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From a family-owned to a family-controlled business

Applying Chandler's insights to explain family business transitional stages

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Abstract

Purpose – The purpose of this paper is to provide a meaningful, integrated, and re-interpreted framework of Chandler's ideas regarding corporation's growth, offering an understandable conceptualization of how these insights are applicable to explain family firm's transitional stages – even when, in 1977, Chandler was not aware of it.

Design/methodology/approach – Grounding ideas on Chandler's insights regarding corporate firm's growth, and drawing on Gersick *et al.* family ownership evolutionary model, this paper develops an integrated framework of family-controlled corporation's growth which allows family business researchers to reconcile with Chandler's perspectives, recognizing that his ideas contributed a lot to the family business literature.

Findings – Chandler's ideas regarding family firm's management are based on a narrow definition (and perspective) of family firm ownership. When allowing not only family-owned firms, but also family-controlled ones in his capitalism classification, his developmental stages make perfect sense when applied to family enterprises.

Originality/value – This paper intends to reinterpret Chandler's views on family firms, stating that the processes described for corporations are also applicable for family enterprises – when their definition becomes broader (including not only family-owned, but also family-controlled firms). The latter, bridges the gap between Chandler's envisioned historical evolution of corporations, and the development, professionalization and survival of family firms.

Keywords Family firms, Management history, Transition management, Change management

Paper type Conceptual paper

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Introduction

Evidence has shown that family firms play a significant role in emerging and developed economies in terms of GDP growth and employment (Carraher, 2005; Carraher and Carraher, 2006). In fact, a number of professionally managed, multidivisional enterprises such as Michelin, Armani, WalMart, Home Depot, and IKEA were founded and are still controlled by families (Miller and Le Breton Miller, 2005).

Based on Scranton's (1991) assertion that family firms constitute an opportunity to extend the scope of business history and on the fact that during the last 25 years, Chandler has been strongly criticized due to his remarks regarding the inefficacies and inefficiencies of family firms and personal capitalism, we want to reinterpret Chandler's ideas based on a different family business perspective (broader definition).

We will apply Chandler's insights regarding modern corporate firm's growth to explain the different transitional stages that family businesses pass through as

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they develop. In fact, we focus on how Chandler's enterprise "transitions" explain family firm ownership stages. The experience of Du Pont, a family-controlled corporation up to now, is drawn upon to illustrate the argument.

This paper is organized as follows. First, a brief overview of what a family business is, why these firms are important worldwide, and what we consider the most important challenges they currently face is presented. Second, a reinterpretation of Chandler's ideas based on a broader definition of the family firm is attempted using as a starting point the explanation given by Gersick *et al.* (1997) of family business ownership evolution and Chandler's reasoning regarding corporate business transitions. Finally, the Du Pont case is analyzed: the history of Du Pont speaks volumes about the history of the modern corporation, as well as about family ownership. We end up with some concluding remarks and practical applications of this research.

Family business

Taking alone, these two words may seem as unconnected: "Family" vs "Business". On one side, we have the tender, altruistic and always supportive "family", whereas on the other we devise the competitive, always challenging and striving-to-create-wealth "business". What do we get when we join both concepts and connotations?

Definition and importance

Although we are aware that family firms are complex systems in which business and family dynamics mix in various ways, up to now there is no formal agreement among research in what a family enterprise is. In fact, there is no current unified theoretical framework or theory of the family firm that explains why family firms exist, and what determines their size, scope, and survival (Trevinyo-Rodríguez and Bontis, 2007; Christman *et al.*, 2003). In spite of this, family business researchers concur on the fact that is precisely "family involvement" what makes family firms different from other forms of commercial organizations (Miller and Rice, 1967). Based on this premise, some researchers define family firms in terms of controlling ownership (Barnes and Hershon, 1976; Villalonga and Amit, 2006), whereas others do so in terms of number of family members involved in the management and/or generations present (Stern, 1986; Ward, 1987; Donnelley, 1988).

