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A historical investigation of the strategic process within family firms

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Abstract

Purpose – The primary purpose of this paper was to perform an in-depth analysis of the strategic process that occurs within family firms.

Design/methodology/approach – This study analyzed the historical development of the growth strategies of four family firms in the US, Finland, and Sweden.

Findings – The results of this study suggest that family firms typically adopt conservative strategies in the early part of their life cycle. During their formative years, family firms often implement financially conservative strategies and place an emphasis on maintaining tight control of the strategic decision-making process within the family unit. However, the competitive pressures experienced by family firms over time often force these companies to embrace a more entrepreneurial posture during the latter stages of their life cycle.

Research limitations/implications – The stage in the company life cycle plays an important role in determining the strategic behavior of family firms. Future research aimed at replicating the results of this study may help shed further light on the strategic process that occurs within family firms.

Practical implications – Although the firms examined in this study were from various cultures, their strategic development over time was very similar. This tentatively suggests that the evolution of the strategic process that occurs within family firms may be generalizable across cultures.

Originality/value – Our findings indicate that there may be an important distinction between family firms and entrepreneurial organizations. That is, all family firms are not necessarily entrepreneurial, especially early on in their company life cycle.

Keywords Family firms, Paper industry, Entrepreneurs, Sweden, Finland, United States of America

Paper type Research paper

Introduction

Entrepreneurial researchers have long realized that the strategic planning process that occurs within family firms may differ from that which occurs in other types of

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organizations (Jones, 1982; Ward, 1988; Zahra *et al.*, 2004). However, recent research suggests that our knowledge of the strategic process in family firms is still quite limited (Steier *et al.*, 2004; Upton *et al.*, 2001). Specifically, scholars have suggested that more research needs to be conducted assessing the manner in which family firms develop their strategies for growth (Sharma *et al.*, 1997; Teal *et al.*, 2003). Accordingly, the primary purpose of this paper was to analyze the manner in which family firms in a variety of cultures developed their growth strategies over time.

In order to achieve this objective, we traced the historical and strategic development of four family firms in the paper and pulp industry. These companies represented three different countries: the US (Gulf States Paper Corporation), Finland (Ahlstrom and Schauman), and Sweden (MoDo). An analysis of the companies' enacted strategies provided insights into the growth strategies that these firms have employed over time. Thus, a major portion of the paper examined the evolution of strategies that occurred in family firms in a variety of cultural settings. The cultural diversity of the sample was particularly important, given research suggesting that cultural attributes play an important role in determining the growth strategies employed by family firms (Yeung, 2000).

Specifically, the major strategic actions that these four companies have enacted since their founding were classified along two dimensions. The first dimension examined the strategic actions employed by these companies in relation to their competition. The primary focus was on whether or not the actions occurred in the internal or external arena. The second dimension categorized the type of action that was enacted, and whether it was an opening or closing action. Particular emphasis was placed on the emergent strategies that developed within these companies in response to the many environmental pressures that exist in the paper and pulp industry (Mintzberg and Waters, 1982, 1985).

Theoretical development

In this paper, we defined a family firm as a "business governed and/or managed with the intention to shape and pursue the vision of the business held by a dominant coalition controlled by members of the same family or a small number of families in a manner that is potentially sustainable across generations of the family or families" (Chua *et al.*, 1999, p. 25). As such, a family firm can be characterized by two main attributes:

- (1) it is controlled by a family or group of families; and
- (2) this family/families wishes to maintain control of the firm for an extended period of time.

Thus, it was expected that family firms would be more long-term in their strategic orientation than other types of organizations.

Family businesses have been and still are a central element in most economies. For example, most companies in Western Europe and in the US can be viewed as family firms. Family firms are usually defined as business units, owned and governed mainly by one family or kin. However, this does not necessarily mean that the operative leadership is also in the hands of the family. Furthermore, the close interaction between family and firm, as well as the continuity and succession of the firm from one generation to another, are usually understood as determinants of the success of family firms (Casson, 1982; Colli, 2003; Koironen, 1998; Schulze *et al.*, 2003).

Casson (1999) stresses that some of the features typically associated with family firms are a small to medium size, organic growth through reinvested profits (rather than takeovers and mergers), avoidance of stock market finance, reliance on banks merely for short-term credit, and internal management succession. As Ward (1988) noted, family and family business cannot be understood separately. What is good for the family is good for the business – and vice versa. The continuity of the family firm is an essential question at the time of succession (Pollard, 1965; Rose, 1993).

