### ***2.3.1 Data collection***

Data was collected through open-ended interviews made to seven family members, including two in-laws that are currently managing the family business. The aim of this method was to get a story of each case by letting the interviewees express and develop their ideas and thoughts as much as possible. All interviews, except for one explicitly asked not to be recorded, were tape-recorded and transcribed verbatim, thus facilitating analysis.

Two of the three researchers that took part in the study were present in all interviews. While the interview guide was prepared with our theoretical framework in mind based on familiness, the interviewers did allow for flexibility during the long conversations with the main actors, hence allowing for emergent themes to appear and shedding light on new theoretical insights not previously thought about. Data gathered was first transcribed by one of the interviewers present in the interviews. A case study was elaborated to describe and explain the story of this family business, which was later presented to the family and discussed back with the interviewees to get their feedback and agreement for using it.

In summary, seven in-depth interviews of more than two hours each in average were performed with key family members involved in the business (see table 2). For this study we defined family business as a company controlled and managed by a family or families (Davis, 1983). Data was collected through face to face interviews as a first instance. As different key actors have been interviewed a second level of comparison and triangulation was possible.

Interviewee	Position	Role/Family Position	Generation	Age	Time at company (in ages)	Length of interview (in minutes)
Mr. katz	President	Founder/Father	1st	80	30	160
Mrs Katz	CEO	Founder/Mother	1st		30	132
Sharon	General Director	Daughter	2nd	44	20	150
Tricia	Marketing Director	Daughter	2nd	41	17	90
Richard	Internationalization Director	Son	2nd	42	13	170
John Smith	Finance Director	In law married to Sharon	2nd	45	7	90
Nicholas Newman	Institutional Relations Director	In law married to tricia	2nd	44	13	130

**Table 2.2.** Profiles of interviews and interviewees

We also provided the key actors with a survey of more than 120 variables as an additional source of information for collecting their perception about their family business, their involvement in it and the development of it. This questionnaire was used to gather additional information for two main reasons: looking for relevant evidence that could help us interpret the emerging themes in the interviews and be able to look at the data from different perspectives.

To increase trustworthiness two researchers have made the interviews together and a third researcher has listened to the interviews and transcribed them a second time, as one of the interviewers did already do the transcriptions for preparing the case study.

### ***2.3.2 Data Analysis***

To analyze our data gathered from the interviews we relied on interpretive approach (Alvesson and Sköldbberg, 2000). This process involved reading carefully the transcripts individually and going back and forth between the data collected and our initial framework. We proceeded in such a way inspired by Crabtree and Miller (1999) by using crystallization as a way to analyze our data when interpreting it. We looked independently for themes that were first in our familiness framework, such as the 4 types of resources classified in RBV theory and also in Habbershon and Williams, (1999) and Sirmon and Hitt (2003). Even though we had this theoretical framework in mind we programmed ourselves to open our minds to let new insights emerge from our empirical data.

After individual analysis the three researchers shared their own findings by reading thoroughly and discussing in detail so that the three researchers could contrast the themes between each other's and crystallize the key themes that were emerging (Crabtree and Miller, 1999). The themes that appeared were related to the main 4

categories Habbershon and Williams (1999) framework, for example financial resources, human resources and so on.

### ***The context***

Beauty Corporation was founded in 1979 in Spain by Mr. and Mrs. Katz, investing all their savings on the future business. It is 100% Spanish capital belonging to the Katz Family. They develop their activities in the cosmetic body and facial treatment arena. The decision to start a venture had to do with the fact that Mr. Katz had lost his job at the age of around 50 and he had 4 children to raise. The industry was selected given the knowledge Mr. Katz acquired in previous jobs, as he came from a research laboratory and with intuition he saw a great opportunity when observing that he could use the “amino acids” of the product to help the skin look better.

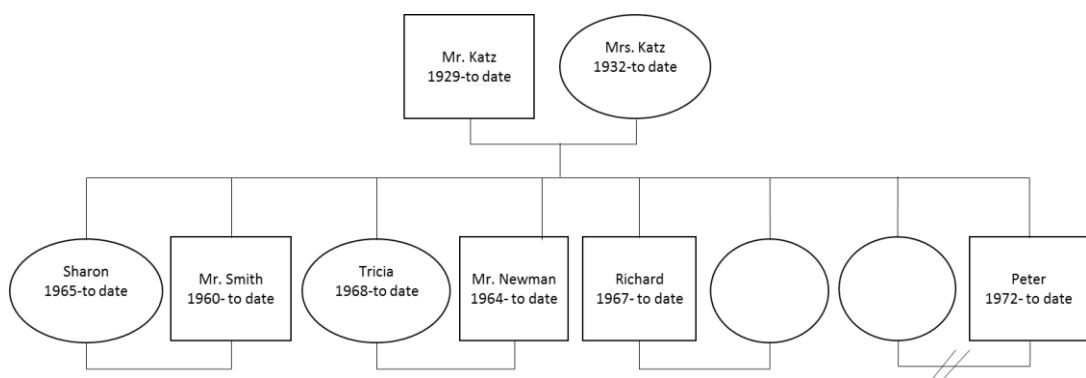
Since the start they have moved toward innovation and development new products in their industry. Their premises had to do with maximum quality, and innovation, customer service, professional team and selective and exclusive products. They first developed their brand within the Spanish market. These first ten years were crucial to the family business as they positioned themselves in a niche that allowed them to gain loyalty from the customers. They were able to position their brands amongst the exclusive brands worldwide.

The second generation was involved in some way or the other in the family business. Before graduating they all had internships in the family business. When they started graduating, little by little the children entered the business to help their parents. While the first generation relied on the abilities and capacities of the entrepreneur, this allowed the business to grow and expand.

Fifteen years after their foundation they started their internationalization process. They entered the U.S. market, a very tough and competitive one. They did so through important and luxurious department stores, such as Neiman Marcus. Given

the success they had in penetrating the U.S. market they opened an affiliated company there. This successful entry into foreign markets allowed them to distribute the product to other countries sold through exclusive shops. After twenty five years they opened their affiliated in México to reach the Latin market in Central and South America and a couple of years later they penetrated the middle east market considered among the most luxurious brands.

Currently a generational transition is going on, from first to second generation. Little by little the 4 children and the in-laws have coped top managerial positions in the family business (see genogram for details about the family).



Source: Authors from interviews.

**Figure 2.1.** Genogram of the Katz Family

## 2.4 Findings

This research shows interesting insights about the resources that make up familiness as well as the dynamic component of resources, which is the need to adapt and reconfigure those resources over time. We develop the different set of

resources the family has had and how they are developing. Then we enter more in detail into those dimensions that appeared as most relevant.

Mr. Katz had a vast experience in business and especially he was familiarized with the cosmetics industry. His knowledge on the matter and his curiosity about the product he found to be an excellent element for the skin, lead him to think about the possibility of founding a business in that industry, however it was just a dream, even though what he did was not what he most liked. When he lost his employment at the age of 50 with 4 kids to raise, he finally realized that he wanted to be independent (Kuratko, et. al., 1997) and it was the right moment to seize the opportunity and start his own business. He was pursuing an entrepreneurial career, by "deciding to begin operating as an entrepreneur" (Bird, 1989, p. 173).

*"The family project is launched on the premise of not having to depend ever again from an employer" Mr. Katz.*

Mr. Katz and his wife engaged together in the endeavor as they had a close relationship and complemented each other well in all domains, of great importance to the growth of the business and to the well-being of the family. The adventurous spirit came from Mr. Katz while Mrs. Katz was the one who brought harmony and stability.

In order to launch the business they invested all their savings as they fervently believed in this dream. Likewise they engaged their closest friends and family to be part of the venture with the promise that very soon they would get their money back with good returns. Mrs. Katz recruited her friends to work with her in attracting clients, packaging and all of the different tasks needed. Mr. Katz' capacity to run the business, his expertise in running businesses, his capacity for taking risk and their social network, their openness in telling their family and friends that they were engaging in a risky adventure, and their confidence on the idea, generated a great



enthusiasm and friends did participate actively in the business without even getting a salary for some months, until the business started to become fruitful, even before the entrepreneurs expected it.

Mr. Katz's primary objective was the creation of value by growing and expanding the business. The business was a real success and in less than a year they could give back the funds to the family and friends who trusted them and also could pay. The copreneurs were assertive in finding the different resources they need to launch and run the business. Not only was the collaboration of their closest friends of high importance but also taking advantage of a property of the family to convert it into the offices.

The business model developed was innovative and risky based on selling their beauty products to esthetician's. This trust building strategy would generate sales and loyalty to the product, as they were convinced the product was of high quality. The rapid positioning of his products as high quality products in the market was the cause and the consequence to invest in new formulas that would hit the market. His success was notorious in the national market therefore he decided to expand to new markets, via internationalization. His entrepreneurial behavior made him a visionary and effective leader capable of convincing family and non-family members about the potential success of the project. He led the company to a rapid growth and expansion. He was passionate and capable of generating a good relationship with suppliers and vendors. Mrs. Katz was the expert in dealing with people so she was focused on attracting clients.

Mr. Katz was conscious that he needed different resources if he wanted to succeed, but the most important resource for him was to have competent people and that he could transmit his leadership to them and his love for the company. So far the resources that made up the familiness of the family business were diverse and complementary.

They made their children participate in the business since very young. Little by little he allowed his kids to take key positions in the company. Consequently they were sent out to the international market to launch the initiatives. Their entrepreneurial behavior and risk taking attitude lead them to succeed in this Endeavour. All of the children are incorporated in the business, except for the youngest one. Two in-laws make part of the executive team leading entrepreneurial ventures. All of them were sent to launch international ventures before coming back to headquarters and occupy top management positions. The last expansion was driven by Richard within the Mexican market and lately the Middle East Market.

*“I have the advantage that I have surrounded myself with a team more intelligent than I am. This is my children. I just taught them to work always in team. I don’t play the violin better than they do. I am the Orchestra director and I have been able to create a team and make it work. And this is how Beauty Corporation grew”. (Mr. Katz)*

Currently the Katz family is facing changes and challenges, like the transition from one generation to the second. More and more Mr. Katz is retired from management and he exercises his leadership from the Board of Directors mainly. Mrs. Katz plays an important managerial role as CEO and all of the children hold a top management positions, including the in-laws. They have named the oldest sister as Director of the company, and key positions such as marketing, finance, internationalization are taken by the siblings and in-laws. While siblings have a harmonious relationship between them as well as with their parents, all of them have different views of what the company should become and where it should go from here. They have all achieved a degree of independence and have inherited the passion of their father to behave entrepreneurs and lead the company to a major growth. They all are willing to assume risks. The main issues however appears now in this transition from

the first to the second generation, where different interests and profiles emerge. As an example in the Board of Directors Meeting, not all shareholders share the same vision of the business. There are divergences relating the growth pace of the Spanish market for instance. Similar thoughts appear about the US Market and its future expansion. Eventually one of the main issues may have to do with the fact that more expansion needs more resources, which would represent eventually bringing external people to the family business.

*“... but we will continue with the expansion project, even if we do not all agree, and we have different points of view, because there is harmony and we all have a common objective”*

Moreover, the different vision among family members is at the moment creating some frictions as far as the strategy of the business is concerned. In fact one of the elements that surfaces is that of each family member leading its own parcel, hence leading to some competitiveness among them. Complementarity is not the common attribute but overlapping of competencies is appearing.

The family has realized that the way resources were configured until now may need to change in order to support the new context. That is why they have been working towards professionalization of the company, developing different leadership styles, developing governance structures, among other measures.

### ***Leadership***

At the foundation of Beauty Corporation there were two types of leadership entrepreneurial and effective. Those reflected the personality of the co-founders. They had a symbiotic profile. Entrepreneurial and effective leadership were key factors of their success and growth. In line with Gimeno et al (2009) there were two

predominant orientations: a business orientation and a protective orientation towards the Company.

Mr. Katz was the founder, the leader, the visionary. He was effective and entrepreneurial. His form of leadership was mainly directed at acting, making the business grow and envisioning the future. He was focused on solving problems (effective leadership) and he had also the strategic mindset that gave direction to the business (mental leadership). He was committed to his work and mainly concerned with creating value through growth and expansion. His vision has led the company from a Spanish start-up to a multinational competing in a global league.

*It was my father who was giving direction to business and making it grow" (Tricia Katz)*

Mr. Katz effective leadership, that is his capacity to manage the business, his know-how, and his vision and enthusiasm for the project, attracted family and friends to invest in the family business and gave their support to the venture. At the same time, his passion and capacity for building business relationships played an important role in creating good relations with suppliers and distributors.

Mrs. Katz on her side had a different orientation. Hers was a protective orientation. Her presence and the way she dealt with the family and business issues were critical over the years. While she had an effective leadership as well, she was always working towards stability, cohesion and trust among the family. An example of this attitude is her willingness to incorporate her sons-in-law into the family business.

Mrs. Katz has shown an important effective leadership that has been symbiotic to Mr. Katz's entrepreneurial leadership. The co-founders "tandem" has shown its fruits and it has been compatible and successful. One reason for this success was their awareness on their qualities and limitations. This is why they have defined roles, in line with their skills and capabilities.

*"I give 90% of the credit for the growth the company has achieved to Mr. and Mrs. Katz. They have demonstrated it with their example, values, harmony and sharing way of life" (Mr. Newman)*

Mrs. Katz' people skills were crucial for attracting customers and people to work in the family business.

*"I said to my wife, you have to help me, because you are a woman and I don't have the slightest idea about creams. And you have human qualities and youth, which are just what we need. And I was right. She set up a fantastic team and I acted as the conductor of the orchestra" (Mr. Katz)*

So far the co-founder's leadership has been a key resource for the development and growth of the company.

The second generation is onboard and the founder is retiring. They have realized that the way resources were configured so far might need a change in order to succeed in the new context they are facing. They have been working towards building a functional organization. Leadership dynamics have changed in the second generation, becoming less individualized and more institutionalized (e.g. they created a Board of Directors). On the other hand they created authority positions and figures of authority (like naming the oldest daughter as Managing Director). Finally knowledge is becoming more explicit, shared and also a source of power (professionalization).

The family appears to have developed enough effective leadership (problem solving) and they are consolidating social leadership and strategic (mental) leadership. The professionalization process undertaken is moving towards

redefining the top management team roles and, therefore, the roles of the family management team.

### ***Knowledge***

Knowledge has played a major role in the development of Beauty Corporation. The co-founders were the main resources due to their knowledge of the business. Especially Mr. Katz who had a vast experience in business and he was familiarized with the cosmetics industry. His knowledge on the matter led him to discover properties of a protein that would be a hit in the cosmetics industry. He was curious therefore he found out that it could be an excellent element for the skin. Mr. Katz had know-how on the industry as well as on business management due to his previous professional career, and his strategic vision for the Company. Mr. Katz had explored the properties of the raw material he wanted to use to produce his products. Mr. Katz recalls:

*“I got together a team of technical experts, doctors and chemists who I’d run all the tests with, and I confirmed that the active ingredient was effective and so the product was good”*

The knowledge developed by Mr. Katz came from his previous experience and he continued developing it during the growth of his company. Tacit knowledge was a key resource.

In the case of the second generation knowledge generation and knowledge acquisition has followed a different path. Some of the family members have acquired knowledge in their previous jobs prior to joining the family business. They have also brought their knowledge package from their academic background. Knowledge in the second generation comes in the form of more formal and explicit knowledge acquisition.

Again, the second generation is aware that they need to find out new ways for knowledge development incorporation and blending. The oldest daughter who has become the CEO has been able to change the model his father had, which was constructed from an entrepreneurial style – tacit knowledge, intuitive decision making, followed unconditionally- and a position of authority. This model is hardly easy to be replicated in the new setting with her “equals” (siblings, husband and brother-in-law).

The CEO is conscious that knowledge cannot be in one man’s head. She is also aware that new knowledge (external) might need to be incorporated to continue being successful over time. For that reasons they have incorporated two external consultants that advice in terms of strategy and family business matters. The second generation is also working in how to identify and merge knowledge from different family members. Developing knowledge at intermediate levels has also become a priority for the second generation.

### ***Relationships***

Relationships in the first stage of the development of the family business have been based on trust among the co-founders and friends involved in the venture. Trust was a main pillar for the success of the venture. Network ties were also of high importance because it permitted the couple for instance to get funds from friends and family.

The family shows cohesion and willingness to face the different challenges they encounter. Between the siblings they have a harmonious relationship; they also show a high level of trust among them, which is of high importance for laying the foundations so that they can elicit the best of each member for the good of the business.

Mr. and Mrs. Katz are the pillars and are well respected and bring stability, cohesion and harmony to the family. Mr. and Mrs. Katz shared the same vision of the business and Mr. Katz was the executor. As for the second generation they all have different views of what the company should become and where it should go from here. Even though they show a high degree of cohesion, managing differences is still an unresolved issue, as some critical issues are somewhat difficult to approach, since recognition and acceptance of different profiles becomes secondary in the eyes of the family, who give priority to business performance due to the entrepreneurial, competitive profile of its different members. As they are aware of these issues they have been working towards developing governance structures and creating norms and obligations.

### ***Organizational Resources***

Beauty Corporation has developed its resources around the co-founders. Main competencies stem from Mr. Katz who had the expertise, the contacts and the vision. Mrs. Katz was of key importance for engaging people in working with them. In the second generation, they have realized they need to develop organizational competencies based on the family and not the individual. Moreover they are working towards making tacit knowledge explicit and sharing it, developing written processes and professionalizing the company.

The culture was founder's driven. This aspect is changing toward building a culture that is family driven.

### ***Financial and physical resources***

Financial and Physical resources have played a role in launching the venture. Mr. Katz has been successful in getting financial resources from their savings and from other friends who were willing to invest in the business. The founders had 52% of



the shares and the remaining 48% were distributed among several minority shareholders.

The owners also contributed unpaid work for the first year and badly-paid work for the following 4. Therefore, they also contributed resources both in the form of capital and work. The Company's first head office was also an "off-balance sheet" contribution, since it was a flat owned by the family. Outsourcing production also permitted the need for physical resources to be kept to a minimum.

These resources allowed the company to be launched and grow. Some of them have been key to develop a competitive advantage, others probably marginal. What has transcended is the need to change, reconfigure resources over time. As Sirmon and Hitt (2003) highlight "the appropriate resources are necessary but insufficient to achieve a competitive advantage. Resources

## **2.5 Discussion and conclusions**

The aim of this study was to investigate to what extent these resources that make up familiness are sustainable over time. Through the case study we have been able to dig into those issues and we found out that resources are reconfigured over time. They need to be managed efficiently (Sirmon and Hitt, 2003), that is they need to change and be reconfigured as time passes by.

Findings suggest that leadership, relationships, and knowledge represent a key bundle of resources that make up the familiness pool given its behavioral and social component (Pearson et. al., 2008). These elements are reflected as a main characteristic of the entrepreneur, in the way he/she uses knowledge, networks or other resources (Low and MacMillan, 1988; Aldrich and Martinez, 2001) and eventually how they lead the family and the business. Given that the pool of

resources is linked to the founder’s lifecycle, resources need to be reconfigured because as time passes by they tend to weaken. Therefore, over time this pool of resources needs to be reconfigured into a new or different set of resources (see table 3), to avoid becoming a “constrictive familiness” in terms of Sharma (2008).

	Resource	Type of Resource	
		T1 (1 <sup>st</sup> generation)	T2 (2 <sup>nd</sup> Generation)
PROCESS	Leadership	Entrepreneurial Effective	Social Effective
	Knowledge	Experiential learning	Formal/ academic
	Commitment	Individual	Team
	The team	Founding couple	Siblings + in-laws
HUMAN & SOCIAL	Skills	Individual (founders, friends)	Group (family team)
	Knowledge	Tacit	Explicit
	Training	Formal + Informal	Formal
	Relationships	Power position Respect	Respect “Equals”
Network ties Trust		Trust Norms Obligations	
ORGANIZATIONAL	Competencies	Of founder	Of family team
	Policies	none	In development
	Culture	Founder driven	Family driven
PHYSICAL AND FINANCIAL	Plant/Equipment	Outsourced fabrication	Own fabrication plant
	Savings	Family and friends	Family
	Non-family financing	---	----

**Table 2.3.** Resources that make up familiness in Beauty Corporation

As Zahra (2008) suggests “firms can build a new or renew their routines, skills, and competences over time and this allows organizations to change” (p. 128) and therefore sustain their competitive advantage over time. In family firms, therefore, the pool of resources needs to be reconfigured in order to be able to absorb the family and the business complexity by reconverting itself into a family resource. How resources are configured and reconfigured however will mainly depend on the context. In line with (Teece et al, 1997) capabilities will be developed given the corporate culture and the network within and outside the firm of the group and not be reduced to a single individual, as it is usually the case in the foundational stage of the family business.

As Habbershon, et al. (2003) suggest, leadership is a key resource that make up familiness and hence the competitive advantage of family firms. Entrepreneurial Leadership is mainly concentrated on one visible head, the one that gives direction and vision to the family business. He follows up a dream and his entrepreneurial behavior can be “passionate, full of emotional energy, drive, and spirit” (Bird, 1989, p. 7–8). This passion is what makes the entrepreneur a leader and make others follow him. This leadership is well accompanied by the effective leadership of the wife who also works towards building cohesion and harmony. This combination gives stability and balance to the whole system. As we suggest previously, it is a resource that needs to evolve or to be modified in order to sustain the business over time. Different types of leadership play an important role depending on the complexity of the family and business as well as of the life-stage of the family and the business. In generational transitions and when the degree of complexity of the family and the businesses increases these different leaderships might be developed. Professionalizing the company, developing management practices would allow the family business to build new capabilities moving towards a group action. In that sense, formalizing the strategy, making it explicit, would help in developing this

resource into a reconfigured resource. Following Howell and Higgins (1990) strategic champions would play a key role in new contexts to drive the company to a shared strategy. To do so they may use transformational leadership behaviors, being high risk-takers. They would also influence others, as they maintain positive relationships (Markham, 1998), in other words they also develop their social leadership. This role goes in line with what Nordqvist and Melin (2008) name a Social Craftsperson.

Family relations and networks play an important role in a firm's ability to mobilize resources (Aldrich and Cliff 2003). These networks and relations usually are formed by the founder(s) and they may be long-lasting. Usually it is the founder that takes the lead in all major decisions and initiatives and his or her omnipresence is a key source of competitive advantage. As the company grows and the family complexity increases, new generations come onboard, and generational transitions occur, where the family still exercises a significant influence on the family business (Aldrich and Cliff 2003; Rogoff and Heck 2003). Relationships are based on trust, especially in the first generation. In the second generation and on, even though trust might be present it is further developed and supported by norms and obligations that come along.

In summary, the main constraints appear when the omnipresence of family members tries to be replicated. Over time this unique and idiosyncratic bundle of resources may become a negative driving force if it tries to be repeated in the next generation or in another context, given its link to the founder and hence his/her lifecycle. In line with Helfat and Peteraf (2003) capabilities are to be reconfigured over time.

The family appears to be a key resource in the pool of unique resources family businesses tend to have. Families develop in many dimensions such as their leadership styles, knowledge and social capital and supported through structural

elements such as governance structures that allow them to better structure their relations and communications processes.

We see a number of contributions emerging from this study. First, this paper contributes to the family business literature by empirically going deeper into the Familiness concept categorizing some key resources and showing how they have evolved over time. It also incorporates the notion of family resources as dynamic and contingent and how they are renewed over time to eventually sustain competitive advantage. This idea may have been theoretically discussed but not empirically developed.

The study also offers implications for practitioners, as shedding light on this important topic can help family businesses and consultants in understanding the need to revise the family pool of resources and to work towards renewing the assets and liabilities to sustain family businesses over time.