In this paper, we will use Gubitta and Gianecchini (2002) definition of a family firm. According to them, a family business is a company in which two or more key individuals linked by kinship, close affinity or solid alliances hold a sufficiently large share of financial capital (full ownership) or board control (controlling ownership/governance) to enable them to make decisions regarding strategic management and overall business goals. To this definition we will add Litz (1995) notion that in family businesses family members aim to perpetuate the degree of family involvement, implying therefore, a trans-generational pursuance intention (Trevinyo-Rodríguez and Bontis, 2007).

Nowadays, there is a growing agreement about the relevance of family firms in the economies of many countries in the world (Déniz-Déniz and Cabrera Suárez, 2005; Christman *et al.*, 2003). For instance, Gersick *et al.* (1997) state that in Britain and the USA, 75 and 80 percent of all firms, respectively, are family-owned or controlled businesses. While referring to family firms' presence in European countries, common estimates include the following: France, 60 percent; Germany, 60 percent in 1995; 84 percent in 2000; The Netherlands, 74 percent; Portugal, 70 percent; Belgium,

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70 percent; Spain, 75 percent; Sweden, 75 percent; Finland, 75 percent; Italy, 80 percent; Greece and Cyprus, 75-80 percent, among others. In Latin America, numbers vary between 70 and 80 percent (i.e. Argentina, Chile, and Uruguay) and 85-98 percent (i.e. Mexico and Brazil). The situation in Australia is similar, family firms represent around 75 percent of the overall business. In India, they account for an 80 percent; while in China they represent a powerful economic driving force (SCMP, 2006).

In addition, family firms generate about 40-45 percent of the Gross National Product (GNP) of North America, between 35 and 65 percent of the GNP of the EU member states, between 50 and 70 percent of the GNP of Latin America, and between 65 and 82 percent of the GNP of Asia (IFERA, 2003).

As seen, even when Chandler concluded that family ownership is dysfunctional, evidence reveals that these businesses play a significant role in the global economy. Indeed, a number of world-class firms such as Wal-Mart, Ford Motor Co., Samsung, LG, Cargill, Tata Group, Cemex, Du Pont, IKEA, Grupo Carso, Michelin, etc. are classified among the world's 250 largest family-run companies, each with annual revenues of at least $1.2 billion ((The) Family Business Magazine, 2004). Many of them dominate not only their local economies, but also the global market, reaching far beyond their national borders.

Family firms constitute not only a majority of small and medium-sized enterprises in many countries, but also Fortune 500 conglomerates. As Scranton (1991, p. 101) points out:

> To an unspecifiable degree they overlap with small businesses ("mom and pop stores"), but can aslo be quite large (the Bromley and Dobson textile firms in Philadelphia), sometimes even immense (Prof. Broehl's Cargill).

Challenges

Family firms need to manage three group-networks (and its people interactions) in order to survive:

(1) the family network;

(2) the business or organizational network; and

(3) environmental network.

The family network refers to the family members related either directly or indirectly to the family firm. The business network includes all the people that work in the family firm (excluding family members). Finally, the environmental network involves the external stakeholders (Trevinyo-Rodríguez and Bontis, 2007).

When family members and non family members interact, different perspectives may arise. These different views may cause conflict, not only among employees or between employees and family members, but even worse, among/between kin. When daily operations are hampered by conflict, family firms will experience a high turnover rate among non-family employees, this being reflected in the business productivity and survival. In addition, if family members let their behavior be driven by emotional arousal instead of business economics, the firm may end up being sold or failing to create economic wealth.

On top, besides taking care of people's interactions, family firms should also consider as part of their growth strategy, the development and adaptation of their ownership structure. As time goes by and the family gets bigger, more people are involved in the management of the family business; thus, changes in the ownership structure and the management decision-making configuration must be accomplished in order to organize the firm's growth. Ownership structure is closely tied to the development and improvement of financial infrastructure – ready-to-use cash or ready-to-cash assets, internal liquidity funds, etc. – as well as with corporate governance structures.