Family firms often display certain benefits and drawbacks when viewed over an extended period of time. Family firms can be seen as dynamic entities due to the personal commitment of the owner (Casson, 1982; Rose, 1993). Another advantage is often the long-term orientation, personal style of management, independence from the resources outside of the family, family identity and culture, and lower levels of bureaucracy. Some of the primary disadvantages are problems related to financing (especially within the larger companies), and related to that, constrained growth possibilities, as well as autocratic management (as a result from lesser bureaucracy), conservatism, nepotism, family/kin feuds, and problems within the successions process (Casson, 1999; Koironen, 1998).

This study examined the development of growth strategies within family firms in a variety of cultures. Specifically, this study explored whether the development of growth strategies in family firms more closely mirrors the strategic process that occurs in entrepreneurial organizations or living companies. While there tends to be an implicit assumption that family firms are entrepreneurial in the formation and implementation of organizational strategies, this may in fact be an inaccurate assumption. The extant literature posits that entrepreneurial organizations exist primarily with short-term profit goals in mind, while family firms are most concerned with the long-term survival of the organization. Drawing primarily upon the entrepreneurship and small business literature, this paper performed an in-depth analysis of the organizational strategies enacted by four family firms throughout their existence in an effort to answer this intriguing question.

The strategic characteristics of entrepreneurial firms

Organizational researchers have often conceptualized entrepreneurial organizations as possessing three main characteristics: risk-taking, innovation, and proactiveness (Covin and Slevin, 1989; Miller, 1983; Miller and Friesen, 1982). Such an entrepreneurial orientation is demonstrated by the “extent to which top managers are inclined to take business-related risks (the risk-taking dimension), to favor change and innovation in order to obtain a competitive advantage for their firm (the innovation dimension), and to compete aggressively with other firms (the proactiveness dimension)” (Covin and Slevin, 1988, p. 218).

The concept of risk-taking has long been associated with entrepreneurship. Early definitions of entrepreneurship centered on the willingness of entrepreneurs to engage in calculated business-related risks (Brockhaus, 1982). In the 1800s, John Stuart Mill argued that risk-taking was the paramount attribute of entrepreneurs (Brockhaus, 1982). This view of entrepreneur as risk-taker continued to gain support throughout the twentieth century, as McClelland (1960, p. 210) posited that “practically all theorists agree that entrepreneurship involves, by definition, taking risks of some kind”. Research also suggests that entrepreneurs tend to categorize business situations as possessing less risk than non-entrepreneurs (Busenitz, 1999; Palich and Bagby, 1995).

Other researchers considered innovation to be at the very heart of entrepreneurship (Covin and Miles, 1999; Jennings and Young, 1990; Schollhammer, 1982; Schumpeter, 1934). Entrepreneurial innovation can be defined as the “willingness to support creativity and experimentation in introducing new products/services, and novelty, technological leadership and R&D in developing new processes” (Lumpkin and Dess, 2001, p. 431). Schumpeter (1934) was one of the first scholars to argue that innovation, as evidenced by the creation and development of new products and processes, was the fundamental undertaking of the entrepreneurial organization. Jennings and Young (1990) defined corporate entrepreneurship as the strategic process of developing new products and/or markets. Covin and Miles (1999) theorized that innovation was the single most critical factor in defining corporate entrepreneurship.

A third strategic characteristic frequently associated with entrepreneurial firms is proactiveness. The preponderance of research that has been done on the topic posited two main attributes of proactiveness:

- (1) aggressive competitive behavior directed at rival firms; and
- (2) the organizational pursuit of favorable business opportunities (Knight, 1997; Lumpkin and Dess, 2001; Stevenson and Jarillo, 1990).

Knight (1997, p. 214) argued that the emphasis of proactiveness is on “aggressive execution and follow through, driving toward achievement of the firm’s objectives by whatever reasonable means are necessary”. Stevenson and Jarillo (1990) conceptualized proactiveness as the organizational pursuit of business opportunities that were deemed by the firm to be positive or favorable. This view is consistent with a recent definition offered by Lumpkin and Dess (2001, p. 431), in which proactiveness is viewed as an “opportunity-seeking, forward-looking perspective involving introducing new products or services ahead of the competition and acting in anticipation of future demand to create change and shape the environment”.