#### Limitations and future research

We are aware of the various limitations that this study presents and we suggest future research to extend it and complement it as a way to strengthen the results. We have only one case study that investigates this issue. Therefore to extend the study more case studies could be performed to replicate it either in the same country or in other countries. This study is based on one single case study in a specific industry. While rich data was collected and brings interesting insights about the phenomenon studied, the study could be further strengthened by using multiple case studies where replication will add validity and extend theoretical generalizability (Eisenhardt and Graebner, 2007; Yin, 2009). The specific industry and the idiosyncrasy of the business family could also influence the extent the way resources are configured and reconfigured over time. Studying case studies in different industries, different stages and different values could shed light on how

and when this bundle of resources should be renewed and reconfigured, depending on the specific context and situation.

Interviews were only performed with family members and in-laws, which hold a top management position in the company. Adding interviews with non-family members or members not involved in the business could give an interesting view of their familiness.

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# **Chapter 3: Dealing with increasing family complexity to achieve transgenerational potential in family firms<sup>67</sup>**

## **3.1 Introduction**

Empirical research on family business performance suggests several paradoxical results worthy of discussion. Among the extensive work on the superior performance of family firms vs. non-family firms (Anderson and Reeb, 2003), this superior performance varies according to the generation and the family's degree of involvement in the family business (Pérez-González, 2006; Villalonga and Amit, 2006). In that sense the family has an influence in family business performance, which seems to be positive in general terms, however it can also be negative. This family influence has been termed familiness by Habbershon and Williams (1999), defining it as 'the unique bundle of resources a particular firm has because of the systems interaction between the family, its individual members, and the business' (p.11).

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Superior performance due to the familiness advantage has been partially challenged by some authors (e.g. Chrisman et al., 2003), who point out the weaknesses of family businesses. Limited understanding of the different components of the familiness concept and how it affects the firm's behavior has been pointed out as a clear gap in the family business literature. Chrisman et al. (2005, p.238) state: '[T]he organizational consequences of familiness in terms of the way decisions are made, functions are performed, and strategies and structures are set, are not known. In other words, we do not know much about how family firms look like, why they are often so successful, or why its success is often limited in terms of size and scope'.

Knowledge of how familiness evolves over time is also lacking. There is some evidence that family businesses tend to underperform over time (Gimeno et al., 2006, Villalonga and Amit, 2006), which dilutes the familiness advantage. Results of our study suggest that over time, as complexity increases, family businesses may sustain their familiness advantage by changing their family business model (Gimeno et al. 2009). To do so they would be required to evolve from a Solo-Owner Model or a Top Management Team (TMT) Model into an Entrepreneurial Family Teams (EFT).

TMTs are composed of a limited number of managers who run the company together. In the family business TMTs are generally composed by siblings or cousins who do not chose each other, do not necessarily share the same vision, nor agree on each other's roles or equally support entrepreneurial behavior. When family members aim to manage the company as "equals" using a TMT model the result may be disagreements and underperformance (Gimeno, 2006). The EFT is defined by a specific structuring of participation of all family members that form the owning family coalition in the business. All of them have a feeling they belong to the family business, stress value creation over value preservation and participate in the entrepreneurial endeavor in a structured way.

The family understands that value is not only added by the family members that act entrepreneurially in the management sphere but also from other family members who voice opinions and support the entrepreneurial activities of the company in the ownership sphere. In this model ownership roles are respected and valued as part of the familiness advantage, while owners assume the responsibility of empowering the management to act entrepreneurially. Entrepreneurial behaviors are positively valued by the owners, though not all owners act as entrepreneurs. Although an EFT has no role in the beginning when the entrepreneur unifies management and ownership roles, it is needed in later stages when family complexity increases.

This chapter seeks to contribute to the family business and Familiness/RBV literature, by approaching the familiness advantage dynamically, proposing an explanation of how some of the resources that create the familiness advantage are sustained or diluted over time. The introduction of EFTs as a way of sustaining familiness may also contribute to the growing literature on entrepreneurship in family firms (for example Dyer and Handler, 1994; Habbershon, et. al. 2003; Kellermans et. al., 2008). This chapter identifies some of the problems that solo-owners and TMTs face when complexity increases over time. We suggest that the Entrepreneurial Family Team is key to transgenerational entrepreneurship sustaining the familiness advantage over time.

First we provide a literature review that leads to 4 propositions, subsequently supported with the findings of case studies and further developed in the conclusions. Next, we explain the methodology, followed by findings and discussion. We conclude with a discussion that leads to further research opportunities.

## **3.2 Theoretical Framework**

### ***3.2.1 Family Complexity and Succession***

Although there is growing interest in the transmission of entrepreneurial behavior in the family business, little research exists in the family business and entrepreneurship domains. Different conceptual frameworks in the management literature make possible the understanding of these complex processes.

Succession in family business traditionally approached as a passing of the baton from an entrepreneur (often a retiring CEO) to a successor to continue the entrepreneurial Endeavour (Handler 1990). Moreover, succession has been approached in terms of change in the top leadership of the organization (Alcorn, 1982). Attention is devoted to the successors by identifying their most important attributes (Chrisman et al., 1998), comparing their aspects in different countries (Sharma and Rao, 2000) and examining how the desires and attitudes of both, the retiring CEO and the successor, affect the succession process (Sharma et al., 2003).

Succession problems have been described as a main factor that weakens family companies (Bird et al., 2002), due to the psychological profile of a powerful entrepreneur (Kets de Vries, 1993), the dynamic relationship between parents and children (Mathews et al, 1999), the loss of leadership (Lansberg, 1999), and the lack of planning (Carlock and Ward, 2001; Lansberg, 1988; Ward, 1988b). Successful succession planning has been associated to a quantitative performance dimension (company results, post-succession stage) and a qualitative and personal dimension (family satisfaction with the succession process as a whole) (Morris et al., 1997; Sharma et al., 2001).

The ownership dimension of succession has been insufficiently addressed (Ayres, 1990). The link between management and ownership succession has been approached only directly with the three-dimension model (Gersick et al., 1997) which defines an ownership and a family dimension that are more properly a management succession dimension. Succession is a consequence of time. Management succession is common to all organizations (Christensen, 1953), but in family businesses ownership succession is also associated with individual life cycles. Succession impacts different aspects of family companies and has been approached from a variety of perspectives, including the transition to a non-family CEO (Bennedsen et al., 2007; Wasserman, 2003), the departure of founding entrepreneurs due to the imbalance of founders' competencies with company needs (Boeker and Karichalil, 2002), or gender differences (Bennedsen, et. al. 2007; Davis and Tagiuri, 1989).

With the succession process there is often an increase in members belonging to the dominant coalition (Chua et al., 1999), which has a qualitative impact due to their differences. Thus there is increased diversity in the roles played by the various individuals (Tagiuri and Davis, 1996), along with an increase in the differences in their competency profiles (McClelland and Boyatzis, 1982), objectives and values (Ward, 1997), trust between the various players (McCollom, 1992), which may diminish shareholder commitment to the company (Thomas, 2002) and eventual loss of entrepreneurial capacity (Payne, 1984). The increase in family complexity caused by generational transition changes the family business dynamics and, therefore, may affect familiness and may diminish family business performance (Gimeno et al., 2006).

Increasing family complexity also means the involvement of more family members who are from different branches, with different levels of closeness, and different competency profiles and interests. This high family complexity may reduce the

familiness advantage, given the effort needed to solve increasing conflicts of interests among individuals and family groups, the slower decision-making process and conflicts in the mission of the company. Block holders in the family shareholder group (for instance the family branch) may emerge to defend particular interests, or showing willingness to leave the business, given the tight and closed ownership control.

This leads to our first proposition:

*Proposition 1 Increase in family complexity due to generational transition tends to reduce the familiness advantage.*

### **3.2.2 Founders and Top Management Teams**

Family firms in their early stages are run by their founders, who by definition are entrepreneurs who create new products, processes, markets and so on (Schumpeter, 1934). A founder is the soul and engine of the business and, with their experience and networks, develops the company and gives the business a unique resource that leads to competitive advantage. A founder, over time, tends to become more conservative and unwilling to take risks (Morris, 1998), for fear of jeopardizing the family wealth (Sharma et al., 1997). Moreover, a founder realizes that they will have to pass the baton and will not run the business forever. Thus, the founder's competitive advantage disappears over time.

Even though solo founders may be key company resources, over time they may be negative resources, limiting the familiness advantage. Organizations depend heavily on founder's experience, knowledge, decision-making, values and practices, and are created around them and their unique style. The distinctive marks of founders on companies may be weaknesses.



In later stages, family firms tend to be managed by TMTs, as siblings are incorporated into the business. The literature suggests that teams have potential positive effects on new ventures (Timmons, 1999; Colombo and Grilli, 2005), given their knowledge diversity (Clarysse and Moray, 2004) and their superior capacity for acquiring resources (Brush et al., 2001). One of the difficulties that teams experience, however, is combining the positive differences among team members with the necessary cohesion that action-driven teams should have. Departures of team members may be a way of adapting to this contradiction (Ruef et al., 2003). In that sense, teams may incorporate new members to add new, valuable resources (Kamm and Nurick, 1993; Sandberg, 1992; Ucbasaran et al., 2003) or to create a highly cohesive kin-related group (Bird, 1989; Ruef et al., 2003).

The criterion of equality between generations that families tend to apply (Lansberg, 1988, Linares 1996) is likely to affect team performance in family business. This means that the different owning family members feel that they have the same rights as any other family members of their generation. The family condition as a criterion for entering top management does not mean that new members will add valuable competencies to the team, neither will they add greater cohesion. This incorporation does not necessarily mean a negative dynamic in the team in the short term, due to the hierarchical (parental) relations among family members. Although the presence of parents, as hierarchy, maintains order and unity of action, in the case of a relationship between equals (siblings or cousins) the hierarchy disappears, which tends to make teams less effective (Ensley and Pearson, 2005).

Lechler (2001) describes six characteristics of successful teams (communication, cohesion, work norms, mutual support, coordination and the balance of member contributions). These characteristics seem to be more difficult to develop in teams composed of siblings and cousins if they have been appointed because of their family condition and not for their contribution to the management team. This may

lead to a weaker cohesion, as family cohesion does not necessarily mean management team cohesion. These relational conflicts limit the performance of management teams, which seem to be related to the founder's life cycle and can be understood as a capability life cycle (Helfat and Peteraf, 2003). As explained by Helfat and Peteraf (2003), '[A] capability involves coordinated effort by individuals-teams' (p.999). Thus, '[T]he capability lifecycle depicts the evolution of a capability that resides within a team' (p.999). Consequently, the advancing age or death of the founder leads to the disappearance of both the founder's capabilities and the hierarchies inside the team, resulting in a misuse of team resources. Thus, TMTs may hamper the familiness advantage given the high probability of disagreements in vision, interests and profiles, and rivalry in assigning different management positions. Equality, as a guiding principle, prevents the TMT from taking advantage of the different profiles, competencies and interests of its members, which hampers the capacity to accept differing roles and positions and precludes the possibility of changing roles.

Few efforts have been made to link entrepreneurship and top management team literature with the mainstream approach in the family business literature. Time affects family complexity (Gimeno et al, 2006), resulting in multiple role dynamics (Tagiuri and Davis, 1996); separation of ownership and management (Fama and Jensen 1983); loss of cohesion (Beckhard and Dyer, 1983; Davis and Harveston, 2000); differences in values (Ward 1988a), entrepreneurial attitude (Gimeno et al., 2006), competency profiles (Boyatzis, 1984) and interests (Schulze et al., 2001); and the reduction of familiness (Ensley and Pearson, 2005). This increase in family complexity tends to reduce alignment between the management team and the whole owning family, which supports the idea that the transition from founding to following generations tends to weaken the familiness as a pool of family resources. Eventually, it transforms a positive resource in the first generation into a negative

one in the following, reducing family business performance (Minichilli and Corbetta, 2007).

This leads to our second proposition:

*Proposition 2: Founders and Top Management Teams cannot sustain the familiness advantage over time.*

### ***3.2.3 Development of governance structures as a source of sustainability over time***

The main principle of the agency theory-based approach (Daily and Dollinger, 1993; Kang, 2000) is that the identification between ownership and management in family businesses avoids agency problems in family businesses. More recent approaches, however, admit the existence of agency problems (Chrisman, et al., 2005; Gomez-Mejia et al., 2001; Lubatkin et. al., 2007, Schulze et al., 2001). Differences in interests, information and power emerge inside the family group which makes governance a relevant issue.

The evidence of superior performance of family firms as opposed to other types of companies (for example, Anderson and Reeb, 2003), has been refined by different authors, who claim that superior performance occurs only in the founding generation, due to the passing of the CEO position to family members (Miller and Le-Breton-Miller 2007; Perez-Gonzalez, 2006; Villalonga and Amit, 2006). Superior performance is maintained, however, if there is a differentiation between the CEO and the Chairman position, and the former is occupied by a non-family professional.

As mentioned earlier, the sole owner tends to be the cornerstone of the organization, providing leadership, risk taking, decision making and control and developing their skills, knowledge and networks. In that situation it makes sense to

have a very simple governance structure, as management and ownership is the same, and the strength of the business depends on the capacity of its leader. Over time, as both family and business complexity increases more developed governance structures are needed. No single person represents both ownership and management who has the legitimacy to lead both the family and the business.

Differences in interests, decision-making power and information appear, not as typical agency problems (Jensen and Meckling, 1976), but as more complex ones. The problem is not between two homogeneous groups (agents and principals), but among the many different groups of interest identified by Tagiuri and Davis (1996) identified. The problem of how to align interests, deal with different levels of decisions and information asymmetries, and develop accountability is raised (Gimeno et al. 2009). Governance arises as a key element for generating order and managing efficiently the family and business spheres (Neubauer and Lank, 1999). In fact, a governance structure composed of three-tiers - owning family (family council), business governance (board of directors) and management (executive committee) - has been suggested by the family business literature (Lansberg, 1999; Neubauer and Lank, 1999; Schwartz and Barnes, 1991; Ward, 1991; Ward and Handy, 1988). Thus, governance structures should be adapted to family business characteristics (Corbetta and Salvato, 2004) which represent a factor of family business performance (Miller and Le Breton-Miller, 2006).

In the three-tiered family governance structure, the family council aligns ownership, the board of directors assesses and controls management, and the executive committee manages the company. Gimeno (2006) supports the positive impact of both family and business governance structures in family business performance, measured by profit growth of the business and by family satisfaction. This means that governance structures are able to maintain the superior performance of family business over time, consequently sustaining the familiness advantage.

This leads to the third proposition:

*Proposition 3: Over time, the development of governance structures tends to strengthen the familiness advantage.*

### **3.2.4 Relations between family members**

One of the issues frequently addressed in the family business literature deals with the relationships among family members (Dyer and Sánchez, 1998). Family businesses have frequently been associated with poor communication that leads to conflict (Kaye, 1999; Kets de Vries, 1993). Nevertheless, the family business literature has devoted little attention to the basics of communication theory, created under a 'transmission paradigm' (Shannon and Weaver, 1949), which subsequently incorporated a relational aspect (Bateson, 1958; Birdwhistell, 1952; Jackson, 1968; Ruesch and Bateson, 1987; Watzlawick, 1986; Watzlawick et al., 1981). These authors define human communication on two different levels: a level of content (information that is exchanged); and relational (relations that are established) (Watzlawick et al., 1981).

This approach has been used extensively in the literature on negotiation and conflict resolution (Fisher and Ury, 2002). In a negotiation both levels become mixed and distorted, so that maintenance of the relationship may affect the agreement on content or, on the contrary, negotiating content may affect the relationship. Good communications skills require the capacity to differentiate both levels of communication.

It is especially important to differentiate between the two levels in family businesses, due to the strong links between content and relationships. Logically, relations are of great importance, as they constitute the basis of the family system. Content is also important, since a business family must be able to discuss business

matters effectively. Bateson (1958) and Watzlawick et al. (1981) suggest two types of relational patterns: symmetry and complementarities. In the first case two people consider themselves to be equal, while in the second case one person places himself in a superior position in respect to the other. Alternation is the capacity to change the relational pattern according to the situation.

A complex business family needs to practice alternation in order to develop functional governance structures and to maintain entrepreneurial leadership. The governance bodies (family council and board of directors) require a symmetric relationship (members relate to each other as equals), but with complementary relations between them (the family council is 'superior' to the board of directors and the latter is 'superior' to the CEO) (Gimeno et al., 2006). Therefore, in many cases, rivalry is the result of the disagreement between two individuals regarding the kind of relation they have. For instance, one may propose a symmetrical relationship (equal to equal), while the other may put himself in an upper-hand position in a complementary relationship. Hence many communication problems are grounded not on differences in content, but in relationships. Due to the multiple roles they play in the family business, individuals need to develop a capacity for alternation, so that they can relate to others from different positions. The expansion of the business family over time requires the family also to develop this, so that it can change its relational pattern according to the context (Gimeno et al., 2006).

Sustaining entrepreneurial leadership in a family business requires family members to be able to relate to each other symmetrically (all shareholders are equal), but also complementarily (inferior members follow superior members in the entrepreneurial hierarchy). If the family is unable to break a rigid pattern, the family business is dominated by a symmetrical pattern which is the natural pattern between siblings or cousins (Lansberg, 1988). If all family members are equal in all contexts, no one will follow others (putting one's self in an inferior position), and no

one will lead others (putting one's self in a superior position). This means that most of the entrepreneurial family members will transform their entrepreneurial leadership not into entrepreneurial performance but into rivalry which may explain the loss of the familiness advantage.

This leads us to the 4th proposition:

*Proposition 4: Maintenance of the familiness advantage in complex family businesses requires family members to develop the ability to switch positions and roles in the family relational patterns.*

### **3.3 Research methodology**

This study forms part of the STEP Project which focuses on the transgenerational potential in family businesses. One of the main issues highlighted is the importance of the pool of resources that are idiosyncratic and unique to the family business, defined as familiness (Habbershon and Williams, 1999), the focus of this chapter. Given the nature of the research and the early stage of topic development, the research strategy is based on an exploratory qualitative study. To better understand the phenomena we use a case-based study to explore in-depth the history, development and relationships among members (Stake, 1994). A qualitative approach allows us to study the topic in its natural setting (Rossman and Rallis, 1998) understand the main actors and obtain more details about individuals for further study (Yin, 1994).

	Case 1	Case 2	Case 3
<b>Company</b>	Pharma-Co	Construc-Co	Tourism & Leisure-Co.
<b>Number of Interviews</b>	8	9	5
<b>Owning family interviewed</b>	1 of the 4th generation 5 of the 5th generation	2 of the 1st generation 5 of the 2nd generation	1 of the 2nd generation 2 of the 3rd generation
<b>Other family members interviewed</b>	1 top executive 1 member of the board	2 top executives	1 former advisor
<b>Generations</b>	4th and 5th	1st and 2nd	2nd, 3rd, and 4th

**Table 3.1** Interviewee Profile

More than 60 hours of open-ended and flexible interviews were conducted with a total of 22 people. Profound conversations were generated, revealing feelings and stories embedded in the family and the business, and allowing in-depth level exploration of the topic. Key, strategically relevant actors in the family business were interviewed, taking in perspectives of both family and non-family members. Family members from different generations were interviewed, given the importance of transgenerational potential and the maintenance of unique resources through generations to sustain the business over time. See Table 7.1 for details.

All interviews were tape recorded and transcribed. From the interviews and secondary sources case studies were written that allowed further comparison. In addition, a wide range of archival data are used to support the investigation, along with a ten-year longitudinal analysis of all three companies. Archival data was collected from Internet, newspapers, public databases and other sources. This multiple data collection strategy allows for triangulation, which is important for further analysis, as it provides stronger substantiation of the topic being studied (Eisenhardt, 1989).



Purposeful sampling allowed a selection of three family owned Spanish firms that complied with STEP criteria: a pharmaceutical group in the fifth generation, a tourism and leisure company in the third generation and a construction and energy group in transition from the first to the second generation (See table 3.2).

	Case 1	Case 2	Case 3
<b>Company</b>	Pharma-Co	Construc-Co	Tourism & Leisure-Co.
<b>Industry</b>	Pharma	Construction & Energy	Services (Tourism and Leisure)
<b>Age of company</b>	> 100 years	> 40 years	> 50 years
<b>Generation in control</b>	5th	1st	3rd
<b>CEO age</b>	48	70	46

**Table 3.2** Company Profile

### 3.4 Findings

The three cases differ in the level of family complexity as well as in the structures they have created to cope with this complexity. All three cases have sustained and developed their familiness advantage through a combination business leadership teams, governance structures and relational patterns. The oldest of these has developed a stable model by evolving into an EFT, meaning that the family is involved in the business from different positions, and not necessarily of management or governance. Although they also have different interests and profiles, all support and foster the entrepreneurial behavior of those in charge.

*‘Even though I’m not working in the company, I am involved in it as I take part at the family council. I support my brothers in the decisions they make. I know they are*

*doing their best effort in managing the company for all of us. On the other hand I know I don't have the same experience and background as they have, and I know they have the profile to run the business' (M.U).*

*'My father has been very generous and he has given space to my brothers to manage the company. He has always supported them, even if he might not have agreed always 100 percent' (M.U.)*

*'We moved up to the Board of Directors and left space to my brother so he could form his own team and run the business according to his experience'. (Q.U)*

The companies in the other two cases are in the process of searching for a stable combination. We identify clear common patterns that are key for sustaining the familiness advantage.

### ***Evolution of the Familiness Advantage***

A broad time span is shown in Case 1, with a company history of 170 years. From the first generation the family developed a policy for reducing family complexity by giving ownership of the company only to male offspring. At the same time, they maintained control of the company by giving the majority of the shares (51 percent) to the firstborn. The family genogram permitted this during the first 4 generations in which the firstborn had only one son, with a varying number of daughters. By the 4th generation the family owner controlled 51percent of the stock; we will call him Dr. Jum.

These policies were based on the belief that family complexity could weaken the company (reducing familiness advantage, according to our present conceptual framework). In the 4th generation the controlling family members held 51 percent of ownership, and the remaining 49 percent was split between eight second cousins. At the same time, the eight owners made up the top management of the company; thus there was no differentiation between ownership and management. Because top management positions were reserved for owning family members, it was increasingly difficult to deal with day-to-day operations, not to mention the impossibility of developing entrepreneurial decisions that were beyond replicating existing strategies, policies and business practices.

Dr. Jum explains: 'I haven't explained this, but I have had up to 8 family members working with no defined functions. This situation sometimes generated confrontation among family members and confusion among the lower levels within the organization'.

Realizing the risk that family complexity was causing the company, Dr. Jum decided to buy out all of his cousins, which automatically excluded them from management positions. By returning to the sole-founder position and becoming the company's key source of competitive advantage, Dr. Jum believes it unlikely that the company would have survived without this ownership concentration.

'My father realized that the family was not rowing in the same direction. If his cousins might have been more entrepreneurial, possibly he would not have bought out. Even though all the family was very respected by the employees, they also noticed that there was not a consensus or support from the other family members towards the entrepreneurial vision my father had' (*JUT*).

Case 1 shows a family company with a long history and a very solid position that was losing its familiness advantage due to increasing family complexity. The family business rebuilt its family resource pool by pruning the ownership tree.

Case 2 shows a family-run company that has been exploiting the resource of the sole founder as a clear familiness advantage, and which created an entrepreneurial company. Now the family is in transition, with the founder losing vigor but not his entrepreneurial attitude, and the children having to 'take up the reigns'. Three of the five children are interested in occupying top management positions in the company, while the other two want professional careers, not only outside the family business, but in quite different fields.

The family is aware that increasing family complexity may jeopardize the future of the company, as a result of the separation of ownership and management through the equal split of shares and the differences in interests, competencies, needs and personal circumstances of all five siblings. They are aware of the potential loss of the familiness advantage that may be produced in the short term and are actively working toward creating the conditions to avoid this, as we will explain later.

*'We are five siblings. We have different interests and backgrounds. Given some anecdotes we had, you realize that my parents generate harmony within the family. Thus, whenever they will not be around we might have some big disagreements. In other words, chaos would emerge at some point if do not start working it out soon'*

*(R.C.).*

Case 3 shows a different pattern. It is a third-generation family business that has not weakened its familiness advantage over the years, but, on the contrary, has strengthened it. This case does not reject the first proposition, given that the

increase in complexity has been quite small. The founder had only one child and this child, in turn, only had two children, which complement themselves acting as a unity.