Accordingly, since the evolutionary process of family firms is mainly driven by environmental opportunities (e.g. market expansion, extended geographic coverage, etc.) ready-to-use financial and human resources should be in place in order to be able to increase in scale and scope the enterprise's operations when the chance is devised. However, this increase in the firm's operations pushes forward the ability of the family members (especially that of the founder and siblings) to exercise effective control over the business. Therefore, corporate governance structures should be developed in parallel in order to support the firm's growth strategy. On this respect, Gedajlovic *et al.* (2004) and Daily and Dalton (1992) propose that the successful resolution of these "growth" problems requires that the founder or siblings cede control to professional managers. In fact, some consultants and researchers (Lubatkin *et al.*, 2005) also suggest that families that switch early to professional management would find it easier to survive, the latter due to the fact that they put in place at an early stage formal rules to ensure effective family governance.

In summary, we consider that the main challenges family firms face nowadays are:

- *Growth.* Owing to the complex and changing environment they are living; globalization – international competitors).
- *Adaptation of their ownership structure.* Owing to professionalization of management; family enlargement, growth pressures).
- *Family conflict.* Owing to emotions and family bonds.

Chandler's reinterpretation of family-business management

In 1977, Alfred D. Chandler wrote *The Visible Hand*, and attributed the success of the US economy to the rise of large, vertically integrated and managerially directed enterprises; this kind of "Chandlerian" corporation had dominated the organizational setting for over a century. "These enterprises, Chandler argued, were dramatically more efficient than the small, family-owned and managed firms that previously had characterized the economy" (Lamoreaux *et al.*, 2002, p. 1). The reason was simple: family firms were dependent on the market to coordinate their purchases of raw materials and the sale of their output; while on the other hand, large firms coordinated these functions themselves – cutting costs of production and distribution, assuring a smooth flow of goods from the suppliers of raw materials to the final customer, allocating economic resources rationally, and developing and applying new processes and products systematically – using hierarchies of salaried managers to coordinate them administratively.

Yet, nowadays the "Chandlerian" firm no longer dominates the landscape (Langlois, 2003; Lamoreaux *et al.*, 2002), it is family firms – "inferior" nineteenth-century managerial structures that continue to be the most common type of business organization worldwide (Birley *et al.*, 1997; Carlock and Ward, 2001). Indeed, since 1950,

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there has been a growing research interest in family businesses (Trevinyo-Rodríguez and Bontis, 2007), being the topic in this day and age hot and significant (Scranton, 1991).

From Chandler's perspective, family firms were equated to "mom and pop stores" – small businesses whose owners' business decisions were affected by an impersonal market over which they had relatively little control and which were not able to coordinate flow of goods and resource allocation. He did not consider diversified and professionally managed corporations (e.g. Du Pont) as family enterprises.

The main argument he posed was that in family firms, owners retain a major saying in top management decisions, which according to him did not happened in large corporations, being that professional managers were the ones in charge of decisions analysis and decision-making. Nevertheless, he did not take into account the fact that family-firms can grow and diversify as time passes by. If they survive bitter inside conflict among kin, not only the family enterprise but also the family nucleus suffer an evolutionary change (adaptation and development). The family-owned firm becomes then a family-controlled firm, professionalizing its management and creating new groups of products, divisions, or operations either geographically or locally. The main reason for this "evolution" from a family-owned enterprise to a family-controlled corporation is the fact that as time goes by, the family gets bigger.

Chandler (1977, p. 395) claimed that "[. . .] modern business enterprise required more managers than a family or its associates could provide." As seen, he took for granted that family firms will hire all and each one of their family members to work in the business. Nonetheless, he did not contemplate that this strategy will not only imply a sure conflict among family members in the mid-term, but also will hinder the firm growth and survival. In fact, as family enterprises grow, they not only hire just a few family members in order to manage the business, but also tend to employ non-family full time career managers. Rationale for this includes:

- Not all family members are qualified to work in the business, either because they do not have the skills, abilities or aptitudes required to fulfill the job, or because their interests are far-away from the enterprise (e.g. dancer, artist, etc.).
- As the family gets bigger – especially from founder to second generation – entrance rules are established (family constitution) in order to preserve peace among family members and avoid conflict.
- Demographic trends, as well as the changes in communication, transportation, and the expansion of markets, argue in favor of multi-faceted, multi-divisional, glocally based enterprises (operating internationally but focusing on local needs); the latter means that more people from diverse backgrounds is needed within the firm in order to compete.
- Professionalization of the family firm helps to overcome affective/emotional problems (conflict) arising among family members due to rivalries or different viewpoints (e.g. succession, policies, etc.), thus preventing a source of negative business performance.