The strategic characteristics of living companies

A competing view of the firm is based on the premise that long-term survival, not financial performance, should be utilized to ultimately judge the success of an organization (Brenneman *et al.*, 1998; de Geus, 1997). de Geus (1997) described companies that were successful over the long-term as “living companies”, firms that were able to adapt and evolve throughout their history. de Geus (1997) drew a “distinction between ‘economic companies,’ which are run as profit machines, and ‘living companies,’ whose primary purpose is to survive and perpetuate themselves as ongoing communities” (Stamps, 1997, p. 76). de Geus (1997, p. 52) noted that:

... mounting evidence suggests that corporations fail because their policies and practices are based too heavily on the thinking and the language of economics ... companies die because their managers focus exclusively on producing goods and services and forget that the organization is a community of human beings that is in business – any business – to stay alive.

de Geus (1997) claimed that the majority of organizations that were able to survive and prosper over long periods of time often shared many of the same characteristics. According to de Geus, these successful organizations shared four specific attributes in common with one another:

- (1) financial conservatism;
- (2) sensitivity to the world around them;
- (3) awareness of their identity; and
- (4) tolerance of new ideas.

These characteristics did not just describe the strategies employed by these companies, but they described the entire mindset of the corporation. Organizations that embraced these values were more likely than other firms to enjoy long-term success, as “these four traits form the essential character of companies that have functioned successfully for hundreds of years” (de Geus, 1997, p. 54).

The first characteristic of these organizations, financial conservatism, allowed these companies to save spare money that might be useful in the pursuit of future business opportunities. Instead of spending their money all at one time and in a haphazard manner, financially conservative organizations invested their money carefully and only after putting a great deal of thought into the investment. Such companies “understood the meaning of money in an old-fashioned way; they knew the usefulness of spare cash . . . money in hand allowed them to snap up options when their competitors could not” (de Geus, 1997, p. 53).

Sensitivity to the world around them was the second characteristic of living companies. These companies were able to learn from and adapt to their external environment. Even though the environment was constantly changing around them, these firms maintained flexible strategies and an open-minded posture that allowed them to change with the environment. A living company recognized that it “can not control its environment. Rather it must learn to continuously adapt to it” (Kelly, 1997, p. 96). The open-minded exchange that existed between organizations and their environment allowed these firms to “adapt themselves to changes in the world around them . . . they were good at learning and adapting” (de Geus, 1997, p. 54).

According to de Geus (1997), the third characteristic that helped organizations to achieve long-term prosperity was an awareness of their own identity. In other words, everyone involved with the organization felt like they were part of a larger community, that the actions of individuals were all part of a larger whole. This sense of community helped bring together employees and managers, helped decrease divisiveness between different divisions within corporations, and helped nurture relationships between corporations and their customers. At the most basic level, individuals within these firms embodied a “feeling of belonging to an organization and identifying with its achievements . . . case studies repeatedly show that a sense of community is essential for long-term survival” (de Geus, 1997, p. 54).

The final characteristic of “living companies” is that they tend to be tolerant of new and innovative ideas. Instead of fearing the unknown, these companies thrive on uncertainty and realize that opportunity is often the twin sister of change. While other companies become tied to old ideals and established practices, living companies are willing to try new things in an effort to improve their current standing. The emphasis on trying new ideas and experimenting with new concepts stresses the important role that learning plays within these organizations (Brenneman *et al.*, 1998; de Geus, 1997). The willingness of these companies to experiment and to develop innovative products and processes often allows them to take a position of technological leadership within their industry.

Sample

Four family firms were included in these analyses. Information was collected from personal interviews, company documents, and various other external sources (i.e. newspapers, the internet, books, etc.). A list of the strategic actions enacted by each firm since it is founding was then compiled. Utilizing these strategic actions, three time periods were determined for each firm that corresponded with the firm's:

- (1) inception and early strategic period;
- (2) primary growth period; and
- (3) mature strategic period.

This was done in order to determine each firm's primary strategic focus during different times in the company's history. It was expected that this focus (as evidenced by the strategic actions implemented by the firm during each time period) would evolve in each company over time. A brief description of each of the four family firms utilized in this study follows.

