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Entrepreneurial Management and Governance in Family Firms: An Introduction

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Many organizations, ranging from small entrepreneurial start-ups to large, multi-business and multi-national enterprises, exhibit a family dimension. Although there is much evidence that this familial dimension is pervasive in organizing economic activities, it remains understudied. The articles in this special issue further our understanding of family businesses and how they might be usefully managed and organized at operational and policy levels. They examine important topics—management succession, agency costs in family versus non-family firms, the effects of culture, and family elites in rent-seeking societies—and improve our understanding of the role of family in entrepreneurial wealth creation at both firm and societal levels. Importantly, these papers further our understanding of the contingencies and contexts wherein family based approaches to organizing enterprise might yield advantages or disadvantages.

Introduction

Family is an integral aspect of economic activity and organizational life and family members often play an important role in firm creation and growth (Aldrich & Cliff, 2003; Mokyr, 1985; Steier, 2003). However, the influence of family on business is not limited to small firms. For example, even among U.S. firms in the Standard and Poor's 500, "one third have continued founding family ownership, with families on average holding about 19 percent of the firm's shares" (Anderson, Mansi, & Reeb, 2003, p. 264). Family influence is even greater in other parts of the world. For example, Becht and Mayer (2001) report that companies with a single majority control block characterize over half of European countries. Historical analysis of corporate enterprise in China also underscores a business environment based on family enterprise (Goetzmann & Koll, 2003). Similar analysis of Japan (Morck & Nakamura, 2003) reveals an economy shaped by family-influenced Keiretsu groups as well as powerful Zaibatsu families. While family involvement is pervasive in economic organizations worldwide, relatively little research has been

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devoted to the study of family businesses. This special issue of *Entrepreneurship Theory and Practice* represents a further step toward addressing this imbalance.

As an indication of the relatively undeveloped state of research in family business management, there is still no consensus on how to define a family business (Chua, Chrisman, & Sharma, 1999). In fact, each article in this volume subscribes to a slightly different working definition of a family firm. Le Breton-Miller, Miller, and Steier (2004) do not explicitly define a family firm but they assume that management succession means firm leadership will pass from one family member to another or, in the absence of a competent family contender in the short-term, a bridge manager between family tenures. Zahra, Hayton, and Salvato (2004) define family firms according to the presence of both a family member with some identifiable share of the ownership of the firm and multiple generations of family members in leadership positions within that firm. Morck and Yeung (2004) use the following criteria of family control to distinguish family firms: (1) the largest group of shareholders in a firm is a specific family, and (2) the stake of that family is greater than either a 10% or 20% control of the voting shares. Chrisman, Chua, and Litz (2004) build on previous work (Chua et al., 1999; Chrisman, Chua, & Steier, 2002) and measure family involvement along the following dimensions: ownership, management, and an expectation of trans-generational management succession within the family.

These varied perspectives illustrate two important points. First, while there is no universally accepted operational definition of a family firm there seems to be a theoretical consensus that a family's ability and intentions to influence business decisions and behaviors are what distinguish family and non-family firms. Second, a family's influence on a business is manifest in different ways be it the manner in which succession, innovation, culture, or agency issues are handled.

The articles and commentaries contained in this volume address important issues relative to understanding and improving the performance of family firms. They illustrate important differences in the strategic management and governance practices of family businesses and non-family businesses and suggest that these differences might materially influence their relative performances. The articles range from micro perspectives dealing with structures, strategies, and managerial practice important for firm survival and growth to more macro observations and questions about the institutions and organizational arrangements that are most conducive to entrepreneurship and societal wealth creation.

Key questions they address include:

1. What are the contingencies and contexts wherein family-based approaches to organizing have an advantage over non-family firms?
2. What are the succession processes and procedures that enable family firms to survive in the long term?
3. Given the advantages some family groups are able to establish and maintain over time in rent-seeking societies, which institutional contexts nurture the creative destruction necessary for innovation and entrepreneurship?

Background of This Special Issue

This special issue disseminates a portion of the proceedings of a conference held in Philadelphia, Pennsylvania, at the University of Pennsylvania, December 11–13, 2002. The conference was jointly sponsored by the Wharton School, the University of Alberta School of Business, and the University of Calgary Haskayne School of Business. In 2001 these same schools sponsored a conference that was hosted by the University of Alberta. Papers from the 2001 conference have already been published in special issues of both *Entrepreneurship Theory and Practice* (volume 27, number 4, 2003) and the *Journal of Business Venturing* (volume 18, number 4, 2003). This volume represents the second special issue of *Entrepreneurship Theory and Practice* devoted to exploring "theories of family enterprise" and the journal has further committed to devoting a special issue to the topic on an annual basis.