Family business transitional stages: Chandler's Visible Hand *explanation*

Both researchers and consultants propose that the ownership configuration or stage of ownership evolution helps to explain family business behavior regarding management decisions and strategic professionalization (Buckley *et al.*, 2002; Gersick *et al.*, 1997;

Ward and Dolan, 1998). Consequently, if we study the family business ownership evolution we can understand when (at which stage) and why professional managers are (or not) needed.

In the family business arena, the most popular ownership configuration model describes three stages of ownership evolution: owner-managed, sibling partnership, and cousin collaborative (Ward, 1996). These stages have many variations, since they are framed within a generational context and depend upon the generations-in-charge ultimate decision regarding transferring property rights of the business, and management control of the operations and strategic direction.

According to Ward and Dolan (1998) owner-managed firms usually stress autocracy and they are tightly held by one or two company founders (or generation-in-charge). This is the stage from the start-up to entrance onto the business of a family member (Churchill and Hatten, 1997). As the ownership configuration progresses to include next generation members, the autocratic control style may either change (i.e. sibling partnership) or remain the same (i.e. owner-managed). When the ownership rights and managerial decision-making entitlement are passed on to one or two members of the next generation, the owner-managed ownership structure replicates itself (continuity over time).

Sibling partnerships are family companies where the ownership rights (effective control) are divided among a group of siblings. In order for these partnerships to work out, siblings must have the ability to work well together. This is often achieved through equality, whether in terms of recognition, title, ownership, etc. (Ward and Dolan, 1998). Sibling partnerships can be of two types: joint partners and controlling partner. In the first one, joint partners, the property rights are distributed more or less equally among two or more siblings (no one dominates control), while on the second one – controlling partner – one member of the ownership team has effective control over shares, with the other(s) sharing the rest of the rights (also called "first among equals" or "bother's keeper").

The cousin collaborative, cousin syndicate or cousin consortium stage characterizes itself due to a fragmented structure – ownership has been divided among several generations of extended family members. Its dynastic character and the fact that shares are distributed among a widespread number of cousins (different family branches) who do not actively participate in the business and who do not always agree on the strategic vision the company should take, usually call for management professionals (professionalization of the firm).

Families grow exponentially, while businesses develop linearly. Thus, at some point in time there are so many family members that the company simply could not support them all. It is precisely at this stage, when liquidity is low and dividends not enough, that conflict could be fired. In order to avoid it, many families opt for hiring professional managers, acting therefore just as shareholders (not directly involved in the firm operations). Figure 1 depicts the ownership transitions as mentioned.

According to Chandler (1977), before the appearance of the multiunit firm, "owners managed and managers owned." The latter meant that the entrepreneur alone (personal capitalism) and/or his associates (and families) who built the enterprise continued to hold the majority of the stock, retaining a major say in top management decisions hence impacting the business performance, e.g. financial policies, allocation of resources and the selection of senior managers. These corporations tended to remain single-unit enterprises which only hired a small number of managers with whom the

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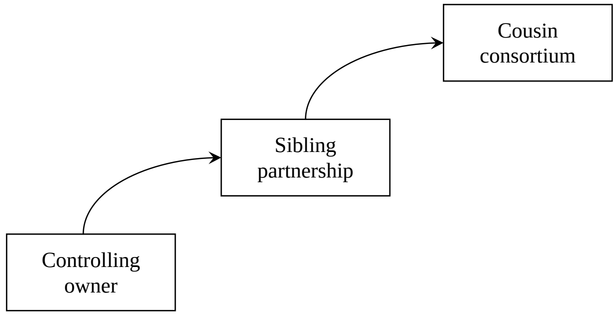

Source: Gersick, Davis, Hampton and Lansberg (1997)

Figure 1.
Evolutionary transitions between types of family businesses

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owners or associates had a close (personal) relationship. This kind of enterprise is what Chandler considered to be a family enterprise, pondering the sectors dominated by these firms a system of family capitalism.