*'My brother and I discuss important decisions, but we also know that each one has its own expertise and that we are good at what we do, so we trust completely in each other' (C.R.).*

### **Founders and TMTs**

In Case 1 the company was founded by a single owner and in later generations evolved into a TMT, where all owners occupied top management positions. These positions were directly related to the fact of being an owner, given that there was no differentiation between management and ownership.

Family members were either part of the family business (owners and managers) or not (neither managers nor owners), as was the case of the female family members. Thus, the company was managed by a TMT composed of members who were not chosen according to their competencies, interest or personal fit, but by their family relation, which tends to diminish entrepreneurial capacity.

Differences among family members hindered the creation of new entrepreneurial projects appropriate to new markets and competitor situations. The cousins, organized as a team, had difficulty in developing strategies that were not a continuation of previous generations. It was not the leadership capacities of Dr. Jum, but the 'followership' capacities of the family members that paralyzed company development.

After the buyout and the return to the sole-entrepreneur model, Dr. Jum proposed a TMT model, based on equality, to his sons (excluding his two daughters), thus

maintaining the family tradition. After five years as a TMT, the 4 brothers decided that they were hindered entrepreneurially under the current regime and that it would be more effective to select one of them to become CEO.

In Case 2 the sole founder proposed that the next generation form a TMT composed by the three sons interested in managing the company, with ownership split equally among all five children. Currently, the family is aware that this TMT model raises two issues that should be addressed in order to maintain entrepreneurial behavior. The first of these is how to organize owner-manager relationships and the second is how to avoid the disadvantages that might arise from a TMT between of the three brothers.

The main questions are how to coordinate decision making among them, how to disagree and how to make decisions. Their different backgrounds and responsibilities in the family group made gave them their own perspectives on identifying opportunities and risks. In the following sections, we concentrate on the actions the family is taking to address these issues.

The third case successfully replicates the sole-entrepreneur model from the founder to his only child. The transition from the second to the third generation evolved into a TMT model, in which the two siblings shared ownership and the CEO position. The company has continued to grow, adding an important international dimension to the two CEOs. In this case the two siblings working as a TMT performed quite well. Compared to the other two cases, we can infer that their success is based on three elements: their competency profiles; shared values; and collaborative relationship.

Their competency profiles are complementary. While one sibling constantly challenges the organization to move forward, the other structures and consolidates the developments made by the other CEO. The researchers observed that both siblings share the same values related to growth, austerity, hard work, the quality of service, development of individuals inside the company and value creation for

the community. The relationship between the two siblings is described in the section devoted to relations below.

### ***Governance Structure***

In Case 1 the governance structure was very simple during the first 120 years. The identification between management and ownership and the TMT as a management model made it unnecessary to develop a governance system beyond the management sphere. As we previously explained, this resulted in a major loss of familiness advantage. When Dr. Jum bought out his cousins' shares, he started a process of conceptually differentiating ownership from management. His creation of an advisory board to advise him as a CEO started the succession process, which suggested to him that it was time to hand over the reins to his children.

When his children took charge of management and Dr. Jum moved up to the position of Chairman, the Advisory Board suggested that it be replaced with an executive board of directors that would monitor the TMT formed by the siblings. A board of directors was created, composed of Dr. Jum, the 4 brothers and three highly competent and demanding outsiders. Afterwards a family council was set up to represent ownership.

The governance structure the 4 brothers created has been a key element that has allowed the siblings to break the TMT that was established in the company. The siblings appointed a very entrepreneurial and demanding board, which recommended the family to break the TMT model and select one of the siblings as CEO. In parallel, the board, as a governance body, offered the other three brothers privileged positions to participate in, empower and monitor the development of the company.

The high functioning board of directors allowed the siblings to relate with the company not only as managers but also as 'governors'. This permitted three of them to abandon top management positions and concentrate on their duties as directors, while one of them simultaneously holds CEO and board positions. He is well supported by the board but also receives pressure from board members to act entrepreneurially.

Without a high functioning board of directors, the siblings would have had enormous difficulties in abandoning their top management positions. The board offered the siblings another way to participate more effectively in the family business. As a result, the board has been a strong factor that has allowed the company to increase the familiness advantage, and avoid the negative impact that sustaining the TMT would have had on the familiness advantage.

Case 2 has some similarities with Case 1 in the early stages of the 4th generation, after buyout. As the founder is aware, he cannot replicate the sole-entrepreneur model and has started a process of separating management from governance by creating an effective board of directors that includes himself, his three executive sons and two independent and highly respected external board members. According to the founder, the board should be an instrument to cope with the possible challenges of five siblings owning the company and three of them acting as a TMT. The board is functioning quite effectively, with more emphasis placed on its advisory rather than their monitoring duties.

We believe this case will follow the patterns seen in Case 1, where the board invites the family to break the TMT model during the second generation. The family is interested in establishing a family council to orient and monitor the board's development and maintain the entrepreneurial development of the company, which should sustain their familiness advantage.



Case 3 is quite simple from the governance point of view because, as mentioned previously, the two family shareholders are acting as a very effective TMT. The two siblings are also conscious that the success of the TMT is limited to their generation and are considering ways to maintain the familiness advantage.

### ***Relations***

Case 1 shows two clearly differentiated stages, the first from 1868 to 1984 and the second from 1984 to present. In the first stage, relationships were based on the pre-eminence of the firstborn principle and equality among the remaining brothers as well as the exclusion of women.

This system worked for three reasons. Firstly, it clearly defined who had utmost authority and guaranteed the ability to make decisions. Second, the exclusion of women reduced complexity. Had this not been the case, the model would have had a difficult time maintaining the order by the third generation. Third, it was accepted by all the members. Women accepted their exclusion, the younger sons accepted the firstborn's privileges, and the firstborns also accepted their role.

The relational pattern was complementary, in the sense that the firstborn occupied a higher position, while the rest of the TMT occupied lower positions. Acceptance was due largely to the model being coherent with the social values of the time and avoided the competition that usually appears when the TMT model is applied in complex business families.

When Dr. Jum began to make way for the fifth generation, he changed some of the traditions that were key to maintaining complexity low, such as including women, changing the firstborn principle and establishing equality among siblings. 4 sons implied 4 managing directors, which represented a new way of maintaining

relations. With respect to ownership, the criterion used to transfer ownership was based on equality.

Dr. Jum proposed an egalitarian relationship model to his children as members of the TMT by following modern-day egalitarian culture.

The alternative would have been to choose one child over the others, a difficult decision for a father and one that would have been difficult to accept by those not chosen. This problem had been avoided in the previous model with the firstborn principle.

The siblings, helped by the board, transformed the relational pattern. They realized that one of their most interesting characteristics was their differences - differences in competency profiles, interests and personal situations - and not what made them equal; they were equal as siblings and as owners. Instead of letting themselves be distracted by rivalry, they decided to take advantage of these differences by appointing one as CEO, establishing relations as equals among themselves both on the board of directors and on the family council. They also established actual hierarchical relations between the board and the CEO. A clear indicator that the board was in an upper position in relation to the CEO was that the board could be demanding and, as the interviewees pointed out, in the event of underperformance, it could replace the family CEO.

In Case 2, the family followed a different pattern. The founder was in an upper position in relation to his children, but in recent years the three children occupying CEO positions have established an equal relationship with the founder. The relational pattern between the CEO siblings and the other two non-active siblings is unclear, but it is evolving into a complementary (hierarchical) pattern, given that

the CEO siblings have information, decision power and management education which puts them into a position of superiority over the two non-managing siblings. Despite having a board of directors it remains unclear whether the board is capable of gaining a superior position. The pattern of equality that dominates the CEO-sibling relationship, among themselves and with the founder, does not allow the CEO-siblings to put themselves in an inferior position in relation to the board. This means that, in spite of the formalities of the board, the relational pattern allows it to take on an advisory function, but not a monitoring function. Therefore the familiness advantage that this family is having is still sustained by the founder. If the family is unable to evolve in its relational pattern, it is likely that sibling rivalry will appear in the internal dynamics of the TMT and in the relations between the managing owners and the non-managing owners.

In Case 3, relationships are very clear. The two siblings have a symmetrical relationship, in that each considers the other as an equal. They have established a collaborative relationship that has been key to the success of the TMT. As mentioned previously, the success of the co-management arrangement is based on the division of responsibilities and, generally speaking, equality between siblings. In matters related to operations and expansion, the sister takes a subordinate role to the brother. In matters of finance, law and information systems, however, she takes the dominant role.

*'My brother and I work together well. We make decision together and we support each other as we trust in the other's capacity to do the things each one is good at' (C.R).*

This system of collaboration has allowed both siblings to build up and complement their skills. In this case, very clearly, the familiness advantage has been reinforced in the third generation. Nonetheless, the siblings are aware that the complexity of

the 4th generation (six children) could jeopardize the current familiness advantage. The separation of ownership and management, and the differences between the children (ages, competencies, interest, and so on) will make it impossible to replicate the TMT model.

*'My brother and I have a relationship that may be difficult to imitate in the next generation, not only because they are more, but also because of their interests and profiles' (C.R.).*

### **3.5 Discussion**

The 4 propositions (Table 3.3) have been basically supported by the observations obtained in all three cases.

The natural evolution of a family business is to pass from a sole-owner to a TMT in next generations, which means that the different family members join the management of the company with the desire of being in a TMT. This natural evolution to management teams, due to the tendency to apply the criteria of equality between generations (Lansberg, 1988; Linares, 1996), tends to increase family complexity, thus weakening the familiness advantage. The TMTs are formed mainly by the successive incorporation of next generation family members according to their life cycles.

The entrance of the next generation into to the management of the family business makes it difficult to sustain the familiness advantage and leads to diminishing shareholder commitment to the company (Thomas, 2002) and eventual loss of entrepreneurial capacity (Payne, 1984). This is caused by increased diversity in the

roles they play (Tagiuri and Davis 1996), and increased differences in competency profiles (McClelland and Boyatzis, 1982), objectives and values (Ward, 1997) and trust (McCollom, 1992).

On the contrary, limiting access of all owning family members to management of the company breaks the identification between management and ownership which also challenges the familiness advantage. Our research shows that companies can avoid the negative effect of family complexity on the familiness advantage by evolving into our model, EFT. There are different models to which a family business can conform, as suggested by Gimeno et al. (2009), and the EFT can be a way for a complex family business to maintain that familiness advantage as a team, as Nordqvist (2005) claims.

Case 3 may falsify this conclusion, because it has successfully evolved from the sole-founder model to a TMT. The characteristics that, in this case, made the model so successful are that family complexity is relatively low, being a third generation family business with two siblings who share values and interests, and competencies profiles. Because the siblings agree on relational patterns, they collaborate to develop the familiness advantage.

Proposition		Support
P1	Increase in family complexity due to generational transition tends to reduce the familiness advantage	<ul style="list-style-type: none"> <li>Case-1: the family history shows that the family complexity was weakening the familiness advantage. This led to the buyout of Dr JUM, who managed to reduce family complexity.</li> <li>Case-2: the family expects a loss in the familiness advantage due to the family complexity, if the model does not change.</li> <li>Case-3: the familiness advantage did not weaken with time but the opposite, mainly due to the low family complexity.</li> </ul>
P2	Founders and Top Management Teams cannot sustain the familiness advantage over time	<ul style="list-style-type: none"> <li>The three cases started with a solo-founder.</li> <li>Case-1: It evolved into a TMT until the model collapsed.</li> <li>Case-2: is evolving from a solo-founder to a TMT and is about to collapse. The family is trying to adapt the TMT in order to make it work in the second generation.</li> <li>Case-3: The TMT has been highly successful until now, but the family recognizes that the model cannot be replicated into the next generation.</li> </ul>
P3	Over time, the development of governance structures tends to strengthen the familiness advantage	<ul style="list-style-type: none"> <li>Case-1: The governance structure has been a determinant factor to strengthen the familiness advantage.</li> <li>Case-2: The Family has created a board of directors so that it plays a role in the evolution they are trying to create.</li> <li>Case-3: They do not have a board and does not need it so far, due to the lack of family complexity and the circumstances that are making the TMT model work very efficiently. Nevertheless, the family is thinking in establishing a board of directors in the future to help the next generation to maintain its entrepreneurial performance.</li> </ul>
P4	The maintenance of the familiness advantage in complex family businesses requires the family to develop the ability of switching positions and roles in the family relational patterns	<ul style="list-style-type: none"> <li>Case-1: The governance system created in the cannot be explained without the relational capacity that the family developed.</li> <li>Case-2: This is one of the main obstacles that they phase in order to avoid creating a TMT, something they want to do.</li> <li>Case-3: The relations between the siblings explain to a great extent, as well, the success of the TMT model.</li> </ul>

**Table 3.3** Propositions

We suggest that these characteristics are not idiosyncratic in this case, and that they can be proposed as common to successful TMTs in family businesses, which can be synthesized in:

- Limited family complexity

- Shared values and interests
- Matching the competencies profiles
- Agreement on relational patterns that leads to collaboration.

Despite not having these characteristics, both cases, 1 and 2 have maintained their familiness advantage successfully by moving in the same direction.

Case-1 implemented the TMT model over 4 generations, until it failed due to the loss of the 4 characteristics previously cited. Family complexity increased, the competencies profiles no longer match, the values and interests differ fundamentally, and the relational pattern no longer lead to collaboration. By analyzing how Case-1 overcomes the dysfunction of the TMT in complex families, we identify the EFT. We observe that Case-2 is also in the process of abandoning the TMT model and evolving into an EFT.

The different ways of reinforcing the familiness advantage, thus improving performance, are canalized through a developed ownership structure, defining ownership, governance and management spheres (Gimeno, 2004; Lansberg, 1999; Neubauer and Lank, 1999; Schwartz and Barnes, 1991; Ward, 1991; Ward and Handy, 1988), creating different ways to participate. The family members relate mainly through the ownership sphere, thus, maintaining equal relationships (Bateson, 1958; Watzlawick et al. 1981). They also interact at other levels (Bateson, 1958); Watzlawick, et al, 1981; Gimeno et al., 2006) if this supports the entrepreneurial development of the business. This means that management positions are not reserved to family members because they are family, but are reserved for a highly entrepreneurial manager or managers, under the control and advice of the board. These managers may or may not be family members; they are selected by the board, following family desires.

We suggest that the EFT model clearly differentiates roles that allow a CEO to be seen as a professional manager without the overlapping of the role as owning family member. This means that management positions are not held indefinitely, only temporarily, according to the competence profile of the CEO.

EFTs are also characterized by the alternating relations among its members. Family members do not see themselves as “being” a position (CEO, Chairman, and so on); they “hold” a position, so they can hold different positions simultaneously. This allows them to avoid rigid relationship patterns, always “up” or “down” or equal, varying instead according to role they play at each moment and their context.

A person can hold different positions (owner, board member, management team member) and change their relation with others according to the position that the context proposes. This allows members to have equal to equal relationships with other owners who have professional careers outside the family business, and who feel they are members of the EFT, despite not working in the company.

### **3.6 Conclusions**

We propose that the Entrepreneurial Family Team (EFT) is a good way to leverage the familiness advantage in some specific circumstances, as Case-3 shows. Trying to maintain this model when circumstances do not allow this model to develop can weaken the familiness advantage and, consequently, business performance. Case-1 shows how a family business experiencing increasing family complexity can maintain the familiness advantage over time by evolving into an EFT. In Case-2 a family business realizes that the TMT will eliminate the familiness advantage and is attempting to develop an EFT model.



From a prescriptive point of view, this research suggests that entrepreneurs follow a sole-owner model, which is then replicated into the next generation by substituting a TMT for the sole-owner. Our research shows that this model is not functional when family complexity increases because it weakens the familiness advantage. Results suggest that, over time, successful family businesses may evolve into an EFT model, an evolution that may allow the family business to sustain the familiness advantage over time (Table 3.4).

	<b>Solo-Owner</b>	<b>TOP Management Team (TMT)</b>	<b>Entrepreneurial Family Team (EFT)</b>
<b>Family Complexity</b>	Low	Low	Medium and High
<b>Composition</b>	The Founder	Siblings or cousins (usually 2-5 family members)	All family members involved in the FB (In management or ownership, or future ownership)
<b>Main Values</b>	Individual Project	Team Project	Family Project
<b>Role of the family</b>	Follow the entrepreneur	Follow the TMT	Family fosters and supports the entrepreneurial endeavor
<b>Relational pattern</b>	Complementary (Solo-owner has a dominant position)	Symmetry inside the team members	Symmetry inside the governance bodies and Complementary between the bodies
<b>Governance</b>	No governance structure: the entrepreneur is everything	Weak governance structure: the executive committee coordinates the team	Structured governance: differentiation between ownership sphere, governance sphere and management sphere
<b>Management and ownership</b>	Identification	Confusion (no clear identification)	Clear differentiation
<b>Management positions</b>	Permanent	Permanent	Non-Permanent
<b>Main threat to familiness advantage</b>	Entrepreneur life cycle and Rivalry inside the heirs	Rivalry inside the management team and with non-manager owners	Maintenance of the family cohesion around the entrepreneurial project

**Table 3.4.** Main Conclusions about the Models

### ***Limitations and future research***

This study's qualitative methodology is a sound method to examine previously unexplored concepts and ideas in-depth. It is also a good tool to develop theory,

which is the focus of this chapter. The drawback is that the findings are not generalizable, as the cases are studied in a specific context. Moreover, purposeful sampling can result in narrow theory (Eisenhardt, 1989). Another limitation is subjectivity in the interpretation of the interviews, mainly influenced by the culture and background of the researchers.

The EFT model opens a new framework that needs further conceptual study and more in-depth analysis. For that reason qualitative and quantitative methodologies can be used to determine the validity of this framework. It may represent a new dimension of familiness affecting firm's behavior which remains unexplored (Chrisman et al. 2005); this fresh component may be one of the key elements that support family firm performance over time.

The evolution from sole-founder to TMT and, finally, to EFT opens up new avenues for research as well, pointing out the need to better understand which elements foster or hinder this evolution. This may be linked to succession issues, as the increase in members belonging to the dominant coalition (Chua et al., 1999) has a qualitative impact due to increased diversity in the roles of various family members (Tagiuri and Davis, 1996), combined with differences in competency profiles (McClelland and Boyatzis, 1982), and objectives and values (Ward, 1997) among other issues.

Furthermore, new questions arise as to what extent the dimensions identified in this research reflects the key elements of an EFT. If an EFT performs better than a TMT, and under what circumstances. Another interesting issue to be analyzed is to the extent complex to which complex family business evolve into EFTs and the life expectancy of EFT's compared to TMT's.

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## **Chapter 4: Professionalization of the family business: decision-making domains<sup>8</sup>**

### **4.1 Introduction**

In this chapter we focus on the level of professionalization in decision-making and the roles played by external and internal managers in this process. Family business scholars have emphasized the inclusion of external non-family CEOs and managers in professionalization, inadvertently assuming that family managers are not professional (Bennedson et al., 2007; Hall and Nordqvist, 2008).

Professionalization has been viewed as a move away from founder-centric organization to the inclusion of non-family managers (Chittoor and Das, 2007). These authors suggest that such a transition is smoother when family members have a planned exit path; non-family managers have previous experience working in the family business; when the key non-family managers are included on the board; and when the successor has some shares at stake.

Broadening the scope of professionalization, Stewart and Hitt (2012) use a contingent approach to argue that professionalization modes are linked to the mental models of the family leaders and what they envision for their businesses.

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Moreover, these authors suggest that the family leaders' capabilities will influence the way they decide to professionalize the company. Their paper sheds light on important elements of the professionalization processes and modes. In line with Stewart and Hitt (2012), Hall and Nordqvist (2008) challenge the assumption that family firms are not professional if managed by family members and only become professional when they incorporate non-family managers. Moreover, they also highlight the lack of discussion about the meaning of professionalization. Generational transition affects decision-making processes. While decision-making by the founders has been widely studied, there is minimal research on what happens when successors come on board. It has been suggested that ineffective decision-making causes failed successions (Shepherd and Zacharakis, 2000; Ward, 1997). Decision-making processes beyond the founder's life cycle are usually approached as part of leadership and/or succession issues (Bird et al., 2002; Cabrera-Suárez et al., 2001; Chrisman et al., 1996, Chrisman et al., 2003; Sharma, 2004; Zahra and Sharma, 2004). Very seldom have they been understood from a professionalization perspective. Chittoor and Das's (2007) study is one of the few exceptions, linking succession performance with the professionalization of management. This approach, however, is restricted to passing the baton from a family member to a non-family manager.

Curiously, although most studies deal with decision-making within the context of professionalization, it is only tackled implicitly. In their review, Stewart and Hitt (2012) present different dimensions dealing with professionalization and the dichotomies between family and non-family businesses. For instance, they contrast analytical and intuitive management, formalized and organic management, leaders' backgrounds and ownership or governance issues. We propose that professionalization is related to decision-making processes where top managers face ill-structured problems and uncertain dynamic environments, blending ill-defined or competing goals with time stress (Orasanu and Connolly, 1993). This

decision-making process is complex, and resembles 'the process of fermentation in biochemistry rather than an industrial assembly line' (Pfiffner 1960).

We highlight the dearth of understanding of exactly what it means to professionalize a company (Hall and Nordqvist, 2008). One of the main issues in studying the topic is the lack of consensus in defining professionalization (Stewart and Hitt, 2012). We view professionalization as a process of organizational transformation characterized by the codification of knowledge, clarification in role definition and the creation of different decision-making domains (cf., Charan et al., 19802; Songini, 20063; Stewart and Hitt, 2012; Weber4, 1921 [1968]).

This chapter aims to study how family businesses are professionalized in terms of decision-making domains. The struggles faced during this process are evident in the Construct Co. case, as the company attempts to reduce its dependency on the founder's intuitive decision-making style. Later in this chapter, we analyze another, more mature, Spanish pharmaceutical firm, to illustrate how a family business professionalizes different decision-making domains. The Spanish pharmaceutical firm is large in size, with the fifth generation in control.

Our study contributes to the field of family businesses in at least two ways: by explaining the professionalization process in terms of decision-making; and taking into consideration contingency variables as key elements of professionalization. The chapter is structured as follows. We start with a general framework on professionalization and decision-making. Then we explain the methodology used and follow it with the case analysis. We finish by looking at the results and conclusions.

## **4.2 Theoretical Framework**

### ***4.2.1 Professionalization in the family business***

Stewart and Hitt (2012) suggest that professionalization is contingent on the leader's mental model, capabilities and vision, and that it occurs in different levels or dimensions such as ownership, governance, returns, rewards, networks, leadership, careers and management.

Some authors argue the need to professionalize management, as well as governance structures, to overcome opportunism, nepotism, the lack of professionalism of family managers, and to maximize their strengths (for example, Martínez et al., 2007; Rondøy et al., 2009; Schulze et al., 2001; Sciascia and Mazzola, 2008; Westhead and Howorth, 2006). Yet, decision-making is ignored and what is really behind professionalization is still unknown.

As noted in the Construct Co. case, founders tend to develop their businesses using intuitive decision-making. Hence, organizations become highly dependent on their founders (Feltham et al., 2005). Family business literature has studied this phenomenon extensively under the rubric of controlling owners who create founder-centric organizations (Davis and Harveston, 1991). Such dependency results in successive generations having to deal with decisions they are not prepared for if the founder disappears (Dyer, 1986). For instance, Feltham et al. (2005) found that in 75 percent of the cases in a sample of more than 700 businesses, decisions were in the hands of a single decision-maker.