Gulf States Paper Corporation (United States)

Gulf States Paper Corporation is a privately held company that currently employs approximately 3,000 employees in ten states. The company is the third largest US supplier of SBS paperboard for folding cartons, is among the nation's top ten folding carton manufacturers, and is a major lumber producer (www.gulf-states.com). In 1998, the company's annual revenues were approximately \$500 million. Founded in 1884, the company has experienced slow but steady growth over its nearly 120 years of existence. The company has also continued to diversify its operations and expand its strategic vision during this time period. Gulf States Paper, headquartered in Tuscaloosa, Alabama, has diversified into new product areas in the twentieth century. The company currently consists of five distinct operating divisions:

- (1) natural resources;
- (2) wood products;
- (3) pulp and paperboard;
- (4) paperboard packaging; and
- (5) business solutions.

Ahlstrom (Finland)

Ahlstrom Corporation has annual net sales of approximately \$2 billion and has almost 7,000 employees (www.ahlstrom.com). Founded in 1851, Ahlstrom has long been one of the largest industrial corporations in Finland. Ahlstrom's first paper mill was founded in 1907 (Kauttua) and its first pulp mill in 1917 (Varkaus). Though the company has diversified into several sectors, it has mainly operated within the wood-processing cluster. Today, the company is a leader in high performance fiber-based materials serving niche markets worldwide. One of the most critical decisions in Finnish industrial history was made in 1987, when Ahlstrom unexpectedly sold its paper-producing units, and concentrated instead on producing its niche products. The owners of the company are today the fourth through sixth generations after the founder Antti Ahlström (1827-1896). At the moment, the company is going through a

profound structural change: the company was split into three parts in June 2001. According to the strategic plan of Ahlstrom Corporation, the ownership share of the family members will be diminished over the next several years. Though these plans were made in the late 1990s, they were still not fully carried out as of August 2005. Meanwhile, Ahlstrom has continued its concentration on fiber-based speciality materials, such as investments in new production capacity in Germany in 2003.

Schauman (Finland)

The Finnish pulp and paper producing company Schauman ceased to exist in 1987 when it was merged with Kymmene Corporation. Today, the production plants of Schauman are part of the UPM-Kymmene Corporation, one of the leading paper producers in the world. During its last operating year (1987), Schauman's net sales were approximately €500 million and the company had 7,000 employees. Although Schauman was clearly only a minor player among the major Finnish companies, it still ranked among the top-20 largest Finnish enterprises from the 1920s onward. Schauman, founded in 1883, concentrated during the early twentieth century on saw milling and plywood production. It entered the pulp industry in the 1930s and paper producing in the 1960s. The company went through a structural change in the 1970s, becoming one of the most essential (market) pulp producers in Finland. For example, the pulp production capacity of Schauman in 1985 was the third largest in Finland composing approximately 10 percent of the total. The investments to the new production capacity were, however, too overwhelming for a family owned company. As an outcome of these bold investments, the company incurred a large amount of debt, which in turn led to the merger in 1987.

MoDo (Sweden)

MoDo was founded in 1872 by the Kempe family. The company, although publicly listed, was controlled by the same family until 1990. As a result of a takeover attempt, the family was forced to sell their majority share of the company in 1990. At that time, the company's major operations were sawn timber, office paper, newspaper, pulp, and folded cardboard. At the end of 1990, the company's core business was merged with SCA's office paper and a reborn company, MoDo Paper, went public. MoDo Paper was at that time focusing on pulp and office paper. In 2001, MoDo Paper was merged with M-Real, a company controlled by the forest owner's cooperative in Finland. M-Real currently employs approximately 22,000, of which 16,000 work outside Finland. Today, MoDo Paper is fully integrated in M-Real's home and office business division.

Methods

As is typical in historical research, we preferred a research strategy that combined different longitudinal methods. In the literature, this approach is seen as being especially appropriate when researching issues that are relatively inadequately understood (Glaser and Strauss, 1967). The aim of such inquiry is to facilitate theorizing through a careful examination of relevant data collected from multiple sources, validated both by extant theories and ongoing re-encounters with the data (Eisenhardt, 1989). As the purpose of the analysis was to both "track" realized strategies and to interpret the logic behind these trajectories, we pursued a multi-method study.