As seen, this Chandlerian categorization of personal/family capitalism is similar, if not practically identical, to the single, owner-managed or controlling owner configuration stated by family business researchers. Personal/family capitalism includes single product (function), first-generation start-up-enterprises, where owners work, manage and decide important aspects of the operation. However, one important clarification family business researchers do when defining their ownership classification is the fact that these businesses not necessarily evolve in ownership structure as time and generations pass by. Some of them retain the same personal-family capitalism-controlling owner structure as they evolve and adapt to the environment.

Coming back to Chandler's (1977) insights, he suggested that as time passed by and more managers and money were needed in order to develop the firm, the relationship between ownership and management changed its structure. Owners had to look for financial institutions to provide the funds for the enterprise growth. The financial institutions providing the funds normally placed part-time representations on the firm's board. Their main objective was to analyze how the money was used and where it was going to be allocated. As a consequence, in these types of firms, owners, salaried managers, and financial institutions' representatives had to share top management decisions, especially those involving the raising and spending of capital (Carraher *et al.*, 2003). Chandler consider the sector controlled by this kind of enterprises one of financial capitalism.

In fact, Chandler explained what venture capitalists do nowadays: they invest private equity in a new, growth business in exchange for shares in the invested company. Owing to the fact that they have equity, they do have a say in top management decisions. And, even though this configuration is not precisely a sibling-partnership (as stated by family business investigators), it is similar in a way to this ownership structure since the stock is divided among various shareholders, being that the ownership rights are not in the hands of one controlling owner.

Being attached to a venture capitalist (financial institution) was not a long-term goal. Therefore, as these companies developed, they found out that other financial markets could be explored (i.e. stock exchange). As a consequence, neither bankers nor families were in control anymore. Ownership became widely scattered and diluted:

> The stockholders did not have the influence, knowledge, experience, or commitment to take part in the high command. Salaried managers determined long-term policy as well as managing short-term operating activities. They dominated top level management, as well as lower and middle management (Chandler, 1977, p. 395).

The system dominated by these firms was called managerial capitalism.

As family and financially controlled firms become larger and older, they generally become managerial ones (Chandler, 1977). Owners had not the time, information or expertise to play dominant roles in top management decisions:

> In time, the part-time owners and financiers on the board normally looked on the enterprise in the same way as did ordinary stockholders. It became a source of income and not a business to be managed. Of necessity, they left current operations and future plans to the career administrators [...] (Chandler, 1977, p. 395).

As could be perceived, this type of capitalism resembles the cousin consortium configuration, where the enterprise is already a mature firm, with diversified businesses and complex governance structures.

Thus, although Chandler (Chandler, 1977, p. 395) stated that " [...] managerial capitalism soon replaced family or financial capitalism", there is "[...] no universal reference [that] segregates family enterprise from whatever we might decide was non-family, remembering that family control may well accompany managerialism in complex firms" (Scranton, 1991, p. 102). That being true, Chandler's classification is not only applicable to conglomerates, but also to multigenerational, versatile and diversified family firms.

Integrated-reinterpreted framework

Chandler explained in 1977 – probably without being aware of it – what family business researchers (Gersick *et al.*, 1997) explained twenty years later: the family business evolutionary transitions. Family businesses move through a sequence of stages over time. These stages are intrinsically related to the family generation in charge, the ownership structure and the business development opportunities. Therefore, depending on the generation in charge (founder, second generation, third generation, etc.) the family ownership structure will vary. The business ownership configuration may turn from a controlling-owner stage (founder) to a sibling partnership (second generation), and latter on, to a cousin consortium (third generation); or on the other hand, it can stay the same for several generations (e.g. owner-managed → owner managed), or jump from one stage to another back and forth (e.g. owner-managed → sibling partnership → owner-managed). As these transformations occur, changes in the company itself also happen (e.g. start-up, formalized business, mature, and diversified enterprise).

Figure 2 illustrates the variables impacting family business transitions on the topic of ownership structure. When referring to ownership structure, we not only refer to the generally-used family-firm-ownership configurations, but also to Chandler's types of capitalism (personal-family, financial, and managerial). As seen, both frameworks resemble a lot, being similar in many ways.