Many scholars highlight the difficulty or failure in succession processes arising from the successor's inability to acquire the knowledge and skills of the predecessor, or from a lack of leadership skills (for example, Bird et al., 2002; Cabrera-Suárez et al.,

2001; Chrisman et al., 1996, 2003; Sharma, 2004; Zahra and Sharma, 2004). We contend that as a business evolves from the founder to the next generation of leadership and the nature of the business changes, different combinations of intuitive and analytical decision-making are needed. In fact, entrepreneurs' strategic decisions are based far more on intuition, while managers' decisions are mainly analytical (Busenitz and Barney, 1997). Incorporating successful managers may require managing the blend of intuitive and analytical decision-making (Mintzberg and McHugh, 1985). Thus, professionalization is closely related to decision-making processes and decision-making is a complex phenomenon. This central topic in any organization requires attention and is especially important within the context of family businesses where generational transitions occur and decision-making processes may need to change. Moreover, as noted by Stewart and Hitt (2012), professionalization is not a dichotomous construct; instead it is a process that incorporates different levels and domains of professionalization.

#### ***4.2.2 Decision Making Domains***

Understanding professionalization as a process requires identifying the domains of the organization that are being professionalized. Professionalizing different domains has diverse implications. Based on the level of complexity and unpredictability (Gimeno et al., 2010), we propose three domains of decision-making: administrative, operational and strategic. Complexity does not mean complicated. For example, anticipating the route of a hurricane is complex, but the orbit of a planet is not, although both are complicated. The administrative domain deals with low complexity issues. It refers to coding and articulating data and information<sup>5</sup> related to accounting, management control, finance, supply, operations, sales, and so on. The operational domain deals with higher complexity

process issues that require human interaction inside all areas of the organization. The strategy orientation deals with the highest level of complexity, involving the interaction of an organization with different stakeholders in its environment to anticipate their expected movements.

Decision-making is a combination of analysis and intuition (Kahneman, 2011; Klein, 1999; Gigerenzer, 2007), in a way that decision-making processes can refer to a specific position in a continuum ranging from analysis to intuition (Kahneman and Frederick, 2004), based on individual levels of expertise and the nature of the problem.

Low-complexity problems are easy to structure and therefore can be addressed through analytical decision-making processes (Gigerenzer, 2007). When analytical decision-making processes are bypassed for problems that are difficult, novel or extremely entangled, expert managers incorporate intuitive problem-solving approaches (Isenberg, 1986).

Complex problems have to be approached in an eclectic way, accepting the ambiguity and contradictions therein, allowing expert decision-makers to look for solutions with a suitable combination of analysis and intuition (Tetlock, 2005).

Professionalizing the three domains represents a different type of problem. The administrative domain implies introducing analytical order, where predictability is present and therefore facts can be codified easily. The operational domain requires a certain degree of intuition to develop managers' expertise and relationships, given that human interaction involves subjectivity. The strategic domain is not only about being able to understand the organization's current situation and a multitude of external variables, but also anticipating their future evolution. It requires a combination of both intuition and analysis not only on an individual basis, but also at the top management team level, given the high degree of uncertainty. Therefore,

the characteristics of the different levels require specific decision-making patterns (See Table 4.1).

	DOMAINS		
	ADMINISTRATIVE	OPERATIONAL	STRATEGIC
CHARACTERISTICS	Codification of facts Predictability	Human interaction Subjectivity	Interaction with the environment Ambiguity and uncertainty
DECISION MAKING	Analytical	Analytical with intuitive skills.	Analytical with strong individual and group intuition.

**Table 4.1. Domains of Professionalization**

### 4.3 Methods

Following the STEP (Successful Transgenerational Entrepreneurship Practices) methodology, this study is informed by an in-depth analysis of a Spanish pharmaceutical company as we needed a context with a history that was long enough for us to be able to identify changes in professionalization over time. Over 25 hours of in-depth interviews with eight individuals inform the case. The interviewees ranged in age from 40–75, and were a mix of family and non-family members. While some interviewed family members were actively involved in the business, others were not. To maintain the confidentiality of the case, pseudonyms were used. We used multiple sources of evidence from different family and non-family members and observation, and also checked secondary data such as news in media and internal reports. When in doubt, we relied on the key informants to



answer questions and verify our understanding of the case facts. Such access to the interviewees helped improve the construct validity of our study (Yin, 2003).

### ***THE PHARMA CO.***

Founded in 1838, Pharma Co. is under the control of the founding family. The company has 600 employees and a turnover of €120 million. It is one of the largest pharmaceutical companies in Spain and among the oldest in Europe. The company has been transformed from a drugstore that carried food products, to a pharmaceutical business, which includes a high quality research and design (R&D) center. Currently the business is managed by an external CEO and is reinforced by a vast array of structures, systems and processes to support the top management team's decision-making. To reach this high level of professionalization, many changes were made along the way, especially between the 4th and fifth generations. Pharma passed from a 'founder' to a next generation top management team with 4 siblings. In terms of governance, the family created a two-tier model: the 'family council' that was presided by the 'founder'; and a 'board of directors' with external members that replaced the former 'advisory board'. Similarly, the management team is now divided into seven general managerial areas reporting to the CEO, with five business units and two support areas. How did Pharma achieve this high level of professionalization?

#### ***First Stage: The Family Occupying Key Operational Positions***

Pharma Co. started as a business with very low complexity in the 1830s. Mr. Pharma, the first generation, bought the drugstore from his former employer in 1838 and created an alliance with a pharmaceutical company. His oldest child started working at Pharma Co. at an early age, gaining experience and building his expertise. The two younger sons received complementary training to help their

older brother. With the blessing of their father, the three sons grew the business and diversified it to incorporate a laboratory. The three brothers made key decisions collectively. In the third generation, nine children were born, 4 boys and five girls. The oldest sibling had only one son, who became the 'hereu6'. He maintained a dominant position in terms of stock during the third generation. Mr. Pharma III studied management, preparing to run the business. In addition to his formal education, he worked at Pharma Co. from a very young age, starting at the bottom.

### ***Second Stage: Systematizing the Business***

The joining of the 4th generation marked an inflection point in the family business, particularly evident in terms of decision-making. Mr. Pharma IV, the only son of Mr. Pharma III, had a PhD in Pharmacy. His scientific orientation played a key role in the promotion of R&D as a mainstream area within the family business. Although a lab had been created 50 years earlier, he was the one who gave impulse to carrying out their research. As indicated by the statement below, this was not an easy decision.

*It was very hard for me to convince my father 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. (Mr. Pharma IV)*

Tasks were clearly divided. While the father (III generation) remained in charge of running the business, Mr. Pharma IV was in charge of R&D and laboratory production.

*"In the lab, my father gave me plenty of room, but where he didn't was in the administrative area; he didn't let me*

*into the commercial area. Little by little this situation changed". (Mr. Pharma IV)*

Over time, Mr. Pharma IV bought out his second cousins' shares, making him the sole stockholder. The business was growing and internationalizing. At that time Mr. Pharma IV decided to create an advisory board composed of his friends to help him make important decisions. The business continued to grow and the 4 male children from the fifth generation joined the family business after completing their formal education at prestigious universities.

In the early 1980s, the eldest son, James, went through various areas: R&D, then production and purchasing. The second and third sons also studied business administration, thereafter joining at opportune times. Mr. Pharma IV invited his sons to join the company one by one, when they were needed.

*I remember my father was all by himself at that time and, although he had trust- worthy employees, they were not family members. He maybe thought it could be useful to ask me to give him my opinion about the possible purchase of two laboratories and get feedback from another source . . . Possibly his advisor told him to buy and my father replied, 'let's see what my son says'. (Jules)*

Ethan, the third son, began his professional career working for a consulting firm.

*. . . a business situation developed here, which made them think that it was time for me to join the company. There was a vacancy; there was a problem and a series of actions had to be taken. They gave me a managerial role as head of organization and systems responsible for all*

*the information systems and organization. Later on I started to take on responsibility for some administrative and financial matters too. (Ethan)*

The youngest brother studied law and followed a similar path, gaining outside experience first.

*“My father wanted to have all 4 of us here. After those five years I decided to reorient my professional life towards the company, so I decided to do an MBA at a prestigious business school. At that moment I joined the family business”. (Mike)*

The advisory board helped in the process of organizing the areas for the incoming children, and the children became 4 general managers. The brothers focused on the business' operations: James on sales and institutional relationships, Jules on the production plant, logistics, engineering and environmental issues, Ethan on administration and the commercial area, and Mike on corporate law and human resources.

The advisory board also encouraged succession planning and the design of the family constitution and family council. This body also highlighted the need for a strategic plan. The children took responsibility for the elaboration of a strategic plan, since they felt that the dominant managerial practices within the company had to change. These practices were based on the trust Mr. Pharma IV had in the different managers, especially those in strategic positions, and their ability to coordinate themselves internally as a management team.

### ***Third Stage: Further Professionalization of the Company***

In the early 2000s, the siblings hired a prestigious consultancy group to help in the design and rethink of the strategy of the group.

*“We identified collectively the need to ask a consultant for a plan; we could see storm clouds on the horizon and the plan that we had prepared was too status quo”.*

*(Jules)*

The new strategic plan led to a concentration of power and leadership in two main visible heads, one for the pharmaceutical unit and one for the chemical business unit. The 4 brothers discussed and agreed on the profile required for each position. These decisions led to changes in the internal structure of the company. The advisory board was substituted by a board of directors composed of Mr. Pharma IV and the 4 Pharma V brothers, with three additional independent members.

*“We’ve surrounded ourselves by a board capable of making decisions. They are not the type of people who are going to tell us what they think we want to hear. They are not ‘yes men’. They’re here because they like the project”.* (Mike)

Another difficult issue was the need to replace Mr. Pharma IV’s trusted employees with new external managers, as Mike explained:

*‘It was a challenge for us to convince my father we wanted to replace his trusted people, as we had to build our own network of trusted employees.’*

Observing that the co-CEO format was not effective enough, the brothers decided to choose one sibling as CEO as they believed that someone from the family had to cover that position. He was supposed to change the structure, develop the new strategy and face the upcoming challenges.

. . . It was a time for strategic change, which required someone with experience. We were advised throughout by the Board of Directors. Later, the fact that it was a family member made us feel that he would be more committed, and had enough knowledge of the company. This was seen as an intermediate step towards hiring an external CEO when the situation was more mature, more defined, and the strategy more established and we could look for new formulae. (Mike)

At the same time, Mr. Pharma IV stepped down from the board to occupy the presidency of the family council. This process was accompanied by a key strategic decision made by the board, the spin-out of the R&D activities and the participation of external investors in this unit.

*'For the first time, the company is looking for external investors to participate successfully in the R&D development' (Dr. Rafin, R&D Manager).*

The last move in the professionalization process was the hiring of an external CEO.

*We have made many changes and we have finally incorporated an external CEO. Unfortunately, we are struggling with many issues, and we see that the CEO does not have the entrepreneurial mindset we need at this time. We have probably become slow at making decisions. (Mike)*

The Pharma Co. Group has been very successful in professionalizing the family business. This process consisted of introducing formality into the decision-making processes, which led to a certain degree of paralysis. The whole process entailed moving along an intuitive-analytical continuum.

Table 4.2 depicts Pharma Co.'s professionalization process in terms of decision-making, starting from the creation of administrative order in the company, the

development of better management in the areas between them and, finally, the creation of the capacity to redefine the corporate strategy.

In the first three generations of Pharma Co., the family business largely relied on intuitive decision-making. The vision of the 'hereu', who had known the business since they were very young, guided the company. Professionalization was concentrated at the administrative level with a focus on formal accounting systems, stock management and sales administration.

In the 4<sup>th</sup> and 5<sup>th</sup> generations, professionalization was developed at the operation level, especially with the entrance of the fifth-generation children. Business units were created, the industrial plants were managed more systematically and an executive committee was created to align the different operations. The middle management was empowered. Whilst generation four continued to make the strategic decisions with the support of an advisory board, the execution was left to the fifth-generation family members.

When the fifth generation had gained experience and confidence they replaced the advisory board with a board of directors. It signaled the professionalization of the strategy domain. Through the board the strategy changed, divesting in the Pharma units and investing in over-the-counter products (OTC) and consumer goods. One of the siblings was appointed CEO and later a non-family CEO was hired.

## **4.4 Discussion**

In our opinion, professionalization has been narrowly studied, because it is mainly seen as a succession issue between the founder or the family CEO and a non-family CEO. Therefore, the focus has been on the competences and life cycle of one individual – the founder – and how best to replace him/her across generations. In

this chapter we focused on the process of professionalization at the organizational level. Two cases of firms at different stages and their evolution helped shed light on this process.

The Construct Co. case presents a situation where the company has been run intuitively by the founder's generation, while some domains are being partially professionalized. Now the challenge is to continue professionalizing and determine how the next generation can work in different domains with the appropriate combination of analysis and intuition. In the Pharma Co. case, we identify a more sophisticated process, focused on transformation in the decision-making process at different levels or domains of the organization.

The professionalization of a domain requires decision-making patterns that demand a specific set of skills and capabilities, a leader at a particular level in the hierarchy and a well-established relationship with the dominant family member. Pharma Co. carried out a successful professionalization process because it affected systems and processes, as well as individual and team capabilities. Table 4.2 reflects how the three different domains were professionalized and how they represent different steps in the 'professionalization ladder'. Professionalization of the administrative domain deals with creating control and order in the legal, economic and financial flows. This requires applying analytical systems within and perhaps engaging methodologies, by using internal resources or external service providers. A 'trusted employee' of the dominant family member – usually the chief financial officer (CFO) – may handle this.

At the operational level, professionalization requires the development of processes, knowledge, competent teams, management skills and professional culture. This means applying analytical decision-making to the processes and intuitive decision-making to the interpersonal dynamics. The person responsible for this level of professionalization is the figure of the chief operating officer (COO), who ought to



have a strong alliance and frequent communication with the dominant family member in order to involve him/her and receive his/her support.

At the strategic domain level, professionalization means addressing ill-structured problems, uncertain dynamic environments, shifting, ill-defined or competing goals, action feedback loops and time stress (Orasanu and Connolly, 1993). This requires developing a committed and cohesive top management team, an effective governance structure and specific organizational values and culture. Responsibility lies in the CEO, who is trusted by the controlling family member. The roles are clearly defined to allow sufficient management through the board of directors or through formal meetings between them. The CEO has enough management discretion.

Pharma Co. developed the administrative domain of professionalization during the first three generations. It was the 'hereu' (heir) who dominated the management of and key decisions made by the company. The 4th generation started the professionalization of the operational domain. The fifth generation continued the professionalization of the strategy domain. This process has led to the transfer of decision-making in different domains of professionalization. Climbing up the professionalization ladder requires the development of a management team, with individual and collective intuitive decision-making capabilities, changing the role of the dominant family members and establishing an appropriate relationship between family and non-family members at all levels in the company. Advisors are crucial in the professionalization process. In the Pharma Co. case the advisory board supported the operational professionalization. The board of directors, which included three external advisors, led the professionalization of the strategic domain.

The Pharma Co. case shows the intense relationship between professionalization and successions. During the first three succession processes, many elements that are present in the succession literature appeared. Examples include the

development and selection of a successor at an opportune time, and resistance to passing on the baton, and so on. Professionalization drove the last succession, as Mr. Pharma IV was replaced by the creation of systems and structures that aided the development of knowledge and competences in the next generation of family members, and the incorporation of non-family members from the outside.

	DOMAIN		
	ADMINISTRATIVE	OPERATIONAL	STRATEGIC
CHARACTERISTICS	<p><b>Codification of facts</b></p> <p><b>Predictability</b></p> <p><i>The administrative part was taken care of by my father (Mr. Pharma IV).</i></p>	<p><b>Human interaction</b></p> <p><b>Subjectivity</b></p> <p><i>My 4 sons entered the business and they took over different areas of the company (Mr. Pharma IV)</i></p> <p><i>We disembarked and we did cover the areas that were not covered by my father, which was a good way of avoiding overlapping and of leaving my father his space (Mike).</i></p>	<p><b>Interaction with the environment</b></p> <p><b>Ambiguity and uncertainty</b></p> <p><i>The business has undergone three-4 strategic business plans over the course of the last 20 years. In a highly uncertain the need to define the strategic lines became evident with the arrival of the fifth generation.</i></p>
DECISION MAKING	<p><b>Analytical</b></p> <p><i>“My father studied business administration at a prestigious business school. This is where he met many of his good friends who later on formed part of the advisory board” (Mike).</i></p>	<p><b>Analytical with intuitive skills.</b></p> <p><i>“We all studied and came on board with high qualifications, ready to apply our knowledge to company” (Mike)</i></p> <p><i>“We have incorporated new ways of doing things” (Mike).</i></p>	<p><b>Analytical with strong individual and group intuition</b></p> <p><i>“We made three to 4 strategic plans, because we needed help to reorient the company. Unlike my father, we really need figures and more analysis to know where to go” (Mike).</i></p>
RESOURCES	<p><b>Easy to incorporate (buy in) or outsource.</b></p>	<p><b>Operational, formal knowledge, processes, teams, culture, management. Effective leadership</b></p>	<p><b>Culture, values, top management team, commitment, learning capabilities, flexibility, mental leadership</b></p>
“PROFESSIONAL” LEVEL	<p><b>CFO, CIO</b></p> <p><i>...My father hired a finance director who became his right hand” (Mike).</i></p>	<p><b>COO</b></p> <p><i>“We had two siblings serving as CEO. Then we named my third brother as CEO, who took the lead supported by and in coordination with all of us” (Mike).</i></p>	<p><b>CEO</b></p> <p><i>...to one family CEO and afterwards an external CEO with a professional and independent board of directors...” (Mike).</i></p>

<b>RELATIONSHIP WITH THE PRESIDENT</b>	<b>Trusted employee</b>  ... "He had trustworthy employees who were not family members" (Jules).  "A challenge for us was to convince my father we wanted to replace his trusted people as we had to build our own network of trusted employees" (Mike).	<b>Embedded, shared goals, frequent and informal communication, alliance</b>	<b>Trust, mainly through the board formal follow up meetings</b>  <i>We have a formal board of directors with externals. We also have completely retired from management and are only present at the board (some of us) and at the family council (all of us) (Mike).</i>
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**Table 4.2.** Professionalization Domains and requirements

Pharma Co. developed the administrative domain of professionalization during the first three generations. It was the "hereu" (heir) who dominated the company managing it in accordance with his own criteria. The 4th generation started the professionalization of the operational domain. The fifth generation continued the professionalization of the strategy domain.

This process based has led to transfer of decision making in different domains of professionalization. Climbing up the professionalization ladder requires the development of a management team, with individual and collective intuitive decision-making capabilities, changing the role of the dominant family members, and establishing an appropriate relationship between family and non-family members at all levels in the company.

Advisors are crucial in the professionalization process. In the Pharma Co. the advisory board supported the operational professionalization. The board of directors, which included three external advisors, led the professionalization of the strategic domain.

The Pharma case shows the intense relationship between professionalization and successions. During the first three succession processes, many elements that are present in the succession literature appeared. For example, the selection and

development of a successor, timely opportunity, and resistance to pass the baton, etc. Professionalization acted as a driver behind the last succession. Mr. Pharma IV was replaced by the creation of systems and structures, the development of knowledge and competences in the next generation, and the incorporation of new ones from the outside.

## **4.5 CONCLUSIONS**

This study aimed to gain an understanding of the professionalization process from a decision-making perspective. Variation in the temporality of professionalization in different decision-making domains based on the complexity of issues is highlighted. While previous studies highlighted professionalization as involving the hiring of non-family managers (e.g. Chittoor and Das, 2007), we focus our attention on what is being professionalized and how it is carried out. The Pharma Co. case shows clearly that professionalization is a process. Decisions on the level of professionalization are made by the top management team (TMT) or by the board (Aronoff and Astrachan, 1996).

This study contributes to the field of management in various ways. To start with, research on decision making is mainly conducted in the field of psychology and is developed through lab experiments. We are using the context of family firms and carrying out an in-depth case study to understand the professionalization of decision-making domains. Usually, the research sample is composed of students (Klein and Klinger, 1991), who are not faced with a real decision-making process as is the case of family businesses where top managers constantly struggle with these issues. Finally, decision making in organizations has mainly been approached as a lineal process or as a sequence of circular processes that follow a specific route or

routes. Here we suggest that decision making appears at various levels and the mix between intuitive and analytic decision making is especially important.

This study also contributes to the family business field in at least two ways. It increases our knowledge of the professionalization of family firms by highlighting how the process unfolds over time as different domains of an organization are professionalized, reducing dependency on the owner manager and relying on a team of family and non-family experts.

The limitations of this study indicate opportunities for further research. The article is based on one empirical case study, which can show a single way of professionalizing the business. A multiple case study could follow in order to see if there are several pathways to professionalize decision-making domains. Our case illustrates the importance of consultation, consensus and team work in professionalizing a company, yet this topic could be further studied in greater depth in order to gain a better understanding of what facilitates professionalization. We do not explicitly address the role different generations play in professionalizing the company, and this would be worth investigating further so as to help family businesses in their professionalization processes.

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## Chapter 5: Parenting and next gen development<sup>9</sup>

### 5.1 Introduction

Family business literature is starting to consider the family dimension, going beyond the 'return on investment' approach (e.g. Sharma and Salvato, 2013). So far, the family has been considered as a homogeneous unit of analysis particularly from the economic standpoint though less so from sociological and historical perspectives. Studies on household economies in bourgeois middle-class families and Roman families reflect this perspective.

In the family business field family is considered a unit that is inextricably linked with the business and the focus is on issues and dilemmas that emerge as a consequence of this overlap (Sharma, Melin and Nordqvist, 2014). The heterogeneity of the family and family business is often neglected (Corbetta and Salvato, 2004; Nordqvist, et al., 2014). Usually, this level of analysis follows a similar logic to micro-economics. The business is treated as a 'black box' that responds in specific ways to different competitive, regulatory or macroeconomic situations. The system of incentives, information flows and expectations determine the behavior of the businesses. This level of analysis was useful for understanding the behavior of businesses in general but did not necessarily explain the behavior of a specific firm; hence the need to

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<sup>9</sup> This paper has been accepted for publication as book chapter (forthcoming, November 2015). Gimeno, A. and Parada M.J. (2015). Parenting and next gen development. In Pramodita Sharma, Nunzia Auletta, Rocki-Lee DeWitt, Maria José Parada and Mohar Yusof (Eds.), *Developing Next Generation Leaders for Transgenerational Entrepreneurial Family Enterprises*. Cheltenham: Edward Elgar Publishing.

take a much closer look at specific aspects and dimensions of the business. This has been the approach adopted by business schools that study businesses from the inside, their organization, human relations, and decision-making processes, etc.

Higher resolution is needed in examining the family when considering the family business. Despite the importance of families in the family business field, few efforts have been made to define and/or measure the 'family' variable (Pearson et al., 2014). In addition, the behavior of family businesses in general has been mostly understood by thinking of the family as a unit for furthering the socio-emotional wealth of its members (e.g. Gomez-Mejia, et al., 2007), much as an economist would say that the behavior of a company is explained by shareholder maximization of returns. Therefore at this broad level, family business may be understood as a dialectic relationship between maximization of returns and socio-emotional wealth.

This level of analysis, however, does not necessarily help in understanding the behavior of a specific family business in much the same way as the competitive context does not necessarily explain the behavior of a specific company. One needs to delve deeper in the understanding of the business family to gain a better grasp of the family business dynamics. As Sharma et al., (2014) suggest, the family variable is critical given that the family shapes the values that influence the attitudes and behavior of its members.

In dealing with next-generation involvement in the business, succession has been extensively studied from the business perspective, trying to understand what explains its success. Hence, planning (Carlock and Ward, 2001), family protocols (Aronoff and Ward, 1996) mentoring (Boyd et al., 1999) and governance (Steier and Miller, 2010) have been extensively researched. The underlying yet usually unstated assumption of this research is that families are all the same, at least thereby neglecting the heterogeneity arising from the type of family involved.