Following earlier studies analyzing patterns of strategy (Miller and Chen, 1994; Mintzberg and Waters, 1982; Murmann, 2003), we engaged in a research process typical in comparative case analyses (Yin, 1989). The quantification part of the study followed the logic of a tight research design in which the coding scheme plays an important role. On the contrary, we also engaged in more inductive narrative analyses in order to enhance the validity of our interpretation. This essentially follows the example of Mintzberg and Waters (1982) when attempting to find the change patterns in strategies but equally the mechanisms driving them. It is also important to note that our study is not seeking a full historical account of the particular companies as much as an understanding of the nature of family owned companies.

Data

The material for the analysis of strategic patterns is a combination of archival material including industry statistics and calendars as well as annual reports and company internal materials. During the research process, we engaged in intensive utilization of various non-public, as well as public, archival materials in the cases of the chosen firms. We started our data collection by examining a variety of public sources such as company histories and magazine articles describing the historical development of the companies. Simultaneously, we collected annual reports and relevant trade statistics. We used this material both for historical understanding of the companies' development and for identification of the strategic actions. In defining strategic actions, we followed Miller and Chen (1994) who refer to:

... [including] major facilities expansions, mergers and acquisitions, strategic alliances, and important new products or services ... strategic actions involve a larger expenditure of resources, a longer time horizon, and a greater departure from the *status quo* than do tactical actions (Miller and Chen, 1994, p. 2).

Third, we engaged in an extensive examination of non-public archival material focusing on strategic issues at the corporate level. This material includes protocols, correspondence, consulting reports, financial information, and other data linked to the strategic management of the companies.

Analysis

Our analysis started with an inductive historical analysis of the company development paths. During this phase, we wrote four independent case histories that holistically described the different strategies and structural solutions undertaken. This effort produced an understanding of the prime characteristics of the studied companies *vis-à-vis* their competitive and institutional environments and, more generally, the essential logic driving the different actions undertaken through their history. After the initial analyses, we analyzed the patterns of realized strategies. In doing so, we followed the tradition in competitive dynamics literature (Chen and Hambrick, 1995; Hambrick *et al.*, 1996) in plotting strategic actions and situating them in chronological order. As is typical in competitive dynamics research, we utilized an industry-specific code scheme that has been used in similar research settings.

The paper and pulp industry represents a mature line of business with high entry and exit costs, which significantly affects the strategic possibilities that firms possess. Each of the four firms' strategic actions was categorized according to the classification scheme developed by Näsi *et al.* (1998). First, each strategic action was categorized as:

- internal, peaceful (such as buying a new plant);
- internal, tense (such as lowering employee salaries);
- external, peaceful (such as forming an alliance); or
- external, tense (such as breaking off a cooperative agreement).

Second, each strategic action was also categorized as an:

- acquisition;
- sale;
- merger;
- breaking up of a company (merger);
- alliance; or
- breaking off of cooperation (alliance).

These two dimensions provided insights into the nature of a firm's strategic vision during a particular period in the company's history, or more specifically, whether the firm's strategies tended to be focused more so on the internal operations of the company or on the firm's external environment[1]. The identification of actions was conducted by the same researchers that analyzed the historical development of each company. To avoid differences in deciding which actions should be chosen two members of the research group assessed the initial lists of actions and made the final decisions. Similarly, the coding was conducted by the individual researchers but verified by two researchers. Finally, the action databases were combined for the initial data analysis and finally for the analysis of the evolution of the strategic patterns.

Results

An analysis of the arena in which the four family firms' strategic actions took place provides support for the conclusion that these companies have become more outward-looking in orientation over time (Table I). While approximately 70 percent of their total strategic actions during the first two periods took place in the internal arena, this percentage fell to approximately 50 percent during the third-time period. The number of external, peaceful actions employed by the companies approximately doubled during the third period. The number of external, tense actions also increased significantly, from around 12 percent of the companies' total actions during the first-time period to approximately 22 percent of the actions over the third period. Overall, this suggests that family firms tend to become more willing to perform external strategic moves over time.

The types of strategic actions practiced by these companies have also continued to evolve over time (Table II). While acquisitions and sales constituted the primary strategic actions in all three-time periods, the emphasis on alliance formation grew significantly as the companies matured. The percentage of alliances formed by the four companies doubled from the second- to third-time period, increasing from approximately 9 to 20 percent. Compared to the strategies employed by these companies during their early existence, they appear to have become much more outward looking and proactive in their strategy formation over time. This also suggests that strategic alliances are one important way that family firms cope with increasing environmental pressures as they reach the maturity phase of their company life cycle.