The cube-framework presented above integrates the three networks family firms must balance in order to achieve growth – the family, the business and the management (stakeholders)/environment – as well as Chandler's ideas on ownership structures/types of capitalism:

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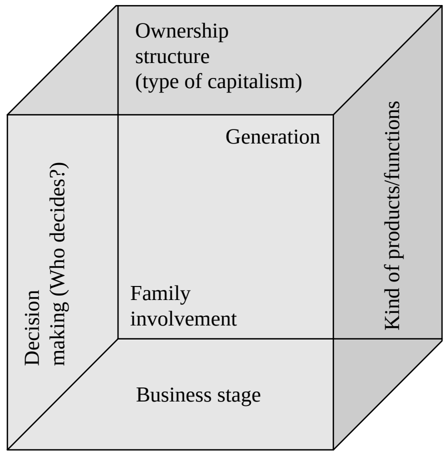

Source: Rosa Nelly Trevinyo-Rodríguez (2008)

Figure 2.
Integrated, reinterpreted framework on family business transitions using Chandler's ideas

(1) In the family network we have the following variables: the kind of family involvement and the generation in charge.

(2) Within the business network we include: the business stage and the kind of products or functions deployed.

(3) Inside the management/stakeholder (environment) network, we consider the decision-making framework within the enterprise (who decides).

When analyzing all and each one of the factors impacting the firm ownership-capitalism structure (within the different networks) displayed in the cube-framework, we get the following integrated and reinterpreted abridgment (Figure 3).

Single product/function	Multibusiness	Diversified business
Owner decision making	Managerial plus (+) shareholders (family)	Managerial plus (+) stakeholders
Work	Management	Governance
Start-up	Growth / Expansion	Mature firm
Founder 1st generation	Siblings 2nd generation (+)	Cousins 3rd generation (+)
Personal capitalism Family capitalism	Financial capitalism	Managerial capitalism

Source: Rosa Nelly Trevinyo-Rodríguez (2008)

Figure 3.
Chandler's insights on family business transitions

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Basically, we integrate the three ownership stages proposed both by Chandler and family business researchers, considering the evolutionary transitions and the factors affecting the firm's growth strategy. Figure 3 shows with dashed lines the transitions between stages. So, the first stage; the controlling owner or personal-family capitalism characterizes itself for being a start-up, single product or function business where the owner (usually first generation) works in the firm and heavily influences decision making about resources allocation. If growth is promoted and the business has to adapt to changes in the environment, a complex structure will be push forward. If this is the case, we will move to a sibling (generally second generation or further) financial capitalist frame, where the business is expanding geographically or becomes a multi-business (diversifying its products/functions). In this kind of developing enterprises, owners tend to become more managers than workers, since they do not control solely the ownership rights. Finally, when the business has become mature – big and diversified – and the third or further generation is in charge (cousins), there is a need to move forward to managerial capitalism, since it is not possible anymore to control the whole corporation without professional management.

For Chandler (1977) the corporation was the most important single economic organization in the American economy because of its functions and types of decisions made by its managers. And, although he considered it an evolution of the family business, he did not acknowledge the fact that corporations can be (as most of them are) family-controlled. Examples of these proliferate within the Forture 500 list. In fact, one of the companies that Chandler studied and adopted as an example of growth and diversification in his works, Du Pont, is even now, family-controlled (one member of the family is seated on the board of directors). Indeed, the Du Ponts are America's richest dynasty, and still run a network of companies around the world from their base in Delaware, a state which is controlled by the family.

The Du Pont case – ownership frames

The Du Pont Company, the most important chemical company in the USA, was founded in July 19, 1802; with French capital by Eleuthère Irénée (E. I.) du Pont. E.I. Du Pont de Nemours & Company, originally a gunpowder manufacturer on the banks of the Brandywine River, has become nowadays one of the world's most innovative firms. "It managed to do this because a succession of talented sons, nephews, and grandsons of E. I. du Pont were able to keep the business going" (Blair, 2003, p. 449).

After his death in 1834, the company changed its structure from a controlling owner stage to a sibling partnership. du Pont siblings, Alfred, Alexis, and Henry took charge of the family firm, buying the French stockholders (those who financed their father) in order to assure full-control of the enterprise.

