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GUEST EDITOR'S EDITORIAL

FAMILY FIRMS IN IBEROAMERICAN COUNTRIES

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Introduction

Family firms are the common factor of the set of articles presented in the current issue of Management Research. Family firms are those firms controlled by a group of individuals who belong to the same family group. Control may be understood in a broad sense, but it usually refers to ownership and/or management of the firm. These family firms constitute one of the largest and economically more relevant group of firms in any economy. Although a precise census of family firms is rather difficult to obtain, different attempts indicate that the proportion of family firms in any economy is above the 50%. For example, Tapies (2011) indicates that they represent 85% of the total firms in Spain, up to 90% in Brazil and more than 65% in countries as Chile and Argentina. They exist in a great variety of industries and sizes, from small businesses to large corporations. Furthermore, a considerable number of firms in Iberoamerican countries that trade in the stock markets are considered as family organizations. An example is Mexico, where 70% of the businesses in the stock exchange are family firms (Belausteguigoitia, 2012).

This unquestionable social and economic relevance explains the growing interest of the academic community in the study of family firms. While the study of family firms has a long tradition the topic has gained momentum during the last decade. The existence of journals specialized in the study of family firms, the regular publication of papers and special issues in non-specialized journals, or the publication of articles about family firms in major academic journals, are just a few examples that show the relevance of the topic for the academic community.

Existing research on family firms can be divided broadly in two big subsets. While separated, both streams are relevant to reach a complete understanding of family firms. On the one hand we find studies focused in the comparison between family and

non-family firms. Comparisons are made in terms of performance but also in terms of strategy selection (e.g. Villalonga and Amit; Gomez-Mejia et al., 2010; Berrone et al., 2010). This set of studies has showed that the presence of a family affords it some unique features that create differences when it comes to making strategic decisions. In particular, experts argue that the key differentiating factors is that profit maximisation in these organisations exists side-by-side with achieving other non-economic objectives which are important to the controlling family, such as employing other family members and handing down a legacy to future generations. By comparing family firms with their non-family counterparts, scholars have been able to better gauge the influence of these distinctive non-monetary elements labeled socio-economic wealth (SEW) by Gomez-Mejia and colleagues (2007) on different aspects relevant for firm management. So far, the accumulated evidence points that the protection of that socio-emotional wealth is an important goal in family firms.

On the other hand we can observe the studies focused on the processes that take place within the group of family firms. This stream of the literature explicitly recognizes that although the presence of non-economic factors is the key distinguishing feature of family firms, sources and degrees of SEW vary across family firms (Berrone et al, 2012). Factors that contribute to family firm's heterogeneity include among others family stage, firm size, firm hazard and the presence of non family shareholders (Gómez-Mejia et al, 2011). By explicitly recognizing this heterogeneity these set of studies intend to understand the different processes that occur in family firms and their consequences. Such processes can be external, that is, look at the relationship between the family firm and its environment (e.g. Cruz and Norqvist, 2009) or internal, therefore focused on processes that occur within the firm itself like the succession process or the professionalization process (e.g. Cruz et al, 2011).

In spite of the large of amount of research devoted to the study of family firms from both streams of research, there is much to be done. Questions like how economic and non-economic goals are balanced in family governed firms (Berrone et al., 2012) how intentions for transgenerational control shape the goals and therefore the decisions of family founders and family successors (Chrisman and Patel, 2012) or to what extent the conclusions drawn from studies conducted with samples of publicly held family firms can be extended to privately held family firms (Sharma and Carney, 2012) are just some illustrations of issues open to debate and subjects of future research attempts. In this matter also a better understanding of family firms requires studies that provide evidence from different countries and regions around the globe. As cultures, political regimes, economic conditions, legal frameworks and social organizations change, the role and performance of family firms may also change, as well as the processes and their effectiveness.

With the aim of enlarging our understanding of the uniqueness of family firms, the current special issue of Management Research seeks to provide new evidence about this widespread organizational type from Iberoamerican countries. The four papers included in this special issue add new evidence from Iberoamerican countries and regions on different and relevant issues related with family firms. Two of them are related with the first stream of the literature mentioned above, while the other two can be inserted in the second stream. As it is described next, they explore the effects of family involvement in management on firm growth and performance, the influence of family control of the firm on earnings management practices, how the growth rate of the family relative to the growth rate of the company can explain differences across family firms, and finally how the family offices are structured and governed. To do so, the papers use various quantitative techniques but also have relied on qualitative, case

study, information. Importantly most of the evidence comes from small and medium sized non-publicly traded firms. As exposed on a recent special issue in Family Business Review (Sharma and Carney, 2012) while the vast majority of family governed firms are private small and medium sized companies, most of the existing evidence has been obtained from relatively large publicly traded firms.