	Internal, peaceful	Internal, tense	Total internal	External, peaceful	External, tense	Total external
<i>Gulf States</i>						
Period one	31 (60)	7 (14)	38 (74)	6 (12)	7 (14)	13 (26)
Period two	27 (61)	11 (25)	38 (86)	4 (9)	2 (5)	6 (14)
Period three	7 (37)	2 (11)	9 (48)	6 (31)	4 (21)	10 (52)
<i>Ahlstrom</i>						
Period one	24 (50)	13 (27)	37 (77)	7 (15)	4 (8)	11 (23)
Period two	26 (54)	6 (12)	32 (66)	8 (17)	8 (17)	16 (34)
Period three	7 (13)	23 (44)	30 (57)	18 (34)	5 (9)	23 (43)
<i>Schauman</i>						
Period one	24 (50)	13 (27)	37 (77)	7 (15)	4 (8)	11 (23)
Period two	13 (52)	7 (28)	20 (80)	2 (8)	3 (12)	5 (20)
Period three	14 (31)	16 (36)	30 (67)	8 (18)	7 (15)	15 (33)
<i>MoDo</i>						
Period one	1 (7)	4 (27)	5 (34)	5 (33)	5 (33)	10 (66)
Period two	1 (4)	4 (17)	5 (21)	6 (25)	13 (54)	19 (79)
Period three	3 (8)	6 (16)	9 (24)	10 (27)	18 (49)	28 (76)
<i>Total</i>						
Period one	80 (49)	37 (23)	117 (72)	25 (16)	20 (12)	45 (28)
Period two	67 (47)	28 (20)	95 (67)	20 (14)	26 (19)	46 (33)
Period three	31 (20)	47 (31)	78 (51)	42 (27)	34 (22)	76 (49)

Notes: Gulf States Paper – period one: 1884-1929, period two: 1930-1979, period three: 1980-2001; Ahlstrom – period one: 1908-1944, period two: 1945-1983, period three: 1984-2000; Schauman – period one: 1911-1944, period two: 1945-1968, period three: 1969-1987; MoDo – period one: 1945-1960, period two: 1961-1980, period three: 1981-2000; Numbers in parentheses are percentages

	Acquisition	Sale	Merger	Breaking up company	Alliance	Breaking off cooperation
<i>Gulf States</i>						
Period one	14 (61)	9 (39)	0 (0)	0 (0)	0 (0)	0 (0)
Period two	5 (50)	4 (40)	1 (10)	0 (0)	0 (0)	0 (0)
Period three	3 (30)	1 (10)	1 (10)	0 (0)	4 (40)	1 (10)
<i>Ahlstrom</i>						
Period one	25 (54)	9 (20)	3 (7)	0 (0)	9 (20)	0 (0)
Period two	45 (76)	8 (14)	1 (2)	0 (0)	5 (8)	0 (0)
Period three	47 (49)	21 (22)	1 (1)	0 (0)	27 (28)	0 (0)
<i>Schauman</i>						
Period one	14 (52)	6 (22)	1 (4)	0 (0)	4 (15)	1 (4)
Period two	15 (60)	2 (8)	2 (8)	0 (0)	5 (20)	1 (4)
Period three	32 (67)	11 (23)	1 (2)	0 (0)	4 (8)	0 (0)
<i>MoDo</i>						
Period one	2 (33)	1 (17)	0 (0)	0 (0)	2 (33)	1 (17)
Period two	15 (75)	5 (25)	0 (0)	0 (0)	0 (0)	0 (0)
Period three	7 (28)	16 (64)	1 (4)	0 (0)	1 (4)	0 (0)
<i>Total</i>						
Period one	55 (54)	25 (25)	4 (4)	0 (0)	15 (15)	2 (2)
Period two	80 (70)	19 (16)	4 (4)	0 (0)	10 (9)	1 (1)
Period three	89 (50)	49 (27)	4 (2)	0 (0)	36 (20)	1 (1)

Notes: Gulf States Paper – period one: 1884-1929, period two: 1930-1979, period three: 1980-2001; Ahlstrom – period one: 1908-1944, period two: 1945-1983, period three: 1984-2000; Schauman – period one: 1911-1944, period two: 1945-1968, period three: 1969-1987; MoDo – period one: 1945-1960, period two: 1961-1980, period three: 1981-2000; Numbers in parentheses are percentages