In 1889 however, Henry A. du Pont, "who had ruled over the gunpowder empire with an iron fist" (Blair, 2003, p. 449) died, leaving control to his nephew Eugene du Pont (son of Alexis) who also believed in tight control of the firm, sharing little power with the next generation. In 1899, the firm was incorporated in the State of Delaware; however, the act of incorporation appears to have been just a technicality, with all the stock held by those family members who had been partners (Blair, 2003; Frazier Wall, 1990). Henry A. du Pont (a cousin of Eugene's) had pushed for incorporation as a mechanism to weaken the control, Henry had as president and sole executive officer of the partnership. And, although Henry. never led Du Pont, he was an important figure within the family company as a senior partner. In fact, his idea of reorganizing the partnership as a corporation in 1899 was intent to distribute control rights (Blair, 2003; Frazier Wall, 1990). According to the Delaware law at the time, the newly formed corporation would need a set of officers. Nonetheless, Eugene du Pont set as his main prerequisite for the incorporation the fact that he would still be president. There is no need to say that he continued unwilling to delegate authority.

When Eugene died in 1902, three young cousins Pierre, Alfred, and Coleman took over control of the one-century-old family business. The process they followed was indeed interesting. The fact is that when Eugene died, the elder members of the du Pont family feared that none of the next generation members had the qualifications to run the company; they feared that they might dissipate the wealth if they took over the management (Colby, 1984; Blair, 2003). After analyzing it a lot, the du Pont elder members reached a decision: they will sell their interests in the firm to their major competitor (at that time, Laflin and Rand). Yet, during a shareholders' meeting where the sell of the company should be approved, the three cousins Pierre, Alfred, and Coleman stepped forward to ask if they could buy the company from their older relatives (surviving partners). They did, transforming it from an explosives manufacturer into a science-based chemical company:

> The junior members of the clan bought out the position of the senior members for notes worth $12 million and 28 percent of the common stock in the newly reorganized firm (Blair, 2003, p. 450; Colby, 1984).

Although a widely respected company but also weighted down by tradition, the young cousins modernized company management, built research labs, and marketed new products like paints, plastics and dyes. Pierre and Coleman possessed financial expertise and led the family company to unprecedented success; Coleman was president, Pierre treasurer, and Alfred vice-president of E.I. Du Pont de Nemours & Company. The company was reincorporated in 1903 in New Jersey (whose corporate law by then permitted corporations to own the stock of other corporations), consolidating all the various firms of the Du Pont company into a single firm. In addition, Pierre, Alfred, and Coleman reorganized the company: they established an executive committee and a fifteen member board of directors (consisting of the three cousins plus four other members of the executive committee, three members of the elder generation and five directors who were minority shareholders).

In 1915, a group headed by Pierre, which included outsiders, bought Coleman's stock. Alfred was offended and sued Pierre for breach of trust. The case was settled in Pierre's favor but his relationship with Alfred suffered greatly and they did not speak after that. Pierre served as Du Pont president until 1919, giving the company a modern management structure, modern accounting policies and made the concept of return on investment primary.

During World War I, the company grew a lot due to advance payments on Allied munitions contracts. The Du Pont's made over $250 million in profits from World War I (Colby, 1984). As chief supplier to the Allies, Du Pont shipped an astonishing 1.5 billion pounds of explosives. By the war years, there was an active market for Du Pont shares, and the stock soared to $775 from $182 (Lowenstein, 1999). Du Pont supplied the Allies with about 40 percent of needed explosives which transformed the company into a giant in just four years.

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It was during this time that members of the du Pont family created a holding company named Christiana Securities (Christiana) as a means of liquidating some of their substantial holdings in E.I Du Pont de Nemours & Company without diminishing their control of the corporation. They wanted to preserve family control of the company. The three brothers, Pierre, Irénée, and Lammot, owned more than two-thirds of Christiana. Pierre was President; Irénée was treasurer and Lammot vice-president. Nephew Belin du Pont was secretary and there were but three other directors: A. Felix du Pont, R.R.M. Carpenter, and John J. Raskob.