Papers in the special issue: differences between family and non-family firms

In the first paper of the special issue Meroño-Cerdán and Carrasco-Hernández (2012), examine the differences in size and performance linked with the family participation in management and the generation in charge. Family involvement and generation are two of the fundamental variables in the concept of "familiness" (Habbershon et al, 2003) or the degree of family involvement in the firm. More specifically they rely on life cycle theory to propose that on average, family firms managed by family members are smaller and tend to perform worse that those managed by non-family members. However there is a positive effect of family presence in management both in terms of size and performance that becomes harmful once the proportion of family managers is above a certain threshold. Consequently, and in line with previous work by Sciascia and Mazzola (2008), Meroño-Cerdán and Carrasco-Hernández argue that the relationship should have an inverse U shape. They also argue that as firm is governed by subsequent descendants, firm size and performance tend to improve.

To test these ideas the authors run their analyses on a representative sample of 815 firms, 581 of which were controlled by families (i.e. family firms), in the region of Murcia (Spain). The vast majority of these firms were non-publicly traded small and medium sized firms. The results obtained indicate that first-generation family managed

firms are the smallest and also show the lowest performence. Second-generation family businesses are already larger and perform similarly to non-family businesses. In addition linear regressions provide evidence of a negative relationship between family management and firm size and performance. Their evidence is consistent with the growing paradigm in family firm research according to which family firms may be willing to sacrifice financial performance and growth if that helps to achieve the goal of protecting SEW (e.g. Gomez-Mejia et al., 2007). This goal may be achieved sometimes by keeping the control of the organization. In this vein family firms face the need to balance SEW protection and the attainment of certain economic standards. Family values such as intentions for transgenerational control may help families to align economic and non-economic goals (Chrisman and Patel, 2012).

The paper by Almeida-Santos, Dani, Machado and Krespi (2012), studies the differences in earnings management between publicly traded Brazilian family and non-family firms. Specifically, they observe the conduct of a sample of 123 Brazilian non-financial companies listed on the São Paulo's Stock Exchange. 42 of these companies were family-controlled while the remaining 81 were non-family controlled. Data obtained for the 2000 – 2010 period was analyzed using panel data techniques. The authors obtain evidence that family firms tend to smooth their earnings stream in order to show a more consistent performance over time. In particular they observe that family firms show a greater tendency to worsen present results in order to show better results in the future. Albeit a bit speculative, again this evidence seems to be consistent with the idea that decisions in family governed firms are driven by SEW conservation concerns. By smoothing their income stream family firms may show a more consistent performance over time, which may positively contribute to their external image and legitimacy in the eyes of stakeholders and local communities.

Papers in the special issue: differences within family firms.

Barroso Martínez, Bañegil Palacios and Tato Jiménez (2012) try to expand our knowledge on the intersection between the family and the firm. In particular they seek to explore what happens in terms of succession processes and professionalization when the family growths faster than the company. Succession and professionalization are frequently pointed among the most critical decisions made by family leaders (Le Breton-Miller, Miller, and Steier, 2004). If the family growth is high it may be difficult for family members to find their spot within the company, creating tension and potentially promoting internal disputes. On the other hand, when company growth is high enough, families may face the need to look outside the family group to find the human and knowledge resources necessary to support business growth. Their research question is directly linked with the dynamic aspects of management in family firms, a central theme in the academic literature that sees transgenerational survival as one of the defining elements of family firms (Chrisman and Patel, 2012).

Barroso Martínez and colleagues rely on the responses to a questionnaire from a sample of 180 family firms with more than five employees in the Spanish region of Extremadura. As in the case of the paper by Meroño-Cerdán and Carrasco-Hernández, the vast majority of the firms in the study were small and medium-sized privately held firms. Their results indicate that there are important differences between family firms in which the family grows more than the company and those in which the company grows more than the family. Each group has a different vision. The former is more oriented towards meeting the family needs through the company, whereas the latter is more oriented towards business and professional efficiency. This evidence reflects the heterogeneity of family firms stressed by many scholars. It suggests the existence of

different management cultures among family firms. The importance and variation in firm culture within the population of family firms is not new in the literature on family firms (e.g. Denison et al., 2004; Zahra et al., 2004; Zahra et al., 2008). The paper by Barroso Martínez and colleagues suggests that these different cultures may be linked to structural variables of the family group such as its rate of growth.