The primary objective of these conferences is to help advance the development of theories of the family firm. A second objective is to expand the community of scholars doing research on family business management. For this purpose, the organizers have encouraged established scholars who do not typically study family business to apply their knowledge and research skills to an examination of the influence of families on firms and societal wealth creation. Accordingly, the conference included a mix of scholars who had previously studied family business as well as those who were new to the field. A second group of scholars was invited to prepare commentaries on these papers. All of these scholars were then invited to submit their work for consideration for publication in this special issue. The articles and commentaries of the authors who accepted this invitation were subjected to a double-blind review process and the scrutiny of the co-editors. We believe that the articles and commentaries that were ultimately accepted significantly advance the study of family enterprise and its role in the world economy.

Topics and Articles in This Issue

The articles and commentaries contained in this volume address issues important to understanding the behaviors and performances of family firms versus non-family firms. Particular topics explored include: (1) succession, (2) agency costs in family versus non-family firms, (3) the effects of culture, and (4) family elites in rent-seeking societies. We discuss each of these topics in turn.

Succession

Many disciplines are shaped by fundamental enduring questions (Rumelt, Schendel, & Teece, 1994). For example, strategic management is most concerned about the strategic determinants of firm survival and success, whereas entrepreneurship is fundamentally concerned about innovation and new venture creation. Management succession is a fundamental topic in family business. Although a firm can survive indefinitely, people do not. Thus survival and success of family firms in the long term requires them to meet the challenge of transferring ownership and control. Although much has been written on succession, the literature remains fragmented.

Le Breton-Miller et al.'s (2004) article is based on the premise that succession is neither an accident nor an event but a long-term process. By focusing on the individual elements of succession and then bringing together those elements into an integrative model, their article greatly contributes to unraveling the complexities of the process. For example, it succinctly articulates two key, potentially contradictory drivers of complexity: positive subsequent performance and satisfaction of stakeholders. A simple illustration makes a key point. It is not easy to satisfy all stakeholders: an inside political appointment may satisfy family members however it can be detrimental to firm performance. On the other hand, appointment of an outsider might improve firm performance but leave some family members dissatisfied and unfulfilled.

The authors' integrative approach toward family-owned business (FOB) succession represents an advance in our understanding of how the elements fit together and at the same time vividly illustrates the gaps in our knowledge. From their extensive review of the literature they develop a "preliminary" model of successful FOB succession, which includes the following focal categories: incumbent characteristics, FOB context, successor characteristics, succession process (ground rules, nurturing/development of successor, hand-off/transition process/installation), and family context. They then identify the missing pieces in that model: those neglected or under-explored areas that may be important for a fuller understanding of successful FOB succession. From that discussion they develop an integrative model that includes the following additional categories: industry context, family context, social context, and performance, evaluation, and feedback. They conclude by showing that, over time, the traditional, easily researched elements of the succession model have received increasing attention and the more complex researched areas have received progressively less attention. This article can be credited with highlighting a path for future research that sorely needs to be followed.

The commentary by Bagby (2004) takes a complementary approach by suggesting the value that could be gained by a greater attempt to integrate research on FOB succession and executive succession. Bagby points to several important concepts in the executive succession literature, such as power and succession rules, that could add value to the study of family business succession. He notes that aside from variables related to family context, FOB context, and transfer of capital, the models of family business and executive succession are strikingly similar. This suggests that greater cross-fertilization across the two literatures should be feasible, as well as desirable.

Agency

The agency relationship between owners and managers has intrigued researchers for many years. The central premise of agency theory is that "managers, as agents of shareholders (principals), can engage in decision making and behaviors that may be inconsistent with maximizing shareholder wealth" (Daily, Dalton, & Rajagopalan, 2003, p. 152). In the context of family businesses the traditional viewpoint has been that agency issues are of little to no significance owing to the concordance of the interests of owners and managers in such firms (Fama & Jensen, 1983; Jensen & Meckling, 1976). However, recent research suggests that agency issues in family firms are more complex than previously believed (Gomez-Mejia, Larraza-Kintana, & Makri, 2003; Steier, 2003). Specifically, entrenched ownership and asymmetric altruism could create their own unique agency problems that must be controlled (Gomez-Mejia, Nunez-Nickel, & Gutierrez, 2001; Schulze, Lubatkin, Dino, & Bucholtz, 2001; Schulze, Lubatkin, & Dino, 2003; Steier, 2003). Finally, agency issues are made more complex because of the juxtaposition of economic and non-economic goals in family firms.