Named after a tributary in Delaware, Christiana Securities held 3,049,000 shares of Du Pont common stock, constituting 27.56 percent of the 11,000,000 odd shares outstanding. On July 1, 1935, the Christiana holdings had a value on the New York Stock Exchange of $307,949,000 (Winkler, 1948). Christiana Securities, the family holding company for Du Pont, was later (under antitrust pressure from the Justice Department) merged into Du Pont during 1977.

Today, it is certain that fewer than 20 individuals, most of them du Pont's and in-laws, own more Du Pont stock than do all of its 51,865 stockholders. Table I shows the current board of directors of the company.

Discussion and conclusion

During the first three generations (1802-1902), the Du Pont company ownership structure shifted first from a controlling-owner/personal-family capitalism configuration to a sibling-partnership (from a controlling partner type)-financial capitalism one, turning then again to an owner-managed-personal/family capitalism structure.

In 1902, when Eugene died, the configuration changed dramatically: it jumped directly to a cousin consortium – managerial capitalism (Pierre, Alfred, and Coleman). The latter may have been driven by the idea of the elder generation to sell the company and by the financial requirements that buying it implied from the next generation, as well as from the modernization and diversification the cousins set up. From there on, the company has maintained its managerial capitalism arrangement-cousin consortium structure: even though the company has many shareholders, it is still being controlled (and sometimes managed) by a small group of the Du Pont family members.

Table I. Current board of directors-Du Pont company

Current Board of Directors	
Charles (Chad) O. Holliday	CEO – has been with Du Pont of more than 30 years
Bertrand P. Collomb	Honorary Chairman of Lafarge
Curtis J. Crawford	President and Chief Executive Officer of XCEO, Inc
John T. Dillon	Retired Chairman and CEO of International Paper, Vice Chairman, Evercore Capital Partners
There du Pont	Senior Vice President – Operations and CFO of Drugstore.com
Marillyn Hewson	Executive Vice President, Global Sustainment of Lockhead Martin
Lois D. Juliber	Retired Vice Chairman of Colgate-Palmolive Co.
Masahisa Naitoh	Chairman and CEO of The Institute of Energy Economics, Japan
Sean O'Keefe	Chancellor Emeritus of Louisiana State University and A&M College
William K. Reilly	President and CEO of Aqua International Partners Lp

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Considering the fact that the Du Pont Company is precisely the kind of company that Chandler considered as an example to follow – he rewarded it as one of the most innovative, well-organized and structured (M-form) corporations – we conclude that what drove him to criticize the family business managerial structure is in fact the narrow family firm definition and scope he possessed.

For him, a local, small firm handling a single product or function was a synonym of a family firm. He did not consider the fact that family firms also evolve and become family-controlled enterprises. In fact, full family ownership is not necessary for a family to control the board of directors of an enterprise. The Du Pont case is indeed an example. One of the key success factors that helped the du Pont family to keep the business going is that they kept their wealth invested in the firm, adapting their ownership structures in order to continue managing and owning the conglomerate.

Nonetheless, even when Chandler did not consider family firms as possible future corporations, his transitional stages – from personal to managerial capitalism – apply to the evolutionary process these businesses pass through as they grow and set up new divisions, associated firms and/or just new product lines.

Application for scholars and practitioners

"Family firms" as a field of study has been depicted as extremely young. In fact, scholars and practitioners tend to think that what is written in the area was developed in the last 30 years. Nonetheless, we do not agree. Family firms have existed since the beginning of our era, and management scholars have written a lot about them. The aim of this paper was to illustrate that even when concepts and ideas between different areas seem distant regarding conceptualization and utilization, they may be really close. As seen Chandler insights about the different types of enterprises (capitalism) was definitely applicable to the family firm field, becoming in fact, the basis for the ownership structure transitional configurations. Scholars should be aware of the classic readings and see how they apply in modern times, especially how the gaps between disciplines could be filled. On the other hand, practitioners could consider reading in depth different historical perspectives of management development since these insights can contribute to their job development (applied solutions). It should be interesting to study how other management authors have contributed – probably without knowing it – to the development of other areas of knowledge. History could be a variable that helps bridging the gaps between management and other fields.

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