The final paper of the current special issue is the one by Rivo López, Rodríguez López, and González Vázquez (2012). In their article they look at family offices in Spain, and more specifically those dedicated to a single family or single-family offices. A family office is a private company devoted to the management of a family's investments and trusts. This external resource exists to provide support for families in different aspects that range from the provision of personal services, such as those related to household and travelling management, to investment strategies in venture capital or development capital. While increasingly important, there is little research on the role and characteristics of these family offices. The paper presented in this special issue provides for the first time evidence on this topic in Spain by analyzing information extracted from 6 case studies of family offices. Through those six cases the authors provide a picture of the different typologies of family offices with particular emphasis on the scope of their activities, their structure and their governance bodies. In terms of scope the authors find that single-family offices are mainly dedicated to investing and managing family wealth (investment activities). Family related activities such as education, philanthropy and so on are just subsidiary activities of the single-family offices in Spain. As per the structure, these offices tend to outsource activities related to technological support and joint accounting, but not management. Finally, they observe that single-family offices have a larger number of implemented boards, and that the number of committees increases with the degree of development of the office.

Concluding thoughts

Research on family businesses has witnessed a significant growth over the last decade that has brought a much better comprehension of this widespread and relevant type of organizations. Despite this progress there still a large number of questions that have not been answered or for which we still lack a clear response. Since family firms are a worldwide phenomenon, research and evidence from different countries and region around the globe is necessary to improve our understanding of the family firm. This special issue is just a small step in that global attempt. We are not probably wrong to affirm that most of the available evidence on family firms comes from samples collected in developed countries. Because much can be gained by pushing relevant and rigorous research on family firms in all parts of the world, we want to encourage researchers from developed and not as developed countries to foster cooperative efforts. In this regard, below we highlight some areas in which we believe devoting more energy and resources with new evidence from other samples may be favorable to advancing the family business field.

- Both anecdotal and empirical evidence show that compared to non-family firms, the presence of strong family values favors the development of a distinct organizational culture (Astrachan, Klein and Smyrnios, 2002). Although observable cultural attributes of family firms have been described and compared with non-family firm culture, only a small amount of quantifiable cultural comparisons has been presented. Indeed, Hall, Melin and Nordqvist (2001) conclude that similarities and differences in cultural characteristics between family firms in different countries should be researched using cross-cultural comparative studies of family businesses. Further study of family business culture across more countries will deepen our understanding of

the distinctiveness of family firms both within their home country and in comparison with family firms across nations.

- As the family members' identity links the reputation of the family with business survival any threat to the existence of the business would also risk the existence of the family itself (Berrone et al, 2010). Therefore, we would expect the "quest for legitimacy" is more pressing and compelling for the case of family owners. At the same time, because family owners tend to place greater value on social legitimacy for its own sake as a way to secure the organization's continued existence, family owners maybe more willing to be proactive in developing legitimacy and the "insurance" it provides than entrepreneurs with just a pure utilitarian identity (Berrone et al., 2012). Given the difference in institutional settings among countries, future research should examine how this "seek for legitimacy" vary across different cultures and countries and the role played by the different institutions in the process.

- The use of samples from non-developed countries may also shed some light on the role and performance of family firms in economic environments in which the informal economy is more prevalent. It is often said that personal networks are of great relevance in such context. Family business scholars highlights the family as an ideal environment in which to create and leverage social capital and networks (e.g. Arregle, Hitt, Sirmon and Very, 2007; Pearson, Carr and Shaw, 2008). Moreover, they suggest that family employment becomes a clear competitive advantage in such informal contexts (Cruz, Justo & De Castro, 2011). Cross cultural studies may help to establish whether family firms have an additional competitive advantage that they lack in economic environments with less informal economy.

- Of remarkable interest is also the study of the evolution of family firms over time. This study not only includes the analysis of succession and intergenerational

aspects of family firms, a central topic in the family firm literature, but should extend to a deeper analysis of how the firm itself evolves over time and generations. This would include also a better comprehension of the circumstances under which controlling families give up the control of the firm transitioning it from a family to a non-family business. Evidence from different countries on this topic may greatly contribute to gain a better understanding of the dynamics of family firms, since such dynamics are likely to be greatly influenced by the legal, economic and cultural environment in which the firm operates. For example controlling families in countries with less developed stock exchange and capital markets may found easier to keep the control of the organization and therefore to perpetuate over time. At the same time the absence of a properly developed capital market may impose difficulties to the family's investment policies and limit growth. Clearly the patterns of evolution of family firms will vary across countries and regions. We need more research to comprehend how the differences in social, legal, economic and cultural environments explain those variations.

- Lastly, the SEW approach seems to be a suitable perspective for advancing the family business field because it depicts the uniqueness of the family firms' identity through the consideration of non-economic factors. But more research is needed to show the validity of this approach. The main prediction of the SEW approach is the protection of the family ´s socioemotional endowment shapes the decisions of family firms. Although SEW is mostly an individual level construct, important insights could be obtained by examining how this emphasis in protecting the SEW changes across countries. Moreover, since SEW has proved to be a multidimensional construct, future research should determine how different dimensions of the construct (as defined by Berrone et al., 2012) vary across countries and regions and how SEW links with different dimensions of a nation's culture as defined by Hofstede or the Globe project.

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