Family business literature has also emphasized the importance of specific behaviors of next-generation family members — the importance of being entrepreneurial (Steier, 2001), commitment to the business project (Sharma and Irving, 2005), education (Ibrahim, et al., 2004) and skill (Sharma and Rao, 2000). Yet, limited effort has been made in understanding how younger generations are brought up and how this affects both the company and individual family members. There is a large literature supporting the importance of contextual factors, mainly parenting, as the main influence on child behavior (Maccoby, 2000).

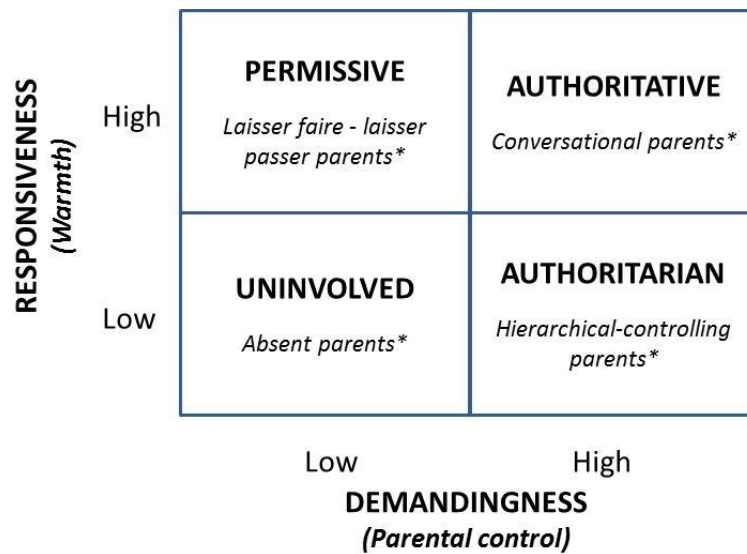
Covering this gap in the literature and following recent calls to tackle heterogeneity of family businesses and focus on the family as the unit of analysis (cf. Sharma et al., 2014) we stress that family business dynamics are highly dependent on the way each family works (Corbetta and Salvato, 2004; Nordqvist et al., 2014). How families exercise their parenting role may be one of the key aspects to understand family members' behavior toward their businesses. The research question we seek to answer is: How do parenting styles impact the development of adaptability and cohesion in next-generation family members? To understand this, we draw upon the well-established concept of parenting in the developmental psychology and some of the widely-accepted models that explain the main ways in which it is exercised.

## 5.2 Theoretical Framework

### 5.2.1 Parenting styles

Various styles of parenting have been identified. The most-widely accepted model explaining parenting styles was developed by Baumrind and first presented in her seminal work of in 1966. She differentiates between the two dimensions of parenting: 'demandingness' and 'responsiveness'. Demandingness refers to "*the claims parents make on children to become integrated into the family whole, by their maturity demands, supervision, disciplinary efforts and willingness to confront the child who disobeys*". (Baumrind, 1991, p. 61-62). The dimension of responsiveness describes "*the extent to which parents intentionally foster individuality, self-regulation, and self-assertion by being attuned, supportive, and acquiescent to children's special needs and demands*" (Baumrind, 1991, p-62). Responsiveness has been also labeled as autonomy by other authors (Doret *et. al.*, 2013). While demandingness is associated with instrumental competence and behavioral control, responsiveness is associated with social competence and psycho-social functioning (Darling, 1999). These two dimensions generate a grid of 4 parenting styles, three of which – authoritative, authoritarian, and permissive - were first identified by Baumrind (1966). Later, Maccoby and Martin (1983) introduced the 4th style - uninvolved parenting (Figure 5.1).

We are interested in how parenting affects the development of the business family and therefore the business. Empirical research in the 4 models can help understand family dynamics in the business families.



Source: Baumrind 1966, and Maccoby and Martin, 1983; \*Authors

**Figure 5.1.** Parenting styles

Authoritative parents are both demanding and responsive. "They monitor and impart clear standards for their children's conduct. They are assertive but not intrusive and restrictive. Their disciplinary methods are supportive, rather than punitive and they want their children to be assertive as well as socially responsible and, self-regulated as well as co-operative" (Baumrind, 1991, p. 62). These parents tend to develop control over their kids through negotiation and explanations. They could be described as 'conversational parents'.

Authoritarian parents are very demanding and directive, but not responsive. "They are obedience- and status-oriented, and expect their orders to be obeyed without explanation" (Baumrind, 1991, p. 62). This kind of parenting emphasizes obedience, respect for authority, and order; and can be described as 'hierarchical-controlling parents'.

Permissive parents are more responsive than they are demanding. They are “nontraditional and lenient, do not require mature behavior, allow considerable self-regulation, and avoid confrontation” (Baumrind, 1991, p. 62). This parenting style emphasizes self-regulation and exploration of the kids without previous definition of limits. Such parents tend to use reason and manipulation but not hierarchy to manage their children; and can be described as “laissez faire - laissez-passer parents”.

Uninvolved parents are detached, lax and cold, lacking the nurturing component of parenting. Interaction with the child are either lacking or negative (Levendosky and Graham-Berman, 2000; Out et al., 2009). This parenting style is characterized by non-interaction of the parents with the kids. We could describe them as ‘absent parents’.

### ***5.2.2 Parenting styles and their influence in the family business***

In order to understand the impact of parenting style in business family behavior, we study nine business families that represent the three main parenting styles. We avoid the disengaged style because, as previously stated, it is very infrequent in business families. Based on the empirical research on parenting styles, we make propositions on the kind of family business dynamics that could emerge.

#### **Authoritative Style**

Authoritative parenting leads to more socially skilled offspring than non-authoritative parenting (Baumrind, 1991; Weiss and Schwarz, 1996; Miller et al., 1993). Research indicates that this parenting style tends to generate positive educational outcomes as better social skills (Baumrind, 1989, 1993; Fagan, 2000), development of self-esteem (Carlson, Uppal, and Prosser, 2000), academic success (Steinberg, Dornbusch, and Brown, 1992; Steinberg, Lamborn, Dornbusch, and

Darling, 1992), less problem behavior in developmental phases (Darling, 1999) and better psychological health (Reiss et al.,1995). Offspring who received such parenting are not only more likely to act as competent managers but also to be more capable of advancing their careers outside the family business. They are more likely to possess greater social skills and an ability to reach agreements with other family members and be emphatic to the needs of others. It is thus quite likely that this parenting style may develop the best conditions for creating a competent business family, based more on the interdependence among their members than the dependence among them. The greater the level of autonomy conferred by this style, the greater the chances of introducing innovation and transformation in the family business.

### **Authoritarian Style**

Authoritarian parents tend to establish a clear, ordered environment for the next generation, with clear rules that have to be followed (Baumrind, 1999). This style tends to foster children and teen-agers that get quite fairly good academic results and who 'toe the line' but who have lower self-esteem, lower social skills, and are more prone to depression (Darling 1999). In contrast to the authoritative parenting style, this style fosters continuity but tends to lead to a lack of instrumental competence. The autonomy fostered by this style is more likely to lead to greater independence in terms of career paths. The bonding to the company is more likely to be based on the attraction of the business and its projects than the legacy of and loyalty to earlier generations. It seems likely that this parenting style leads to companies that are more likely to be professionally-managed and incorporate governance systems based on 'checks and balances' in which power is split between the management and governance hierarchy.

This has contradictory effects on the next generation's autonomy. On the one hand, kids tend to pursue ideals that are more similar to those of their parents, than the

ones fostered in an authoritative parenting style. This decreases self-control by reducing the number of choices but at the same time it increases the child's scope of control by introducing a higher commitment to a specific family legacy (Doret *et al.*, 2013). This style focuses on following the traditional paths, hindering autonomous thinking and self-regulated individuality, autonomy and internal motivation to achieve (Lamborn *et al.*, 1991; Lepper and Greene, 1978; Steinberg *et al.*, 1994).

Authoritarian parenting style likely develops different business family dynamics. Instrumental competence and self-control not only tend to develop competent professionals for the business but also individuals who are capable of developing by themselves.

Self-control combined with limited social skills is likely to lead to rigid attitudes that can hinder family agreements. It is quite likely that such families develop a 'business first' approach, that combined with instrumental competence may yield good business results for a while.

The respect for the legacy, the higher conformism to rules and hierarchies that this style generates makes it more likely that offspring will enter the business to carry on the family tradition. This can spark rivalry between family members to fill the positions or rivalry among the older generation and each member tries to favor his or her progeny. These next-gen managers would be more likely to follow the business path blazed by the previous generation, and be less innovative than those brought up in the authoritative style.

The authoritarian style would make it hard to embrace a family council (which is based on conversation and mutual consent). Authoritarian parents are not wont to justify their decisions and their children lack the social skills to approach difficult conversations. Parents tend to approach family relationships from their position at



the top of the family pecking order and are loathe passing the baton to the next generation.

In our experience, it is not uncommon to find youngsters that were brought up by very authoritarian parents to seek escape from parental authority by studying abroad, studying something that makes them non-candidates for the family business (studying agriculture in a family with an engineering business, for instance), entering groups that separated them from the business (meditation groups in India, religion groups, and so on) or even through mental illness. In fact, Shelton, Frick, and Wootton, (1996) associate greater levels of child psychopathology with both, the authoritarian and the permissive, parenting styles. It seems plausible that this parenting style tends to the development of more unipersonal management practices in which the owning manager is the center around which the firm's management revolves.

### ***Permissive Style***

Permissive parents tend to allow substantial self-regulation but do not necessarily demand mature behavior. Confrontation with the next-gen tends to be avoided, which gives the children a great degree of freedom (Baumrind, 1991, p. 62). The offspring of such parents perform worse at school and display more problem behavior. On the other hand, they have better social skills, higher self-esteem and are less prone to depression (Darling 1999).

Permissive styles tend to foster social skills but weak instrumental skills. It tends to develop egocentrism and poor self-control, which will likely make it hard to reach a family consensus. This supposes some restriction to the private interests of the various individuals. This style is likely to generate 'family-first' approaches.

The dominance of individual needs would make it hard to create proper family council dynamics. It is therefore likely that family councils would focus on the

negotiation of the various individual interests, with little consideration being given to common or business interests.

Business tends to be seen as a source of family welfare (wealth, prestige, entertainment). As such, business needs are given scant consideration, there is little commitment to the success of the business project and the owners are likely to disregard the interests of other stakeholders. Family interests tend to invade business spheres.

### **Uninvolved Style**

The classification was developed to study parent-child relationships and it has been extensively used in the study of adolescents (Glasgow and Dornbush, 1997). Kotchick and Forehand (2002) highlight the importance of the context in which parenting occurs.

The Uninvolved Style (low in both responsiveness and demandingness), tend to generate less competent children and adolescents in all fields. In our research and practical experience, we have very seldom found this model of parenting. Some tendency can be found in business founders, due to the high demands made by the business. In such cases, the parental presence tends to be the spouse or the grandparents but even so, there tends to be some level of involvement.

### **5.2.3 FAMILY WEALTH and COMPLEXITY**

Parenting styles and its effect on next gen development can be better grasped when incorporating contextual factors. In our cases, we identified two main variables that explain the outcome of each parenting style. These two contingent factors are family wealth and family complexity.

Family wealth is important because it determines the degree of economic freedom of the individual. So we observed that the impact of parenting was different according to the wealth of the family. We can define high wealth families as those in which family wealth can provide the family members with enough income to provide the family with a good living (as defined by the family in question). Poorer families would be those in which the family wealth cannot provide a good living for the family. This means that family members have to shift for themselves to earn a decent living.

Members of wealthy families do not have to rely on their individual activities to maintain their standard of living. They have what one could define as economic freedom. By contrast, members of poorer family business cannot rely only on the family business alone to give them the standard of living they seek. They have to get extra income from their individual activities to maintain their standard of living. In that sense, they have little economic freedom.

Family complexity is another variable that we identified as explaining the differences in the impact of parenting. We define family complexity as the number of persons, their diversity and the variety of relationships that make up the family (Gimeno *et al.*, 2010).

Family complexity defines the range of possibilities that family members have in relation to their business. In this sense, greater family complexity means that the family members have to share and to agree their decisions with more family members. It also means that their individual professional possibilities toward the business are mediated with more individuals and that also their individual impact on the business is lower.

## 5.3 METHODS

To study how parenting affects next-gen development, we have relied on qualitative research in order to glean in-depth information and create possible meaningful explanations (Stake, 1995). We rely on the STEP Methodology (cf. Nordqvist and Zellweger, 2010)<sup>10</sup> analyzing in-depth case studies undertaken for various projects and that have been followed over long periods. This aspect is important as longitudinal studies allow for history to surface. We followed these cases for between 4-10 years, depending on each business family.

The Spanish companies used in this study were deliberately chosen to depict each parenting style based on two main dimensions: Level of wealth and level of family complexity. Purposive sampling allowed us to choose cases likely to show the features and/or processes we were interested in (Patton, 1990).

We interviewed an average of six family members per company. Pseudonyms are used throughout the chapter for confidentiality purposes. In total, we chose nine cases, which could be placed in each dimension related to parenting style, family complexity and family wealth.

## 5.4 CASES AND FINDINGS

We have seen that the different parenting styles have an influence on the development of offspring (Maccoby, 2000) and they will obviously also have an impact on the offspring of the business families. The first observation was that we

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<sup>10</sup> Please refer to Appendix 1 for a more detailed synthetic explanation of the STEP methodology.

could quite clearly recognize the different parenting styles in the cases we were reviewing and also confirmed that the behavior patterns proposed by the empirical studies were also observed. At the same time there was a great variety in the effect of these behavior patterns in the various cases. We also saw that these differences could be explained by two different factors — family wealth and family complexity. This framework of high and low wealth and high and low family business generates 4 possible scenarios, yet the lack of data within the 4th category led us to focus on only three of them. By reviewing our records and trying to allocate them in the different parenting styles, we found that we had no cases that could be clearly put in the ‘uninvolved’ category. Accordingly, we do not address this parenting style in our study.

We therefore looked at the three remaining parenting styles in the three contingent situations of wealth and family complexity. We illustrate all nine possibilities with a case that allows us to draw up some propositions on the consequences of a given parenting style in given circumstances of wealth and family complexity. As the issues mentioned are highly sensitive, we use pseudonyms to avoid any possible identification.

Parenting Style	Contingent Circumstances		
	High F. Wealth High F. Complexity	High F. Wealth Low F. Complexity	Low F. Wealth High F. Complexity
<b>Authoritative</b>	Fam A	Fam D	Fam G
<b>Authoritarian</b>	Fam B	Fam E	Fam H
<b>Permissive</b>	Fam C	Fam F	Fam I

**Table 5.1.** Parenting style and contingent factors

## **HIGH WEALTH AND HIGH FAMILY COMPLEXITY**

### **Family A: Authoritative parenting**

Family A is both wealthy and complex, and brought up its children with an authoritative parenting style. The father spent a lot of time and effort to building up the company and so could not spend as much time on the kids as he would have liked. He has a close relationship with his offspring and they greatly admire their father. Father and mother played traditional roles, the father being the breadwinner and the mother running the household.

Both father and mother took an active part in local social activities. Some of them were shared with their kids, who continued them when they grew up.

The upbringing of the offspring (now in their fifties) was fairly successful. All have university degrees and some of them also have an MBA. The succession process was relatively smooth, with the father working with the kids in the company, gradually handing over the business to them.

In this process, a family council was created, which allowed them to solve the two main critical issues that they had to face. The first one was the father's gradual retirement from management of the company. The company was facing difficult times and the kids wanted to make changes that the father disliked. This raised the thorny question of which generation's opinion should prevail (in fact, what generation was in power). This issue was addressed through conversation between them. As a result, of this 'conversational process' the company was able to carry out the strategic changes that were needed. Far from being damaged in the process, family relationships were strengthened. The family was proud of having risen to making the changes needed even though they were far from easy.

A second major challenge for this family has been the process of retiring family members from management positions in the company to board positions. The

retirees triggered the process after arriving at the conclusion that management positions should not be permanent ones and that the company needed different management profiles.

This tricky moment in the family business history was overcome by family consensus, supported by both the Family Council and the Board of Directors. Family members are currently represented on the Board of Directors but not elsewhere in the company. This process faced the siblings with many issues concerning social prestige, self-esteem, financial security, occupational activities, and so on.

The transition process in ownership has been also agreed. Most of the shares have been transferred to the next generation, and there is an agreement as the stake retained by the previous generation.

This process was difficult but they tackled sensibly, transforming the company by both exploiting and maintaining family unity.

### **Family B: Authoritarian parenting**

In Family B, parenting was exercised in an authoritarian style. The roles of the two parents were very clear, the father ran the business and the mother was the homemaker and brought up the kids. Unlike in family A, conversation between parents was less open; both respected the other's areas of influence, which did not overlap.

The children were expected to excel at what they did whether it be studies or sport. Most of them followed the pattern that their parents suggested, getting business-related degrees, two of them an MBA.

One of the kids struck out in a direction other than expected by his parents and was thus cast in the role of 'the black sheep of the family'. His life was an 'alternative one', did not get a degree, failed to make a 'decent living' (by his parents' lights) and even entered into dependencies.

This kid - a girl - make her parents suffer. They did all they could to get her back on 'the right path' with psychiatric support. This eventually paid off. She now lives in the countryside and has a family of her own. . The company has given her a constant source of income and continues to do so. The amount of money she receives is an allowance given by the father on which she is wholly dependent.

The father continues to be active in the company, despite his age. The succession has been established, identifying which of the kids is 'best' to run the company. This created a non-explicit competition between them, each of whom does his or her best to please the father.

One of the kids failed in his tasks in the family business and this led him to being separated from the business activities. This led to a rift between his family and the family firm.

The other two kids working in the family business competed to show that each one of them was best-fitted to run the company. The outcome was that one of them was chosen by the father as best meeting his performance demands. The son who won the race acted on the same lines as his father, replicating the autocratic model his father had successfully developed. This made the other brothers feel there was no future for them in the company and they left, feeling deeply aggrieved. The family management succession was thus a painful affair. The issue of ownership succession remains open and the stakes are high, given that the firm is worth a great deal. These issues have not been openly discussed between the generations, even though it is on everyone's mind. The offspring are waiting to see what the father decides but he is in a quandary and finds all of the options unsatisfactory. In any event, he had to choose one in order to draw up his Will. His wife helped him take a decision but she is distressed at the way the company has caused ructions in the family.



### **Family C: Permissive parenting**

Family C owns a fairly large family business, which is managed by non-family professionals. Each of the three branches of the family sits on the Board of Directors, which runs the firm with the help of some external directors.

Each branch also has its own family office, which manages the investments of the respective branch.

Parenting was of the permissive kind. Parents and kids have been close. The family made the children's wellbeing its priority. The parents were inordinately proud of their children but pretty undemanding. The kids were given the impression that the sky was the limit because of who they were rather than what they were.

Nowadays the younger generation of cousins is in its thirties. They have followed different career paths. Some have become successful managers in various companies, others act as managers in their family offices, while another group spends its time socializing and living it up.

The family relationship has been very good in the past. Today it is still very good but now that the parents are growing old, the new generation will be faced with hard issues.

The parents are perfectly aware that their kids vary in their ability to deal with business issues and are at a loss as to what they should do to keep both the family and business together.

The next generation is also having difficulties in establishing fruitful conversations on the decisions that have to be made. Almost all of them see themselves as capable of representing the family on the Board of Directors and of making the right decisions on the family office investments. Those that have the requisite skills have no doubts about their ability to run the company. Unfortunately, those lacking such

skills are unaware of their shortcomings simply because they have never been professionally challenged.

The family members have strong social skills so talking about such issues comes easily. The problem arises from the fact that they find it hard to reach a common understanding of the issues given that family members have taken different paths through life.

To ensure the continuity of the business, the parents have empowered the next generation members to prepare themselves as Board Members. This means members of the younger generation have the older generation's 'seal of approval' but are not necessarily seen as fit to run the company by their siblings.

## **HIGH WEALTH AND LOW FAMILY COMPLEXITY**

### **Family D: Authoritative parenting**

Family D is a high-wealth low-complexity family that adopted an authoritative parenting style. The family comprises the founder, his wife and two kids (a son in his early thirties and a daughter in her late twenties).

As is common with founding entrepreneurs, the father has worked and travelled extensively while the mother stayed at home. Her father was also an entrepreneur, which meant she was aware of business needs which helps her advice her husband. The mother's narrative explains her husband's absence from home in terms of sacrificing time with the family to build up the firm.

The founder has also shared his business initiatives with his kids since their teenage years. This encouraged them to be part of the business from an early age. The eldest

boy has been directly involved in the company since he was 19, when he began university studies in the field that was the core activity of the family group. After his graduation, he took an MBA, with the idea of leading the business.

When the father saw that the son was able to run the company (on turning thirty), he retired from the management position to the board of directors. He says that his son is has a more risk-taking attitude more than him and this makes him worry. Nevertheless, the son enjoys his father's support.

The daughter did not study in a family business-related field but after a couple of years of work experience in which she informally shared family business life, she decided to take an MBA and enter the firm. She trusts her brother and vice versa. She wants her brother to continue running the business in the same way and she wants to enter the firm to lead some of the supporting activities. Although she has not worked in the business apart from a few spells in the summer, she has shared strategic decisions concerning the group with her father, brother and (to a lesser extent) her mother.

Management succession has worked out well. To tackle the issue of ownership succession, the father is thinking openly discussing the matter with his wife and the kids so that all 4 can agree on a fair settlement.

### **Family E: Authoritarian parenting**

Family E also belongs to the high-wealth and low family complexity group and brought up the children in an authoritarian way. This case is different because the parenting style the divorced couple exercised over their two girls was related to the experiences they themselves had with their respective parents.

The girls' father is second-generation member of a business family. His father (the founder) brought him up under the authoritative style. He was quite successful in

getting his management degree and entered the company, where he replicated the founder's management style based on centralization, control and a low degree of trust in the management teams.

He had to shoulder responsibility for running the company in his early twenties when his father (the founder) died. He had clear ideas about what to do and 'took the bull by the horns'. The business thrived under his management.

He got married and had two daughters whom he brought up in the same authoritarian style that had been inflicted on him. His daughters reacted badly and became emotionally distant from their father.

He got on poorly with his wife. The mother was much warmer towards the girls but did not forge a common approach to parenting with her husband. This distance grew until the marriage ended in divorce.

The girls continue to respect their father but there is little warmth in their relationship with him. For them, their father's life revolves around the company and they come second. They are interested in money the company makes for them but have no other attachment to the firm. Indeed, they emotionally reject the company. They spent a couple of summers working in the company but they chose to study in a non-related field of their business and have no interest in working in the firm. Both are blazing good careers in different fields.

For them, the company belongs to their father. When they are together, they do not speak about the business because they are not interested in it and the father does not know how to generate this interest. The father finds the situation frustrating but has come to accept it.

### **Family F: Permissive parenting**

Family F is also a simple, wealthy one that adopted a permissive parenting style. The founder of the company and his wife adopted fairly 'traditional' roles. He focused on building up the company and she looked after their two girls.

The father was the breadwinner and the mother led a fairly independent life with lots of non-business social activities. The couple seemed to live parallel lives.

Each parent seemed to try to forge stronger bonds with their daughters by making them take part in their own lives. The mother did so by giving the girls a taste of local social life. The father did so by familiarizing the girls with the business.

Both girls got good degrees and their father invited them to join the company, earmarking them posts that they would feel comfortable with. The downside of this cozy arrangement was that this did not help them develop their management skills. Nevertheless, the company helped bond father and daughters. When the two girls got married, the sons-in-law were also offered posts in the company.

Ill health has now forced the father to retire and the daughters now realize that they have not developed the skills to lead the company, even though they are trying to make a go of it. They have been clever enough to build up a team of good managers to make up for their own shortcomings.

### **LOW WEALTH AND HIGH FAMILY COMPLEXITY**

Low family wealth usually refers to small or medium-sized companies. If this is combined with a family with high complexity, it means that the family wealth does not allow the various family members to rely on the company to make a decent living.

### **Family G: Authoritative parenting**

Family G has low wealth and high complexity. The family's brought up the children in the authoritative parenting style. The father and the mother had five kids.