Table II.
Types of strategic actions

Discussion

Taken together, the four characteristics of living companies are extremely similar to many of the attributes typically associated with family firms. Family firms are often financially conservative, since a common rationale given for the creation of a family firm is to provide for several generations of family descendents. These firms also tend to have very strong identities, and maintain a willingness to adapt to the world around them, all characteristics associated with de Geus's (1997) "living companies". As such, it was expected that the four family firms in this study would embody many of the same characteristics posited for these types of organizations. The primary focus of this study was to answer the question of whether family firms typically adopt growth strategies more closely associated with entrepreneurial organizations or living companies.

Throughout the early part of their history, these four organizations embodied many of the characteristics often associated with living companies. The firms in our sample tended to enact financially conservative strategies, and were willing to spend money when need be, but also tried to avoid excessive amounts of corporate spending. The geographic expansion of these firms and the diversification of their product lines indicate that the companies were willing to adapt to changes in their external environment. However, these companies did not embody the prototypical characteristics of entrepreneurial firms during their early years. They were neither overly willing to take risks nor were they extremely proactive in their decision-making.

During the early part of their existence, they tended to be tightly managed companies that maintained a very inward-looking perspective. However, the companies tended to become more involved in proactive behaviors (alliances, joint ventures, etc.) as they matured. As such, a strong case can be made that these companies became more entrepreneurial over time.

Throughout their evolution, the strategies enacted by these four companies have been formulated with two main issues in mind:

- (1) security; and
- (2) control.

The financial conservatism that has been so typical of these companies, as well as the lack of willingness by top management to take extreme risks, has been an effort to maintain their financial security. The continuous diversification of their product lines has also helped diminish the companies' overall risk of poor economic performance (Freeman and Hannan, 1983). The more recent use of mergers and acquisitions in the face of environmental pressures is also a common strategy employed by organizations in uncertain environments (Freeman *et al.*, 1983; Hannan and Freeman, 1977). The second goal of the companies appears to have been maintaining the ownership of the firm within the family unit.

Implications

The results of this study suggest that family firms typically adopt conservative strategies associated with "living companies" in the early period of their strategic growth. During their formative years, family firms often implement financially conservative strategies in an effort to conserve their limited resources. Such firms also place an emphasis on maintaining tight control of the strategic decision-making process within the family unit. This is not surprising, given previous research suggesting that the primary focus of family firms is on "maintaining family control and avoiding debt" and that family firms often maintain a long-term strategic perspective (Upton *et al.*, 2001, p. 62).

However, this study also suggests that increasing environmental pressures often force family firms to embrace a more entrepreneurial posture as the company matures. Over time, these firms tended to make riskier investments and often undergo a transition from family management to professional management. It is interesting to note that, while each of the firms in this study tended to become more entrepreneurial over time, several of the firms were more successful in doing so. For example, Ahlstrom has continued to expand and grow and is a significant player in its respective industry. Also, Ahlstrom is currently in the process of being transformed to a listed company. Gulf States has experienced modest levels of growth, but still remains primarily a regional player. On the other hand, Schaumann and MoDo both merged with other companies. While this study has primarily examined the historical development of growth strategies within family firms, future research should examine the various environmental and competitive factors that impact the success of these chosen strategies.

This study has several important implications. First, it appears that the stage in the company life cycle plays an important role in determining the strategic behavior of family firms. These results suggest that family firms tend to be very conservative and

inward looking during their early years, but become more entrepreneurial over time. This study also suggests that family firms tend to maintain a long-term orientation when crafting and executing their organizational strategies. Second, even though the firms considered in this study were from various cultures, their strategic development over time was very similar. This tentatively suggests that the evolution of the strategic process that occurs within family firms may be generalizable across cultures. Third, our findings indicate that there may be an important distinction between family firms and entrepreneurial organizations. That is, all family firms are not necessarily entrepreneurial. This research suggests that, at least early in their history, family firms may embrace conservative strategies as a means of maintaining tight control over the company. Future research aimed at replicating the results of this study may help shed further light on the formation of growth strategies that occurs within family firms.

Note

1. The elements of the code scheme are specified in Lamberg (2005).

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