The father worked as a manager in a large company and when the kids were young, he decided to form his own company and exploit the experience gained in his previous job. His wife gave him moral support but was not directly involved in the business.

The company thrive and the family had a comfortable lifestyle. The five kids did well. 4 of them got university degrees. The one who did not (he disliked studying) was invited to join the company and work his parents.

Soon afterwards, the company ran into trouble and was forced to file for bankruptcy. This put the father under a lot of stress. He had a heart attack and died.

The son who had worked with his father then set up a new company that largely drew on the intangible assets of the old one (knowledge, reputation, networks, and so on.). The ownership of the new company was split equally between the five siblings because they thought it was what their father would have wanted.

The son who had joined the old company was the driving force behind the new one. His siblings tried to help him but they had their own careers. On a couple of occasions, one of his siblings temporary joined the company to help him deal with a given problem.

The managing brother asked the siblings to boost his stake in ownership given that he was the one making the business grow. They understood his demand that he should have a majority stake in the firm. They all struck a bargain whereby the managing brother got a majority stake and was free to manage the small company as he saw fit and as a steward for the minority shareholders. In our view, the

managing brother will eventually buy out the minority shareholders and become sole owner.

### **Family H: Authoritarian parenting**

Family F also falls within the low wealth, high complexity group. The founder of the company was a fairly dominant person who had a clear division of roles with his wife. They had five children, two boys and three girls.

The company was a traditional company working in the agricultural sector. The father inherited the land and bought more acreage while he was in charge of the business.

The father felt that the two boys should work with him in the company. This also applied to girls, although they could turn the offer down if they so wished.

The kids got a fairly tough, traditional education on Victorian lines. Displaying emotions was strongly discouraged and the stress was on doing well. The eldest boy managed to escape parental control. At the age of 18, he got a foreign scholarship abroad and left home to study abroad. He then became an entrepreneur.

The youngest brother stayed with the father and tried to meet his demands and rise to his expectations. Two of the three girls worked with the father as well but with much fewer demands were made of them than the boy. This 'gender discrimination' made life much easier for them. The youngest daughter got a university degree and pursued a career outside the family business.

When the father died, he left the ownership split equally between the siblings. All five of them decided to continue together and lend support to the brother who had stayed with his father. The rejection of their father's authoritarian style was so great that they promised to decide everything by consensus and treat each other as equals.

The company yields low dividends but for the siblings, it is a good excuse to meet and be together. They are thinking now how to bring the next generation into the business and have created a family council to do so.

For them the business is more a social family activity than a commercial venture. Bitter memories of their tough father make them avoid differences and conflict. Consensus and agreement is what drives the family business. They avoid transformation and modernization of the business because the firm's mission is to bind the family rather than make profits.

### **Family I: Permissive parenting**

Family I is the last one in this low wealth, high complexity group. The founder of the company, as was the case with almost all the other firms considered here, spent his time building up the business, while his wife was mainly in charge of the business.

Both father and mother took great care of their 4 children. Three of them worked with the father, while the 4th one pursued his path after graduating from university. The company made enough money to provide a living for the 4 families (the parent's one, and those of their offspring).

When the father died, the business continued growing. Ownership was shared between the three kids, and they paid a monthly sum to their mother.

Some years later, the company was going through tough times and there were disagreements among the siblings. The business could not support the three families and a family conflict arose about who was best suited to run the firm, who should leave, and where the blame for the companies' woes lay.

Of the five, two had made reaching agreement particularly difficult. In our view, only one of them was capable of maintaining his standard of living if he were to leave the firm. The other two who were more inclined to reach agreement did not



recognize that they needed him to turn the business round and that this would mean breaking with the relationship between equals that had sustained the company hitherto. In the end, they proved too conceited to see the changes needed. The company was declared bankrupt and was closed.

## **5.5 CONCLUSIONS AND IMPLICATIONS**

Parenting styles seem to greatly influence the development of younger generations and, therefore the behavior of that generation and how it behaves towards the business. This ownership, regardless of whether it is juridical or psychological, is exercised in different ways according to how the offspring have been brought up.

Parenting styles affect the offspring's relational and instrumental resources as the family literature states but our study suggests that the way they relate to the business and between themselves may also vary, thus affecting the family's skills in interacting with its business.

This impact of parenting on family behavior can be understood by applying the Circumplex Model (Olson 2000), a widely-accepted model in the family field. This model analyses families according to two main descriptive variables (cohesion and flexibility), and an instrumental one (communication).

Cohesion is the "emotional bonding that family members have towards one another (p 145), differentiating 4 levels of cohesion: disengaged, separated, connected and enmeshed. According to the Circumplex Model, the extreme levels of cohesion would be dysfunctional. Very low cohesion (disengaged) means that family members do their own thing, with limited attachment or commitment to their family (p. 145), while the very high commitment (enmeshed) there is too much consensus within the family and too little independence (p.146).

Flexibility is the amount of change in its leadership, role relationships and relationship rules (146) that the family can incorporate. Flexibility is also scaled in 4 levels: rigid, structured, flexible and chaotic. According to the model, extreme flexibility levels tend to be dysfunctional, The extreme low (rigid) because decisions are imposed by a controlling individual and extreme high (chaotic), because the erratic or limited leadership and unclear roles.

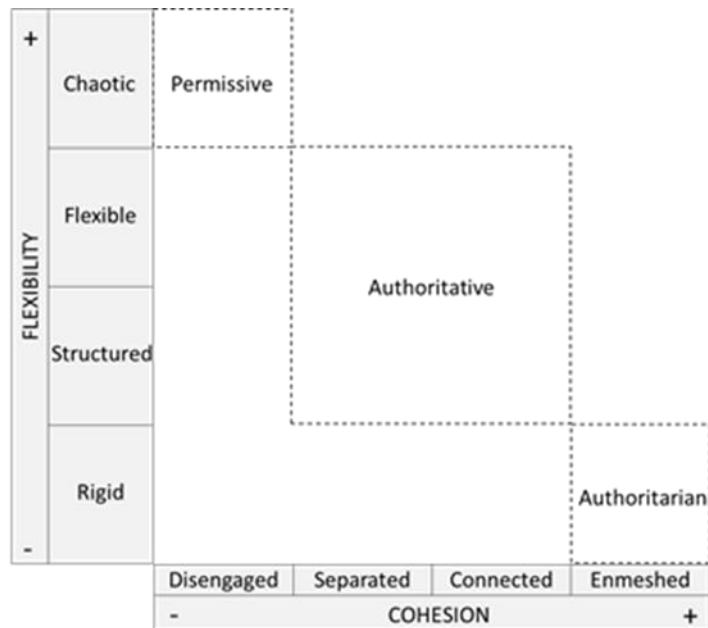
Business families are more demanding than non-business families in terms of striking a balance between flexibility and cohesion. Such a balance is needed to develop relationships with the appropriate degree of change (flexibility) and levels of togetherness, balancing group cohesion with individuality. This means striking the right balance of role change, leadership, discipline, and change in opinions, mindsets and attitudes over time. Family flexibility is required to ensure the business can adapt while keeping the values and mission clear.

The same can be said about cohesion. The right balance of group identity, closeness, loyalty and dependence has to be struck. The owning family has to maintain a level of closeness that allows them to agree on a common business project, while also giving individuals sufficient scope to fully develop their potential.

This need for balance is likely to become more important as a family's wealth and complexity increase. High family complexity will easily break rigid families, create serious disorder in the business in the case of chaotic families, lose the mission in disengaged families and generate conflict in enmeshed families.

Wealth also creates a greater need to strike the right balance. Rising wealth may exacerbate domination in rigid families, spur rivalry in chaotic families, accelerate disengagement in disengaged families and frustration in enmeshed families. Therefore business families need to be more balanced in terms of both flexibility and cohesion. Our research suggests that parenting style affects both, flexibility and

cohesion. Permissive styles would lead to chaotic families, in terms of flexibility, and disengaged families, in terms of cohesion.



**Figure 5.1.** Olson’s Circumplex Model applied to the Family business

The family literature states that permissive parenting tends to develop social skills and a great degree of freedom but does not necessarily foster instrumental competence and maturity (Doret et al. 2013). This is mirrored in the business family in various ways, because the power they have towards the company requires a higher level of maturity than in non-business families. Problems tend to emerge when the older generation loses its ability to effectively manage the company. The business also requires strong management skills and acquiring these can be more difficult for offspring brought up by permissive parents.

All three cases show behaviors of a younger generation with some or most members finding it hard to empathize with the business and the other family member’s needs,

and see the situation in a self-centered way. This may be the result of a lack of skills, making it difficult to grasp the complexity of the business decisions and the need to take the feelings, needs and circumstances of others into account.

This may explain why: (1) Family C has difficulties in recognizing the skills of its members and in choosing the ones needed by senior managers; (2) why the next gen in Family F has no relationship to the business other than as a source of income; (3) Family I plunges into crisis when there is a mismatch between the real world and family members' high opinion of themselves. By contrast, authoritarian styles would lead to rigid families, in terms of flexibility and enmeshed families, in terms of cohesion.

All three had business-first approaches that could apparently strengthen the business. In all three cases, the weak encouragement provided by this parenting style created difficulties in adapting the family reaction to the business needs. Family research shows that this parenting style generates instrumental competence, but not necessarily self-esteem and relational ability (Darling 1999). This limitation in the possible family reactions may be a minor misfortune for non-business families but can be a serious handicap for business ones.

The business forces the family to maintain bonds that requires a certain empathy, altruism and inter-personal abilities, and these attitudes and capacities are not strongly developed by this parenting style. This may explain why: (1) Family B suffered a crisis between the siblings in the succession process, which may imperil the company's survival; (2) in Family E, the next generation was wholly detached from the business; (3) Family H lost his entrepreneurial capability in order to create a cozy atmosphere that contrasted with the father's harsh, authoritarian style.

Authoritative families would be the parenting style that is most conducive to striking the right balance in both dimensions. According to the Circumplex Model, this balance is struck through a third dimension — communication. This is one of the

characteristics of the authoritative model, that we label is as “conversational style” in order to stress this communicational capacity

Our study supports the idea that the authoritative parenting style seems to be the best one for developing a business family. The business confronts the family with different demands that require both relational and instrumental skills, which are better developed by authoritative parenting. This parenting style develops greater ability by family members to reach to functional agreements in the light of varying circumstances — which in our study were represented by wealth and family complexity.

All three authoritative families that we studied were able to make major changes in their family business through a conversational process. Family A was able to withdraw itself from management positions, Family D was able to push through an entrepreneurial succession and Family G was able to let the manager brother dominate the business and its ownership. All three major changes were of great importance to proper running of the business and are likely to be key to their future success.

### **Implications and future research**

This study reflects the importance of both ‘demandingness’ and responsiveness in business families. Weak development of either or both of them may have a fairly negative impact on both the business and the family. This highlights the importance of parenting in the family business. Different lines of research emerge for further research.

All cases present a relationship between baby-boomer parents and offspring belonging to Generation X or Millennial in a western context. Exploring the impact of belonging to a specific context (cultural and generational) on the impact of parenting styles could shed light on how generational issues play a role.

Another question that arises from the cases is the importance of fraternal relationship (between siblings). In our study, this seems to be linked to the parental style. Thus, in Case A, the authoritative parenting style seemed to allow the development of a stronger fraternal relationship, whereas in Case B, the authoritarian parenting style seems to have hindered such a relationship. Understanding how fraternal relationships are built in the light of the parenting style might expand knowledge on how to manage parenting and fraternal relationships within the family business.

It also seems that the marital relationship has an impact on the parenting style and its effects. We have seen some similar situations (in which the father was often absent and the mother running the family) that had different results. The differing outcomes seem to be a result of a different relationship between the couple — something that would also open an interesting line of research.

Another possible research line would be the prevalence of a patriarchal versus a nuclear family model and its impact on opting to a specific parenting style. This research also suggests some possible relationships in this direction.

Gender seems also to be an issue — especially with regard to the authoritarian style. The cases show some discrimination against women in this style, which paradoxically, saves them from the parental authority, giving the women greater freedom than men.

Another interesting line of research emerges from studying the influence of different parenting styles in different nuclear families inside a complex family. It seems that this could explain some of the relational difficulties that often arise between different branches of the family.

Our study also opens the study of how parenting influences the business family, described through the Circumplex Model. Further research is needed on how

parenting styles affect more the specific dimensions of the flexibility and the cohesion of the business family.

Finally, delving deeper into the impact of parenting style on specific family business practices would open new avenues for research. The main one would be to examine how parenting style affects: (1) commitment to/ detachment from the business; (2) the development of a governance structure. It would also be worth looking at how parenting style influences the prevalence of personal interest and project over a common one and the ability to broach difficult issues through frank conversations.

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# Chapter 6: The impact of professional associations on the education, learning and action of policymakers with regard to family enterprises

## 6.1 Introduction

Family businesses play a relevant role in the economy as they represent the majority of businesses (Astrachan and Shanker, 2003; Colli, Fernandez-Perez and Rose, 2003; Morck and Yeung, 2004). In Europe, family businesses represent more than 60% of all companies<sup>11</sup> contributing significantly to the creation of new jobs and the development of communities and countries (Neubauer and Lank, 1998; La Porta, López-de-Silanes and Shleifer, 1999; Heck and Stafford, 2001). Only 10,000 family businesses in Europe represent 9% of the EU GDP, over a trillion Euros in aggregated turnover and account for more around 40-50% of all jobs, more than 5 million jobs<sup>12</sup>.

Despite the significant evidence that family businesses are ubiquitous and their value in economic and social development has been shown, it is only in the last two decades that the family business field has become more institutionalized and recognized at different levels, such as in the field of enquiry (Collins and O'Regan

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<sup>11</sup> The EU Commission made a report in 2009 to highlight the relevant issues of family businesses.

<sup>12</sup> Final Report of the expert group - EU Commission, 2009  
[http://ec.europa.eu/enterprise/policies/sme/promoting-entrepreneurship/family-business/family\\_business\\_expert\\_group\\_report\\_en.pdf](http://ec.europa.eu/enterprise/policies/sme/promoting-entrepreneurship/family-business/family_business_expert_group_report_en.pdf)

2011), and in the macro institutions such as the EU Commission<sup>13</sup>. Research and practice has widely extended (Sharma, Hoy, Astrachan and Koiranen, 2007), and new journals specifically for the family business field have been created. As such in an emerging institutional field, the rise of different family business centers in education institutions and professional associations has become evident (Sharma, et al., 2007).

Particularly relevant has been the appearance of several professional and business associations that have worked towards creating a space for family business education (Sharma et al., 2007). A review of Sharma et al (2007) highlight the role played by practitioners, family business centers and professional associations in developing education programs and arenas for business families, practitioners and academics.

Professional associations have also been instrumental in different fronts, such as strengthening the position of family businesses, or highlighting their importance in the economic and social arenas. The role and relevance of such associations defending family business interests has barely been studied in the management literature (Fernandez and Puig, 2009). Hence, in this matter little is known about the role professional associations play in how policy makers become aware and start taking family businesses into consideration in their broad discourses and consequent policies.

In other words, the recognition that family businesses have attained as important economic agents and the acknowledgement of such specific group that deserves attention in terms of specific policies and actions is something we contend

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<sup>13</sup> Final Report of the expert group - EU Commission, 2009  
[http://ec.europa.eu/enterprise/policies/sme/promoting-entrepreneurship/family-business/family\\_business\\_expert\\_group\\_report\\_en.pdf](http://ec.europa.eu/enterprise/policies/sme/promoting-entrepreneurship/family-business/family_business_expert_group_report_en.pdf)

professional associations have worked hard to achieve in the family business field. The purpose of this paper is to shed light on the role professional associations in the education, learning and influence of policy makers with regards to family businesses.

Empirically, the paper studies the role of family business professional associations in the European context. We focus on two key family business professional associations, a national association in Spain (Instituto de la Empresa Familiar, IEF) and a European association (European Family Business, EFB) that represents several national associations in Europe. This association is devoted to increase awareness among policy makers of the importance of family businesses in the European economy and to press for policies and actions that can benefit family businesses<sup>14</sup>. Additionally, in understanding whether there has been a change of discourse on family businesses at the European macro level, we studied hundreds of documents from the EU Commission to observe if there was such a change.

Our study contributes in several ways to the family business field. Firstly, it expands our knowledge on how the family business field is increasingly becoming an institutional field recognized at a larger societal scale. Secondly, it highlights the role of professional associations in creating awareness and pushing for important advantages for the family business world in the larger societal environment, and especially policy makers. Thirdly, it shows how professional associations play a dual role in socializing both family businesses and policy makers between each other to get to know these realities. This is one of the few studies, to our knowledge, that

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<sup>14</sup> <http://www.europeanfamilybusinesses.eu/about-us/our-goals>

tackles the role professional associations play in educating and influencing policy makers.

## **6.2 Literature Review**

### ***6.2.1 Setting the stage***

#### ***The Development of the Family Business Field***

The family business field has shown an increasing development in the last three decades in various fronts: research wise, education wise, and institution wise. These three elements are critical to the institutionalization of a field as Sharma et al. (2007) explain. Many reviews describe how the field has evolved in terms of research (e.g. Bird, Welsch, Astrachan and Pistrui, 2002; Chrisman, Chua and Sharma, 2005; Sharma, 2004; Sharma, Chrisman and Chua, 1996, 1997; Zahra and Sharma, 2004). However, very few explain the phenomenon with respect to education and institutions. Both Sharma et al (2007) and Sharma, Melin and Nordqvist (2014) explain “the practice-driven evolution of the field” and shed light on how the appearance of family business centers and professional associations have been critical regarding infrastructure in order to offer family businesses different settings to learn and get knowledge about themselves and their peers. The needs of family businesses have driven the creation of these institutions to support said family businesses in parallel to the increased research interest in family businesses from management scholars.

### ***Why not yet a consolidated field?***

The family business field is increasingly becoming an institutionalized field and behind it stands a “supporting infrastructure of researchers, educators, consultants, nonacademic and academic journals, associations and lobbying groups devoted to this particular category of organizations” (Melin and Nordqvist, 2007, p.321). Several elements are required for a field to be considered a recognized one, some examples being an established body of literature that has shown an exponential growth since the creation of Family Business Review in 1988, new journals such as Journal of Family Business Strategy and Journal of Family Business Management have recently been founded and other practitioner journals are also part of this body of literature (e.g. the FFI practitioner online). Likewise IFERA, FERC and EIASM Family Firm Research are three family business conferences designed for academics to meet and share research and knowledge, created in 2001, 2004 and 2005 respectively.

Career opportunities have grown exponentially in the last decade with the creation of family business centers mainly sponsored by family businesses (Sharma et al., 2007), devoting resources not only to teaching but also to researching. Professional associations, an integral part of a recognized field, have also proliferated in the family business field with diverse purposes (Fernandez and Puig, 2009).

Nevertheless we see that the field is not yet fully consolidated for various reasons. Firstly as Collins and O’ Reagan (2011) explain, much of the research in family business is still reflecting and summarizing the reality of the small-and medium-sized enterprises, whereas the reality of family business also includes large family groups (e.g. Merck, Henkel, Inditex, Samsung, Fidelity).



Secondly, the predominant management paradigm of the Modern Corporation, and separation of ownership and management still prevails, which is something that greatly differs in the heterogeneous population of family businesses. Thirdly, the fact that there is no agreement on the definition of what a family business is also complicates the consolidation process. Fourthly, a number of key stakeholders such as policy makers, professional advisors and professional managers of family businesses are often unaware of the specificities of family business and the heterogeneity among them (cf. Sharma, Chrisman, and Gersick, 2012), consequently the different forms for managing the family business (differing from the dominant paradigm), and of their economic and social contributions..

### ***6.2.2 Education and Learning***

The relationship between learning and education varies according to the two main or the different theories or paradigms. In the behaviorist paradigm (Watson, 1930, Skinner 1953), there is a causal relationship between learning and education. Learning is identified with behavior and can be determinate by external stimuli, education.

According to the cognitive paradigm (Piaget 1964, Vygotsky, 1934), learning and education belong to different domains. Learning is a cognitive process that is influenced by education, but is mainly determined by the person internal process of his own experience. In this case, “human development would be greatly retarded” (Wood and Bandura, 1989).

Bandura integrates both approaches proposing a Social Cognitive Theory (Bandura, 1986), proposing psychosocial functioning is the result of the mutual interrelationships of behavioral, cognitive and environmental factors. Therefore, according to Bandura, human psychosocial development can be enhanced through

an education process that is proposed from the outside to an individual (education), putting this person into an environment that triggers a specific personal process (context) and thought a personal cognitive process that drives the person to an integration or apprehension of a specific reality (learning).

### **6.2.3 Professional Associations**

Professional Associations are usually nonprofit organizations supporting the development of a particular profession or a field, safeguarding the interests of those participants involved in the field as well as the public interest. Professional Associations can have compulsory or voluntary affiliation. For instance, those professional associations involved in the development and monitoring of professional educational programs are also in charge of certifying, thus belonging to this association usually means certification. If legally required, this tends to be a primary form to entry the industry and become part of a profession. In the case of the family business field, the enrollment of family business professional association is voluntary, in addition some of them ask for certain requirements to be involved (e.g. Instituto de la Empresa Familiar (IEF), Spain, only has the 100 largest family businesses in Spain).

Professional associations play diverse roles depending on the type of association. For instance, Harvey (2004) defines a professional body and explains that the role of such body is to maintain the control or oversight of the legitimate practice of the occupation; this is done through a group of people who are entrusted to do so. Similarly, Harvey, Mason and Ward (1995) define the role of the association as representing the interests of professional practitioners. In the case of family businesses, the associations created differ in the objectives, but they all concur in being a voluntary affiliation, devoted to create a space where involved members

share, learn and are educated in some sort of way. The only exception is the “European Family Businesses” (EFB) mainly devoted to “promote a full understanding of the key role of family-owned enterprises in Europe’s economy, to press for policies that will support the creation of a level playing field for family businesses compared to all other types of companies, and to ensure recognition of their contribution to the entrepreneurial culture and social cohesion in Europe”<sup>15</sup>. Professional Associations are widely recognized as a source of institutionalization since they are seen as important regulatory mechanisms (DiMaggio and Powell, 1983; Ruef and Scott, 1998). According to Greenwood, Suddaby and Hinings (2002) most studies center their attention to the processes of institutionalization suggesting that professional associations reinforce existing prescriptions. Contrary to this typical approach Greenwood et al., (2002) suggest that professional associations in times of change do indeed act as regulatory mechanisms but legitimating change and deinstitutionalization, where they host a “process of discourse through which change is debated and endorsed; first by negotiating and managing debate within the profession; and, second, by reframing professional identities as they are presented to others outside the profession...” (p. 59) (see also Noordegraaf, 2011). In line with Greenwood et al (2002), Parada, Nordqvist and Gimeno (2010) found that professional associations in the family business field play a critical role in supporting the change of values by providing the family institutional champion with resources, legitimation and inspiration to drive change.

At the same time professional associations have also been depicted as a platform and supporting infrastructure for education and learning of their members (e.g. Melin and Nordqvist, 2007; Sharma et al., 2007; Parada et al., 2010), stressing its

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<sup>15</sup> <http://www.europeanfamilybusinesses.eu/> Objectives of EFB published in its webpage.

role in enhancing collective knowledge, securing opportunities for continuous learning of their members (Watkins, 1999; Webster-Wright 2009). Many studies in different disciplines (e.g. accountancy, nursing, innovation) have delved into the role of professional associations as promoters of evidence-based practice (cf. van Achterberg et al., 2006; Holeman et al., 2006; Lee, 1995; Swan and Newell, 1995; Walker, 2004). For instance, the study of Swan and Newell (1995) sheds lights on how a Canadian professional association acted as a platform where its members learnt through the interaction with their peers about technology and further disseminated this knowledge. The recent study of Nerland and Karseth (2013) bring interesting insights on the way three professional associations deal with the development of standards for knowledge and professional practice. These authors show that they do it in different ways with alternative sources of legitimization. However, in the family business field only the studies of Sharma et al (2007) and Fernandez and Puig (2009) tackle professional associations from a historical perspective. The former explains the role of professional associations in the learning and education of family businesses, while the latter explains the formation of lobby groups in the family business field and focuses on IEF, Spain. The role of professional associations in the education and learning of macro external stakeholders remains understudied. This is where we want to shed light on. While we know that professional associations have been instrumental to the development and diffusion of knowledge regarding the education and learning process of family businesses, we know little about their interaction with policy makers.

Business professional associations are a specific type of professional association composed by organizations represented by specific individuals (Bennet 1998). Business Associations tend to work with two different logics, the logic of service and the logic of influence (Bennet 1998). The logic of service “responds to member's individual and specific demands leading to a service-oriented association” while in

the logic of influence is “the role of an association to act collectively on behalf of all, or at least the majority”.

There are a large number of business associations that represent specific trades or industries, companies of certain dimensions, companies from a concrete region, etc. Business associations representing family businesses have only emerged in the last 25 years (Fernandez and Puig, 2009).

### **The history of Family Business Professional Associations**

The initiative to create family business professional associations (FBPA) appeared because practitioners, who are the family business owners and consultants, saw the need to create an infrastructure that could support them in various fronts (Sharma et al., 2007), and above all be able to network with their peers facing similar issues. There are different types of FBPA. The ones oriented to the family business, created by and for the family businesses (CAFE, FBN, IEF) have a voluntary affiliation but demand a minimum size to belong to the association. All of them provide services and resources for family businesses with the aim to share ideas, learn the best practices and build collective skills. The different formats utilized for this purpose are seminars, workshops, conferences, reports and studies. The associations focused on research and academic matters (IFERA, FERC) mainly offer yearly conferences for academics as a way to share and disseminate knowledge and develop research and its skills. Finally, those devoted to professionals-practitioners practice sharing (FFI) insist on putting together research and practice, yearly meetings and several courses through the year are offered to develop the knowledge and skills of consultants.

The first FBPA founded was the Canadian Association of Family Enterprises (CAFE) in 1983. CAFE, is a FBPA devoted to and created by family businesses. It was created

by a group of 15 family business owners with the goal “to form a network of peers to help one another meet the special challenges faced by family enterprise, through the exchange of present knowledge and past experience”<sup>16</sup>. CAFÉ has currently 12 chapters in the Canadian Region. They are concerned with the well-being, understanding and success of families in business. Their aim is to educate, inform and encourage its members by sharing experiences in areas of unique interest to the family business, through a stimulating program of activities that brings the best sources of information and professional advice available to its members. Besides encouraging peer networking, knowledge sharing and dissemination, CAFÉ also contends they “foster greater awareness and understanding by governments of family enterprise and of its function in the present and future economic community of Canada”<sup>17</sup>. A particularity of CAFE is the fact they offer three different types of affiliation: as a family member, as an advisor or as an affiliate.

The Family Firm Institute (FFI) was founded in 1986 with 22 founding members. Its founder, Barbara Hollander wrote one of the first empirical studies in the field and saw the need to connect different people from various arenas interested in the emerging field of family business using a structure that could support the flow of knowledge and help develop the field<sup>18</sup>. FFI objectives are related to the education, connection and inspiration of professionals who serve family businesses, mostly consultants, advisors and educators. Based on a series of educational programs, annual conferences, seminars and online webinars FFI has tried to bring together research and practice. FFI is considered as the leading association that groups family business practitioners and academics around the world in a format that allows

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<sup>16</sup> <http://www.cafecanada.ca/about/history>

<sup>17</sup> <http://www.cafecanada.ca/about>

<sup>18</sup> From Reflections of the Founder: A Conversation with Barbara Hollander, Family Business Review, 6(3), 1993.

interdisciplinary knowledge sharing and collaborative opportunities. Promoting research in the field, FFI published the first research journal in the field (Family Business Review- FBR) (Sharma et al., 2007). FFI has provided a forum where practitioners (advisors, consultants) and scholars bring together their experience in research and practice to share their knowledge. In this particular FBPA there are no family businesses represented but family members may participate adding their own experience to the related topics.

In 1989 a European-based family business association created by and for the family businesses was born, the Family Business Network (FBN). The Family Business Network (FBN) is a not-for-profit international network run by family businesses because most professional associations in the general business world at that time did not take into consideration family businesses as such, given the particularities they have and must to deal with, so there was a need to fill the gap. The aim of this FBPA is to develop a network of family businesses around the world to share best practices and knowledge through the interaction in peer to peer learning<sup>19</sup>. Currently FBN has more than 8,000 members from over 2,700 family businesses across 58 countries. FBN also promotes research by sponsoring studies and was instrumental in the creation of the International Family Enterprise Research Academy (IFERA), a research professional association in the European Region founded in 2001 (Sharma et al., 2007). The role of Family Business Network has been again to provide family businesses with resources and opportunities to share best practices and learn from their peers, via conferences, seminars and courses.

In 1992, Instituto de la Empresa Familiar (IEF) in Spain was founded. IEF is a national non-for-profit (non-profit?) organization devoted to creating awareness about the

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<sup>19</sup> <http://www.fbn-i.org/fbn/web.nsf/doclu/network?OpenDocument>

importance of the family business at a macro level. Considered a leading interlocutor among national and regional government, mass media and the society at large, IEF's objective is to make the society aware of the importance of this type of businesses as economic motors<sup>20</sup>. IEF groups the 100 largest family businesses in Spain, which represent over 17% of Spain's PIB. In addition it incorporated 17 regional chapters attaining 27% of PIB and grouping more than 1.100 family businesses. IEF has been active in promoting the learning and education of family businesses through the involvement in their activities, such as seminars, workshops, conferences and courses. In fact IEF has been shown to be a platform for family business members, giving them support, legitimation and resources to drive change in their organizations (cf. Parada et al., 2010). The IEF model is a hybrid in the sense that they foster the education and learning of the family business members through interaction, but they also influence and create awareness at a larger scale, as interlocutor with macro institutions.

In 1997, European Family Businesses (EFB) was created. When it started EFB was GEEF (Groupement Europeen des Entreprises Familiales) and 10 national associations (Bulgaria, Finland, France, Germany, Italy, The Netherlands, Norway, Portugal, Spain, and Sweden) formed it (Fernandez and Puig, 2009). EFB changed its name in 2007 to better represent what they were. The main objective of this EFB was to raise family enterprise issues within the power-base of the European Union in Brussels. They intend to promote "a full understanding of the key role family businesses play in Europe's economy, and to press for policies that will support the creation of a level playing field for family businesses... and to ensure recognition of their contribution to the entrepreneurial culture and social cohesion in Europe"<sup>21</sup>.

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<sup>20</sup> <http://www.iefamiliar.com/web/es/>

<sup>21</sup> <http://www.europeanfamilybusinesses.eu/home>



Currently they represent over 10.000 family businesses in the European region representing more than a trillion Euros in aggregated turnover, and over 9% of the EU GDP. Contrary to the other family business professional associations, EFB groups all these members through the membership of professional associations. EFB represents the interests of the Finnish Family Firm Association (FFFA), FBN Bulgaria, Institute for Family Business (IFB)- United Kingdom, IEF, Spain, FBN Sweden, Associação das Empresas Familiares- Portugal, FBN, France, FBN Hungary, Associazione Italianadelle Aziende Familiari (AIdAF)-Italy, Die Familienunternehmer-Germany, the Dutch Association of Family Firms (FBNed), Malta Association of Family Enterprises (MAFE), Association Les Hénokiens-France. In 2001, the International Family Enterprise Research Academy (IFERA) was founded. The initiative came from a small group of family business researchers who held meetings to discuss family business research in the two previous years before the foundation of the association. The initiative to create such an organization was supported by FBN. The evolution of the field in terms of research and practice was a key trigger to create a space where researchers could share their knowledge and their work on family business research (Sharma et al., 2007) to further improve quality, rigorousness and encourage collaboration among researchers on a regular basis. This FBPA is devoted to researchers and provides also a platform of research dedicated for policy making issues from a research perspective.

#### ***6.2.4 Family Business Lobby and the European Commission***

Professional associations acting as member developers are depicted as infrastructures offering the space, tools and support for its members to develop while they share knowledge, best practices and learn from each other and from others (Sharma et al., 2007). Additionally, they play a key role in lobbying influencing

policy makers in their decisions via education and learning from those decision makers.

Bennett (1988) identifies two logics in the professional associations. The logic of services (focusing on the needs of the members offering services to them) and the logic of influence (acting collectively on behalf of the members in order to defend their interests). At the Spanish level, IEF has been acting according to both logics. At the European level both logics have been differentiated. Family Business Network (FBN) follows the logic of service, while EFB follows the logic of influence through lobby activities at the European Commission level.

Lobbies have been active in the European Union since the very beginning (Andersen and Eliassen, 1991). In a report in 1993, the European Commission estimated in three thousand the groups of interest established in Brussels, ten thousand people dedicated to lobby activities and more the five hundred international or European federations with presence in Brussels to lobby the different European institutions.

The European Commission needs the support of lobbies, due to the fact that they have to deal with very complex and varied issues without having enough technical knowledge to deal with all of them. Therefore the European Commission relies on some friendly lobbies that are recognized as experts in a specific field (Morata, 1995)

The ultimate goal of the lobbying activity is to influence decision making of the policy makers. Kollman (1997) identifies two models of lobbying, friendly and confrontational. In the first one the lobbyist approach policy makers that are favorable to their views, while in the second case they approach policy makers that are contrary to their view or interests trying to press him in order to determine their decision making,

EFB relates to decision makers with a friendly approach, trying to make them aware of the necessity of introducing changes to better support family businesses. The main claim from EFB in order to make this friendly approach effective is that EFB represent the interest of family business, but that protecting family business creates common good.



**Figure 6.1.** Evolution of the Creation of Family business Associations

### 6.3 Research Methodology

Consistent with previous studies about the role of professional associations, we worked with empirical material in two ways, we relied on interviews with key informants and then we analyzed written documents (e.g. Nerland and Karseth, 2013). First we relied on primary data collection via in-depth interviews. We conducted interviews with key informants from professional associations to understand the role these associations play in learning and education. We defined education as the transmission of knowledge from an external source, and learning as interiorizing new concepts and legitimizing them. While we followed a similar approach than that in the study of Nerland and Karseth (2013) in using interviews and documents for data analysis, our approach differs in the type of documents

used. Those authors selected as documents to analyze internal documents of the professional associations they studied. In our case we decided to analyze all documents from the EU Commission, given our interest in the policy makers' education and learning.

### ***6.3.1 Case choice and data collection***

Because we wanted to explore the role of professional associations with regards to policy makers, we had to choose a family business professional association that had direct contact with policy makers. Given our geographical location and the immersion of one of our co-authors in such professional associations, we chose as the case of study, European Family Businesses, a European association. EFB represents over 10.000 family businesses grouped in different national professional associations at the European Level, in total 14 professional associations. Additionally we also gathered information from IEF Spain, a national association, given the expertise of our key informants in belonging in different points in time to those associations. This allowed us to get richer information about the role and the way such professional associations deal with policy makers.

Overall we did interviews with two key informants. The interviewees included one of our co-authors. Both had a long experience in participating in professional associations in different positions and with perspectives. Our co-author had started his career in FBPA in 2001 when he was hired by IEF to coordinate the regional chapters. In 2004 he became executive member of FBN. His task, amongst others, was to continue making sense of FBN as an association for families run by families. In 2007 he joined EFB and is still there to this day as an executive. The profile of our second interviewee differs greatly from the first one. He is a family member from a 200 year old family business in Spain. His path within professional associations has

been from a family perspective. He joined the next gen group at IEF since he entered his family business at 24 years old. As he got more interested and involved in knowing the macro environment in which family businesses operate, he joined FBN where he was one of the leaders in creating the next gen group. He was invited to join FFI for the advisory committee as a family member, when FFI intended to put in common the needs of family businesses with the work of advisors and academics. In 2012 he was invited to join EFB to participate in the ownership committee to prepare a proposal of the EU commission regarding this topic.

While on average the formal interviews lasted around two hours, we also held various informal meetings prior and after the formal interviews with both interviewees in different occasions to discuss this topic. In performing the interviews two of the co-authors did engage in an in-depth conversation with the interviewees. After each interview two of the co-authors sat together to discuss our impressions on the interviews and the main conclusions we had drawn. Previously we had prepared a guideline for the interview with general as well as specific questions that ranged from “tell us your story within the professional associations”, to “what do you think the FBPA did with regards to policy makers?” We recorded the interviews and transcribed verbatim (Yin, 2009). The access to two key informants besides the secondary data sources we revised (web pages, documents, press releases) allowed us to triangulate our data (Eisenhardt, 1989). We sent summaries of the interviews with our analysis and main conclusions to the interviewees to get their approval and validation.

As a second step we used the documents of the European Commission as a source for measuring whether there was a learning process from policy makers at a European level, considering that family businesses did not exist at all in the vocabulary of these decision makers. Hence, as defined in this paper, learning has

to do with awareness, legitimation, knowledge and changing mindset. All of them might be observed if family businesses are included in the legal documents.

### **6.3.2 Data Analysis**

To analyze the interviews we used content analysis. Content analysis allows us to observe the presence of specific themes related to learning and education in the interviews allowing us to make inferences about it. This process can be done inductively (using emergent data) or deductively (using definitions from theory) (Weber, 1990). In our analysis we had both deductive and inductive approaches because we had some concepts from the literature, but also saw new themes emerge when coding the interviews. We looked throughout the interviews for the specific topics we defined as learning and education (Bernard 1994; Gorden 1992; Miles and Huberman 1994). To strengthen the analysis of the data, two of the co-authors codified the interviews separately, based on our previous discussion of what the main themes were that reflected the learning and education roles. Reading the text separately and coding it individually is important to revise the previous coding we did (Miles and Huberman, 1994). Each co-author read the text entirely looking for phrases that defined learning and/or education, however, we saw new themes appearing that were relevant to understanding the whole process, where professional associations influenced in the education and learning of policy makers. For instance we saw that the context was important for such thing to happen. We also observed that decisions were taken not only because of the education and learning processes, but also because of the participation of EFB as a legitimate entity. When we finished coding individually we sat together to look for coincidences and differences. In the first round we had an 80% of agreement, which was still below the threshold for such studies (Neuendorf, 2002). We discussed the

disagreements and revised them together. After each co-author's opinion on how to solve certain issues, we repeated the operation and recoded the interviews reaching an agreement up to 93%, a superior inter-coder rate that allowed us to have an acceptable reliability.

In the second step, we gathered all EU Commission documents and performed a different content analysis from the one we did with the interviews. For the interviews we had a list of themes we looked for within the text. In the EU documents we essentially looked up in the EU web page, assuming that as they are all taken from the official EU database of published documents, they had to account for every relevant written document produced within the EU. We looked for a specific word: family business or family-owned. We made a listing of every document (communications, impact assessments, announcements) that mentions Family Businesses under the year they were published where we found 278 documents containing the word family business. We analyzed this material since 1994, this is when the word family business appeared for the first time. We measured, not the content in each document, but the number of documents per year that contained the word.

## **6.4 Results and Discussion**

As previously explained, our aim was to understand the role of these family business professional associations in the education and learning of policy makers. We saw that these associations made lobby using a friendly approach, with the main argument that family business had to be supported because of their contribution to the common good. The main argument to support family business was not the defense of free choice, rights or tradition but their contribution to the common

good. This explains why the main effort in their lobbying strategy to policy makers was educating them in the different family business issues.

They try to influence policy makers using the three interrelated dimensions that Bandura (1986) suggests through education, creating a context that affects them and trying to drive them to an individual learning process. We focused our attention to education and learning, but soon we detected that context also played an important role in the learning process of policy makers. We also noted that decisions made by policy makers with regards to including aspects related to family businesses in their communications, were not only based on the learning process but the fact that the professional associations became eventually a legitimate interlocutor and viewed as an expert heavily influenced the decision making process of policy makers. From the previous literature review, 3 topics: education, learning, decisions. The content analysis provided with 3 new themes: legitimation, expertise, content. Table 6.1 gives an overview of the different themes and indicators that appeared in the content analysis of the interviews.

<b>Main theme</b>	<b>Definition</b>	<b>Indicators</b>
EDUCATION	External transmission of knowledge	The creation of Reports
		The existence in Statistics
		The opinion of Experts in written documents
		The organization of conferences
		The existence of different meetings
LEARNING	Interiorizing Knowledge	Mindset
		There is awareness of the existence of family businesses
		Family businesses appear as a separate category
		Policy makers talk about family businesses in diverse forums
		Policy makers understand the specificities of family businesses
DECISIONS	Outcome in the form of official document affecting family businesses directly	PM develop new regulations
		PM develop a definition for Family business
		PM separate family business from SME



LEGITIMATION	Legitimation of a Prof. Association as an interlocutor with value added opinion	PM inviting prof. associations to expert groups
EXPERTISE	Recognition of expertise in macro topics	The EU calling Prof. associations as experts in a matter
CONTEXT	Space to gather family business policy makers	Invite policy makers as key note speakers Create a dialogue between the two audiences

**Table 6.1.** Themes for Content Analysis

### **Education, education tools, and context**

By analyzing the two interviews we found out that the way professional associations reached policy makers in terms of education, this is transmitting them knowledge about the family business, was mainly made done through different tools that could legitimate them as interlocutors and experts in the matter. We observed the same phenomenon in EFB and in IEF, as both interviewees had taken part in both associations and explained the strategies they used, to comply with their educational goals for its members and to achieve a positive attitude regarding the social role of family firms (Fernandez and Puig, 2009).

One of the tools they used was the creation of reports such as barometers, monitors, and documents alike. In doing these reports the professional association relies on recognized entities as experts in specific topics, like KPMG (e.g. The European Family Business Tax Monitor<sup>22</sup> or the European Family Business

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<sup>22</sup>[http://www.europeanfamilybusinesses.eu/pdf/EFB-KPMG\\_European%20Tax%20Monitor\\_EFB\\_FINAL.pdf](http://www.europeanfamilybusinesses.eu/pdf/EFB-KPMG_European%20Tax%20Monitor_EFB_FINAL.pdf)

Barometer<sup>23</sup>) to increase its reliability. The professional association also supports and finance research (Sharma et al., 2007, Sharma, 2012) that can be of use for policy makers.

What emerged from the analysis was that meetings and one-on-one meetings with policy makers was relevant in the education and learning process, as EFB members has the opportunity to explain in detail and share with policy makers the specificities of family businesses, and the need to take them into account as a strategic player in the economy. Another way professional associations transmitted knowledge about the family business reality was through conferences and workshops (Fernandez and Puig, 2009). These events are specifically designed for family businesses so they can learn from each other, designed to attain collective knowledge and opportunities for continuous learning (Watkins, 1999), but they also incorporate policy makers in panels or as guest speakers. This way, their explicit strategy is that family businesses get in touch with their macro environment and understand the distinct institutional forces to eventually influence them.

What resulted to be a key stone in the process was the context, in which policy makers were exposed to real-life family business experiences. The implicit strategy of these associations is to make policy makers a part of the conversation, firstly, by making prepare themselves to talk about the topic of family business and secondly inviting them to listen to family business members who share their concerns, issues and curiosity regarding the institutional life. By creating the space where both policy makers and family members are able to engage in a personal conversation, where exposure is broadened and the education process reinforced.

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<sup>23</sup> [http://www.europeanfamilybusinesses.eu/pdf/EFB-KPMG\\_Family%20Business%20Barometer\\_2nd%20Edition\\_web.pdf](http://www.europeanfamilybusinesses.eu/pdf/EFB-KPMG_Family%20Business%20Barometer_2nd%20Edition_web.pdf)

In doing the analysis we discovered that education and context represented a way for the professional association to achieve certain goals. The ultimate goal, given the type of associations mainly devoted to defend the interests of the group (family businesses), was influencing the decisions of policy makers in favor of the family business community. Yet, the lobby was made through education, this is explicit events and reports to disseminate the existence and importance of family businesses.

### **The learning process of policy makers**

At the same time, to influence the decision-making process, the previous step was the learning process of policy makers. This is basically the fact that policy makers could become aware of this “new” reality (Fernandez and Puig, 2009), that the phenomenon could be legitimated and so it would exist, and to get to know the specificities of such reality to understand they are different and require specific decisions in certain topics. So learning was the result of the education effort and the interaction with business families in a specific learning context.

### **Gaining legitimacy in the macro environment**

What emerged as a surprise was the fact that EFB has become a legitimated interlocutor at the European level, as this association is currently among the four most important associations forming a group of experts advising the EU commission<sup>24</sup> in specific matters. This legitimation has led to their becoming of an “expert” who is consulted for certain issues that not only affect family businesses but also the business community in general. These two variables clearly affect directly the decision making process along with the previous learning process that policy makers may have. The learning process at the end is an instrumental goal to

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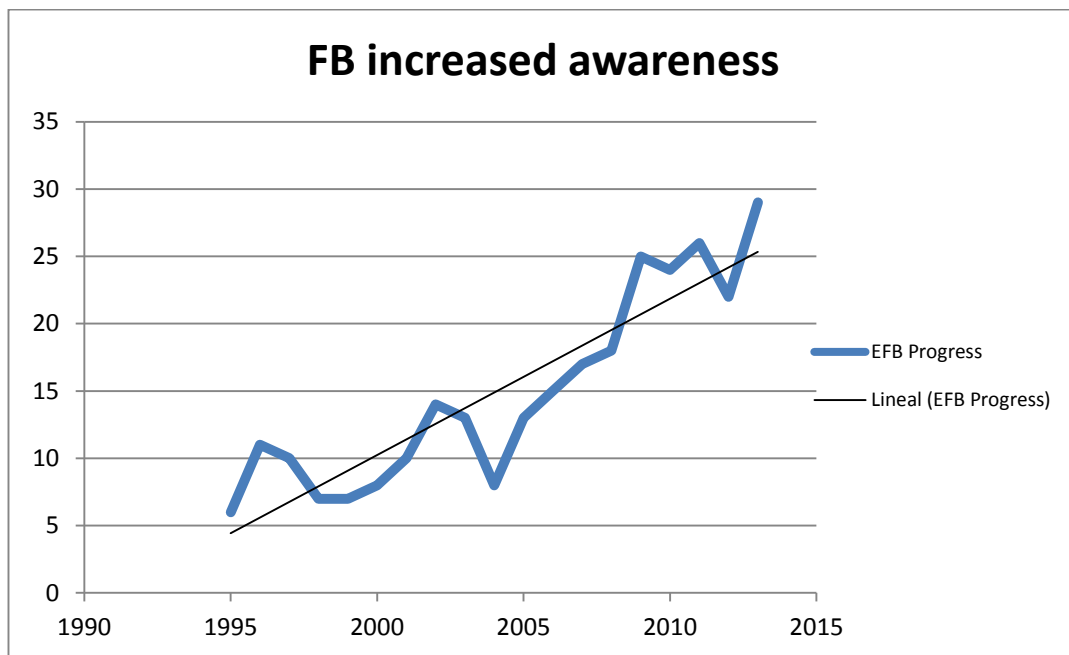
<sup>24</sup> From interview with Jesús Casado.

achieve the ultimate goal of influencing decision making of policy makers with regards to family enterprises.

Moreover, the awareness creation in policy makers and legitimacy gained of the family business as an existing reality can be observed in the written documents of the EU Commission. The content analysis of these documents, when searching for the word “family business” or “family-owned” yielded 278 documents in a period almost 20 years starting in 1995. This is consistent with the study of Fernandez and Puig (2009) who suggest that the creation of family business lobby associations has been a relevant actor in the appearance of the family business reality in the institutional map. Family Business Professional Associations as IEF in Spain and EFB were created in the early 1990’s, in concordance with the first documents in the EU commission including the term family business. Likewise, the fact that the number of documents mentioning family businesses has grown exponentially as exposed in figure 5.2 is an indicator of how policy makers have interiorized the new reality as part of their policies and opinions<sup>25</sup>.

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<sup>25</sup> Given the length of the document containing the documents examined, we did not include the table that contains information about the type of document, year, author and quotations including the word family business. The table containing more than 13 pages can be sent upon request.

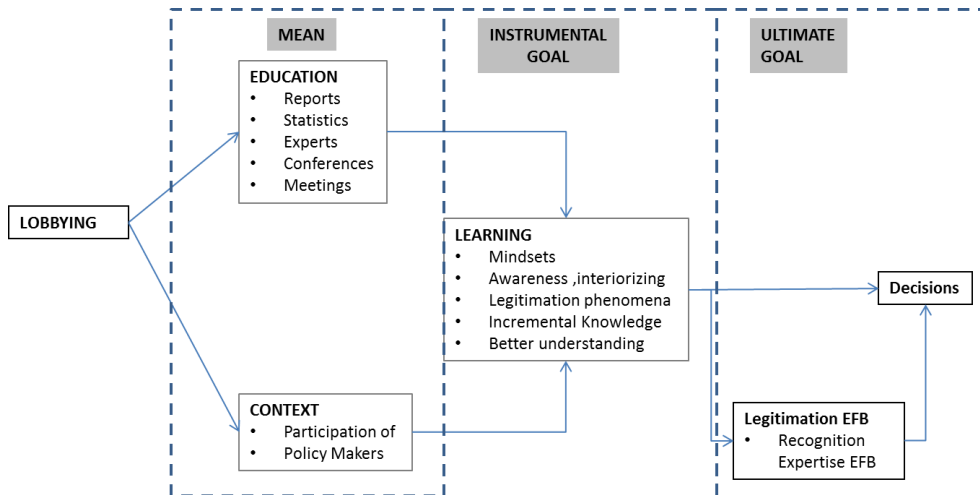


**Figure 6.2.** Increasing awareness of Family Business in the EU Commission

### **The ultimate goal: influence in decision making**

Associations like European Family Businesses are devoted to defend the interests of their members and to increase awareness of a reality that is considered relevant for the global economy because of their value in creating jobs, contribution to GDP and development of their communities. Professional associations as EFB or IEF therefore, play the role of educators with regards to policy makers as they rely on elements considered part of the education and learning processes. EFB Priorities, now that some notoriousness have been achieved as shown in figure 2 in terms of the existence of family businesses, are related to policies that can benefit the development of such businesses, like the transfer of business, equity vs debt policies, or appearance in general statistics. In working towards the “education” of policy makers, EFB for instance has prepared jointly with KPMG a report on taxation in European countries. As previously mentioned the fact that EFB has become a

legitimized interlocutor is an important step, as it grants access to expert groups for advising the EU Commission on important matters (see figure 5.3 for final model).



**Figure 6.3.** Professional associations’ role on policy makers with regard to family enterprises

### Limitations and future research

This study sheds light on the relevant role of professional associations in the education and learning of policy makers about “new” phenomena, particularly the family business, which represents between 60-90% of all businesses around the world depending on the country. While the content analysis of the interviews brings interest insights on this issue, the few interviews do not allow for further comparison and additional data that could strengthen the results or even bring additional emergent themes. A larger sample of interviews could yield stronger results. We analyze the topic from the point of view of professional associations, which allows us to infer the learning process of policy makers. To make a stronger case of the learning process, ‘learning’ is needed to be defined or operationalized to show that learning takes place as a stage after education. Interviewing policy makers could also enhance this part and complement the whole picture. The use of

external documents is an adequate strategy to understand if awareness and legitimation has been achieved at the macro level, but the analysis focuses only on the number of documents that include the word family business. The next step to better understand the real assimilation of this “new” reality may be to perform a deeper content analysis where the text within each document is analyzed to see the extent of this legitimation and assimilation.

## **6.5 CONCLUSION**

This study was focused on the role of professional associations in the learning and education of policy makers. Findings suggest that professional associations focused on lobbying use education and the creation of a context as means to achieve a learning process of policy makers that will influence their decision making. The learning process of policy makers not only leads to decision making but it also generates that professional associations become a legitimated interlocutor recognized as an expert to be consulted for macro policies that affect the global economy. This legitimation is instrumental to influence more on the decision making process. Their subtle role in the education and learning of policy makers is crucial for putting family businesses in the macro environment and position them as key players in the global economy.

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# **Chapter 7: Conclusions, Implications and Future Research**

## **7.1 Conclusions**

This dissertation, based on five manuscripts, intended to further our understanding of family businesses in different dimensions. Conclusions of the overall contributions are developed in this section connecting the different themes. Implications for theory, and practice are drawn. The final section is devoted to future lines of research that can integrate different strands of research.

It is widely acknowledged that family businesses are an important piece in the economy and for the society at large. Indeed the research strands has substantially grown in the last decade (Collins and O'Regan, 2011; Sharma et al., 2014) with the aim to understand this form of organization, that behaves in a different way than their non-family counterparts (Arregle et al., 2007; Carney, 2005; Chrisman et al., 2009). Numerous reasons for this diverging behavior have been found. Many scholars suggest that family businesses outperform non family-businesses in various dimensions because of the family-firm unique bundle of resources they develop, which has been coined as 'familiness', leading to competitive advantage (Habbershon and Williams, 1999). The family itself is a source of valuable, rare, inimitable, and non-substitutable resource (Habbershon et al., 2003). Proponents following this line of research have mainly theoretically developed the familiness concept (e.g. Nordqvist, 2005; Sharma, 2008), yet empirical research on the

resource based view of the family business is still scarce, along with the specific bundle of resources that are not fully identified (Rau, 2014).

Some of the remaining questions in this line of inquiry are cited by Rau (2014) in her book chapter reviewing the resource-based view of the family business: “Are family-specific resources per definition positive (Sharma, 2008)? Or, in contrary, can we as well think of family-specific resources detrimental to the performance of the family firm (Sirmon and Hitt, 2003)? And, even more complicated, could family-specific resources which at first sight have a positive connotation in turn lead to negative outcomes?” (p. 322).

The questions raised by Rau (2014) are partially answered in this dissertation in chapters 2 and 3, and connect to chapter 4 as well. Family resources are not always positive, as they can be a liability instead of an asset over time. This may happen because the family specific resources are grounded in the founder’s idiosyncratic personality and behavior. The pool of resources that make up the familiness identified (chapter 2) are leadership, relationships, and knowledge. Defining specific resources (chapter 2) contributes to the development of the concept, which so far has been an all-inclusive definition of resource (Priem and Butler, 2001b; Kraaijenbrink et al. 2010).

These elements that constitute the familiness advantage, are reflected as a main characteristic of the entrepreneur, in the way he/she uses knowledge, networks or other resources (Low and MacMillan, 1988; Aldrich and Martinez, 2001), and they need to be reconfigured because, as time passes they may become a “constrictive familiness” in terms of Sharma (2008). An important contribution to the resource-based view of the family business introduced in this dissertation is also the temporal dimension (Sharma, Salvato, and Reay, 2013) which portrays familiness as a dynamic concept.

As time passes by familiness can become a liability, not only because of the lifecycle of the founder, but also because next generations tend to repeat the model (the combination of resources attached to a specific individual), which in specific circumstances may not work. This happens when complexity increases (Gimeno et al., 2010). One way to leverage the familiness advantage is to evolve into an Entrepreneurial Family Team (EFT) (Chapter 3).

EFT model differentiates roles that allow a CEO to be seen as a professional manager without the overlapping of the role as owning family member. This means that management positions are not held indefinitely, only temporarily, according to the competence profile of the CEO. The EFT model developed in this work (chapter 3) represents a contribution to familiness and the RBV of the family business, as it suggests a way to leverage the familiness advantage, by offsetting the negative potential of familiness emerging from nepotism, lack of professionalism, something widely ignored in previous works on familiness (Rau, 2014).

Moving forward, professionalization has been extensively studied, associating it with the hiring of a non-family CEO (Chittoor and Das, 2007). This narrow view assumes that family executives are unprofessional, and that the power is handed in to external hands sequentially. So far studies in this domain have failed in addressing professionalization as a process, while also neglecting an important variable that is implicit in any professionalization process: decision-making and decision making domains.

This dissertation opens up new avenues for understanding professionalization from a different perspective (chapter 4). Professionalization is seen as a process of organizational transformation where knowledge is codified, roles are clearly defined, and decision-making domains are developed over time. Decision making in organizations can be seen from a process perspective, where decisions are not necessarily lineal or circular processes that follow a specific route, but decision

making appears at various levels of the organization where the mix between intuitive and analytic decision making is especially important given the level of uncertainty and complexity of each level.

As professionalization of the different domains happen, the CEO dependency is reduced. This happens because as we advance in the ladder of professionalization (from administrative, to operational, to strategic), different aspects are detached from the founder or CEO. At the administrative level, knowledge is codified leading to explicit knowledge sharing. At the operational level, processes are developed and therefore roles are clearly defined developing empowerment and decision making at different levels of the organization. At the strategic level, the board of directors (a decision-making body) is developed to enhance and develop decision making capacity based on the team, and not necessarily only on the founder. The development of the board of directors, from an advisory role to a monitoring, control and decision making role encourages the professionalization of the CEO position, as the CEO reports to the board and is his/her performance evaluated.

As such this dependence reduction is highly connected with the familiness advantage that is leveraged (chapter 3) when we rely on a team of family and non-family experts. Professionalization seems to happen when there is awareness of the need for changes, generally emerging from next generation family members who perceive they need different tools to support their decision making process. The ability to perceive these needs and be willing to pursue changes, might be in part a consequence of the previous education of next generation members. This raises the question of what is the role of the parents in upbringing the children and how this might affect their behavior towards the family business (chapter 5). This question leads us to the next relevant topic in family business research, the family variable.

All in all, family businesses are composed by families. One of the main functions of the families is to socialize and nurture children and adults (Parsons and Bales, 1955).

The way children are socialized and nurtured is also important with respect to their future involvement with the company. Parents hand in the reigns of the business to their children after coexisting for a long period of time in the family business, but previous to that their role as parents may determine in great measure the path children will follow.

The time dimension plays a relevant role in family business studies (Sharma et al., 2013), due to the transgenerational approach. Founder centric cultures tend to develop the familiness advantage, but over time, following the lifecycle of the founder, these resources that make up the familiness advantage ingrained in one individual, tend to weaken. The need to develop elements (structures) to cope with increasing complexity as well as with the arrival of the next generation to power becomes clear (this is clearly observable in chapters, 3 and 4).

Most studies focus on the business side, leaving aside the family side (James et al., 2012). The role the parents play earlier in the development of next generations is overlooked. Specific parenting styles determine the way children will behave in the future (Baumrind, 1966). Considering the family dimension, understanding the role the parents exercise in the upbringing of their children represents an appropriate way to, understand how a family works and the consequences in the family business dynamics (Corbetta and Salvato, 2004). Results in chapter 5 show a clear impact of parenting style in the way children behave toward the business. Authoritative parents develop highly competent children with regards to both, instrumental and social skills. This means that children will have a balanced approach to the family business, having the capacity to alternate and differentiate roles. The consequences of this parenting style go in line with the EFT characteristics (Chapter 3). This means that children that are educated under this parenting style may be more prone to develop an EFT, as they are able to separate ownership from management, they may have the flexibility to change models, and therefore to sustain the familiness

advantage. In addition the adequate level of cohesion and flexibility will probably motivate the individual to pursue new opportunities for the family business. This goes in line with previous research suggesting that strong ties positively impact the motivations to start a business (Sequeira, et al., 2007). Too much cohesion however can also be detrimental (Rau, 2014), hindering the ability to innovate (Sequeira and Rashhed, 2006).

Permissive parenting styles generate high social skills but low instrumental skills. In the family business context this can carry conflicts in several spheres. On the one hand, family members look for prestigious positions leading to lack of followership. Positions may not be granted based on merit leading to nepotism, a negative aspect for the familiness advantage (Rau, 2014). Authoritarian parenting leads to low social skills and high instrumental skills. Contrary to the permissive style, authoritarian parents develop highly performant children who may not develop empathy and group thinking, but rather self-thinking. Children may have difficulties in changing roles, while also developing individual leadership. This behavior can also diminish the familiness advantage for the lack of flexibility to change model to an EFT that requires switching roles.

Wealth plays an important role in the equation with parenting styles. Previous studies suggest that being wealthy is a tool provide the necessary resources to pursue entrepreneurial activities (Aldrich and Kim 2007). Yet empirical studies have found no consistent relationships between levels of wealth and a propensity to create businesses (Kim, Aldrich, and Keister, 2003). This means that wealth is not only a source of possibilities but also a constraint if not aligned with the appropriate parenting style. Permissive parenting styles for instance will develop narcissistic children with low instrumental skills, therefore they might not be prone to develop entrepreneurial ventures.



Different topics have been addressed in the family business literature given the importance that family businesses play in the overall economy, as well as the fact that they have unique features that make them different from other forms of organization. The field has evolved at a rapid pace consolidating its position as a field of research (Sharma et al., 2014) with the creation of academic and practitioner journals, and the creation of different institutions to support family businesses (Melin and Nordqvist, 2007). So far however the legitimacy gained towards external stakeholders is still limited. How can we legitimize the family business in the external environment? This is an important step to fully institutionalize the field and have a greater impact in the economy and at society at large. Professional associations can play a relevant role in the education and learning of policy makers to increase awareness with regard to family enterprises (Chapter 6).

Chapter 6 shows that professional associations are instrumental in the educating and influencing policy makers. This creates awareness among key stakeholders in the broader context, leading to more institutionalization. Professional associations make lobby using a friendly approach, arguing that family businesses contribute to the common good, thus they need to be supported. Their lobbying strategy relies on educating policy makers in the different family business issues, by creating a context that affect policy makers, leading to an individual learning process (Bandura, 1986).

This strategy seems to work, because data in chapter 6 shows that the number of times that the word 'family business' appears in the communications issued by the EU Commission has increased rapidly since the appearance of EFB in the macro context interacting with policy makers. Despite the increasing awareness in the broader environment about family businesses, family businesses are still far from the awareness levels that other forms of organizations have in the macro

environment, like SMEs or NGO's. There is still a long way to go to achieve a status where family businesses are considered a specific category of organizations.

## **7.2 Organizational and Managerial Implications**

### ***7.2.1 Implications for theory***

This research develops further the family business field in various dimensions by using a contingency approach (cf. Corbetta and Salvato, 2004; Nordqvist et al., 2014). A main contribution of this dissertation at a theoretical level is the use of an interdisciplinary approach combining different theoretical perspectives. In order to understand family businesses from its different dimensions, it is required to combine frameworks and theories from different domains. In doing so, I address the calls made to extend knowledge in the family businesses field by means of different theoretical frameworks (Miller in Moores, 2009) that have not yet been much explored (Sharma et al., 2014).

In expanding our knowledge in family businesses, I used an eclectic approach to cover three main dimensions: the family (Chapters 2, 3 and 5, the family business (chapter 4) and the connection between the field and the macro environment (chapter 6), where I actively and inductively looked for the theories that are more useful to understand a specific social phenomenon (e.g. contingency theory, family dynamics, RBV, organizational theories, institutional theory).

Less recurrent theoretical frameworks used in the field are applied in chapters, 4, 5 and 6. Chapter 4 relies on decision making theory to understand professionalization in family firms. Chapter 5 borrows from the psychology field, a highly recommended

source of inspiration to inform family businesses (cf. von Schlippe and Schneewind, 2014), to build a framework about parenting styles (cf. Baumrind, 1966), family complexity (Gimeno et al., 2010) and wealth. Chapter 6 connects literature on professional associations with learning and education theories.

This dissertation also contributes to the field of family business by relying on one of the dominant approaches used in the family business field to expand knowledge on the resource-based view of the family businesses. Chapters 2 and 3 expose the important aspect of time, this is the dynamic view of familiness, where positive advantages may become negative over time if not reconfigured over time, while suggesting some of the possible resources that make up the familiness advantage.

### ***7.2.2 Implications for Practice***

Relevant implications for practice and policy making can be extracted from this dissertation. The contingency approach suggests that the different aspects I have been studying at strategic, organizational, family and society level may have distinct influence on family businesses according to specific circumstances. Moreover, proposing to practitioners, different aspects that may be taken into account in order to understand, advice or make decisions about family businesses issues is a relevant contribution.

Chapter 2 shows that specific resources, like leadership, relationships and knowledge make up the familiness advantage, which is attached to the founder. Understanding the dynamism of familiness and the need to reconfigure resources for next generations, may help family members reflect upon such resources and find mechanisms to reconfigure them by means of evolving into an EFT as shown in chapter 3, thus building structures, and changing relationships accordingly.

According to the findings of my dissertation, thus, time is a relevant aspect that has to be taken into account to understand, advice or decide in family businesses. The impact of time on the resource base of the family business and its impact in the evolution of family complexity has to be taken into account.

Professionalization processes (chapter 4) require especial consideration from family executives and non-family executives, as well as consultants. Frequently family businesses fail in professionalizing their companies, because they are not aware of the different domains of professionalization, and the implications attached to each domain. Being aware of the domain of professionalization, whether administrative, operational, or strategic, may assure a successful process when the appropriate structures and conditions are developed.

Understanding professionalization better, thus, is important in practice, despite the fact that it has not been sufficiently addressed as an important topic in academia, given that it can be crucial for the survivability of the family business over the long run. Being aware that business complexity is an important contingency factor for the process of professionalization constitutes an important element for families and advisors.

Another important dimension that families need to be aware of and consultants even more, is the upbringing of children and how it can affect their behavior towards the family business. Parenting styles may determine the way next generation family members will interact with the family business (chapter 5). Often wise, business families visit consultants to get help with next generation issues when children are already grown-ups. Usually it is too late to change a behavior that has been forged since infancy. If families and consultants are aware of the importance of parenting, the work towards developing high skilled children in all domains may start earlier on.

Even though it is relevant to stress the importance of parenting style on family businesses, despite having an indirect effect, mediated by many other variables, this does not imply that its influence may be determinant in the dynamics of the family business.

Professional associations are an important source for legitimating the family business field in the broader context (chapter 6). As such the field has gained some recognition, but there is still a long way to do. Accordingly, final implications can be drawn for policy makers. Family businesses represent a large part of the productive economy and as such they serve the common good. Policy makers need to be aware of the existence of these group of organizations, as well as to understand their sources for distinctiveness. Only understanding what they do, how they do it, and why they do it, can policy makers develop policies and regulations that can enhance and support this type of organizations.

As practice means activities that happen both inside and outside family businesses, it is also relevant to highlight the impact that a community of practice may have in the development of family businesses. In this thesis I approach how professional association may influence family businesses. This can help in enhancing our knowledge on how its influence may help in the development of family businesses.

### **7.3 Future Research**

Each article in this dissertation has formulated possible lines of future research based on opportunities and limitations of the existing papers. While all of them suggest future understanding of specific issues in the family business, there are some common aspects that need to be done in all of them to continue broadening knowledge in the family business field.

A first element that appears across chapters is the need to take into account contingent factors cultural aspects, as they might be mediating factors conditioning the outcomes proposed. Future studies can benefit from introducing cultural aspects to understand which resources make up the familiness advantage in different regions. For instance Latin and Asian cultures rely heavily on networks/friendship, whereas in Anglo-Saxon cultures other elements might prevail. Similarly, cultural aspects may frame parenting styles, as differing cultures may be more prone to specific types of parenting, or where not only parents but the extended family may play an important role in nurturing and demandingness.

A second element linked to contingent factors has to do with family complexity. Increasing family complexity affects the way resources are configured and reconfigured, as well as it influences the way family members can interact with the family business. Further knowledge can be developed in relation to the family RBV if future studies include the level of family complexity in their studies to understand how different members can add diverse and complementary resources. Similarly understanding better the level of complexity of family firms can help from delving into how professionalization processes are started and led by specific family members and how they deal with such complexity, to how the level of family complexity can hinder or enhance professionalization in family businesses.

A third issue that involves all chapters deals with the need to pursue further case-based research to either confirm or to find different patterns from current findings. With multiple case studies replication may add validity and extend theoretical generalizability (Eisenhardt and Graebner, 2007; Yin, 2009). The use of multiple case studies not only implies more cases, but also more in-depth analysis. For instance parenting could be better understood if more cases could be used in each dimension. Likewise, understanding more in-depth each case can bring new insights regarding different parenting styles clashing among different branches due to

increasing family complexity. In similar vein, familiness could be better understood if different cases could be compared to explore if the resources found in case studied are similar or if differs, and what varies and why.

A fourth element related to multiple case studies, is the need to account for the idiosyncrasy of each business family that will condition how things are done, therefore using different case studies may provide with a flavor of the specificities of each family.

A fifth topic that can be further enhanced via longitudinal case studies is to explore from a dynamic perspective how familiness or family related resources influence the development of the business in different (positive vs negative) ways over longer periods of time. It is not clear how family related resources really affect performance (Rau, 2014). Building further on the observation that family related resources are positive at specific periods of time, but over time the same resources might become negative leading to underperformance, this might be better observed if the researcher engages in research over very long periods of time.

In line with the latter, future studies could benefit from a more fine-grained understanding of all these topics if a process perspective is applied. Process perspective focuses on how and why things emerge, develop, grow, and end over time (Langley et al., 2013), and tries to understand which interactions across levels contribute to change.

Connecting diverse topics, further studies could be performed by combining parenting, familiness, entrepreneurial family teams and professionalization. Building a theoretical model that relates these four elements can become a starting point to empirically validate the possible connections, mediating and direct effects on performance and socio emotional wealth. This would be a line of enquiry that could enrich family business studies in terms of theory building as well as in delving deeper into nuanced relationships and processes (Dawson, 2014).

To conclude, this thesis has relied on five interconnected studies to understand different aspects of the family business using a diverse range of theoretical frameworks. In doing so, it has extended knowledge on various areas that deserve attention and are important to develop further the family business field by understanding what makes family businesses unique, differing from their non-family counterparts, focusing on specific elements that may help family businesses sustain over time and, by tackling its connection with the broader environment to highlight the importance of increasing the awareness about this type of organization.

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## **APPENDIX 1: STEP Research Method**

The STEP research method is based on qualitative case studies following Yin (1994) who suggests that case studies serve to do empirical investigation of contemporary phenomena within its real-life context. STEP Project uses comparative, exploratory case studies to delve into different dimensions of transgenerational entrepreneurship. The study was set as comparative because each team (from each country) had to analyse and conduct a number of cases that were later shared to do cross case analysis within countries and between countries, allowing to learn from the uniqueness of each case, understanding particularities and generalities.

Given the nature of the STEP project, the objective is study the phenomenon longitudinally, procedurally and contextually (Hartley, 1994) giving the opportunity to understand transgenerational potential.

To attain the STEP research goal a purposeful sampling was used, allowing for diversity of family businesses in terms of size, age, family complexity, business complexity and levels of development. Sampling criteria were decided to be able to have cases that could be compared and capture the processes families use to develop entrepreneurial mindsets. These criteria were:

- The family had to consider the business a family business
- Family ownership above 50%
- Family involved in management
- At least second generation involved in management or ownership
- At least 50 employees

- Intention to pass the business to the next generation

Data collection was expected to be done via personal in-depth interviews to allow for understanding” how actors experience and interpret their everyday life (Fontana and Frey, 1994; Pettigrew, 1997)” (p. 44). Some of the criteria for choosing the interviewees were:

- Controlling owner working as CEO and or chairman of the board
- The CEO of the business
- At least one more family member active in the business
- At least one family member active and next gen
- At least one non-family member

For more detailed explanation please refer to:

Nordqvist, M., & Zellweger, T. M. (2010). A qualitative research approach to the study of transgenerational entrepreneurship. *Transgenerational entrepreneurship: Exploring growth and performance in family firms across generations*, Nordqvist, M and Zellweger, T (eds.). Edward Elgar: Cheltenham, UK and Brookfield, US, 39-57.