Chrisman et al.'s (2004) study extends the literature on this topic by comparing agency costs of small and medium sized family and non-family firms. They presented a detailed accounting of agency costs in family and non-family firms and carefully explain the conditions that must be satisfied to isolate agency effects. They then perform an exploratory analysis of agency costs in a sample of 1,141 small U.S. firms. Chrisman et al.'s findings suggest that agency problems in family firms might be less serious than in non-family firms.

They make three observations regarding family versus non-family firms based on their findings. First, family involvement does not appear to impact short-term performance; second, strategic planning seems to enhance the performance of both types of firms; third, non-family firms derive greater benefit from the strategic planning process, presumably because of more pervasive agency problems. The authors emphasize that, although their work is exploratory, it serves to highlight the need for comparative studies examining the contingencies and contexts of agency costs and problems in both family and non-family firms.

Corbetta and Salvato's (2004) commentary emphasized that agency theory is but one conceptual lens by which the behavior of members of family firms might be viewed. The authors go into considerable depth on a major alternative view; namely, that family business stakeholders may behave as stewards rather than agents. They suggest that goals, altruism, trust, and relational contracts may vary across family firms, that this variation will influence how stakeholders behave, and that relative agency and stewardship behavior can vary depending upon the stage of the family business life cycle. They discuss how the relatively low explanatory power of the model presented by Chrisman et al. (2004) could be explained in the context of stewardship theory. Clearly, Corbetta and Salvato's work argues for additional work in this important topic area.

Culture

Culture—the collective values and beliefs of an identifiable group—represents an important determinant of firm performance (Shane, 1992, 1993; Shane, Venkataraman, & MacMillan, 1995) and societal well-being (Landes, 1998). Culture has many dimensions or "layers" (Hofstede, Neuijen, Ohayv, & Sanders, 1990; Hofstede, 2001). Fundamental to cultural studies "is defining the proper level or layer at which culture should be assessed" (Lenartowicz & Roth, 1999, p. 783). From the perspective of organizations, family represents an important layer of culture that is little understood. Yet family, as an element of firm culture, can have a significant influence on the perceptions of key stakeholders as well as firm performance (Chrisman et al., 2002). Thus a critical question for family business research is: what are the nuances of a "family" culture in a family firm and what is its impact on family firm performance?

Zahra et al. (2004) subscribe to the resource-based view (RBV) of the firm (Barney, 1991) and suggest that the cultures perpetuated within family firms potentially promote and sustain entrepreneurial activities, thereby providing them with a strategic advantage over non-family firms. Using a sample of 536 U.S. manufacturing companies they empirically examine four key dimensions of organizational culture: individual versus group orientation, external versus internal orientation, assumptions concerning centralized versus decentralized control, and strategic versus financial cultural orientation. They then delineate those dimensions of culture that are conducive to entrepreneurship within family firms. With the exception of the individualism dimension, the authors reported a positive linear relationship for these cultural dimensions.

An important finding of their study is that the effect of individualism, external orientation, decentralization, and strategic and financial controls on entrepreneurial orientation were all stronger in family firms than in non-family firms. This suggests that when such cultural characteristics are present, family firms are more likely to engage in entrepreneurship than non-family firms with similar cultural proclivities. Conversely, family businesses without these cultural characteristics appear less likely to pursue entrepreneurial initiatives than their non-family business counterparts. Based on these findings, one might hypothesize that family firms with cultural orientations that match the requirements of their environments will be more likely to obtain competitive advantages from their cultures than comparable non-family firms, and more likely to be at a competitive disadvantage when there is not a match. This has important performance implications because, if true, it suggests that family firms are more likely to be in the upper or lower portions of the performance distributions of firms in a given industry.

In her commentary Heck (2004) argues that researchers need to broaden their conceptualizations of culture to include family culture along with family business culture; and family culture includes, but is not limited to, ethnicity. She proposes that besides perceptual measures of family culture there may be objective measures such as family size, structure, composition, type, and functionality that can be instructive in determining an owning family's impact on a business and its culture. Heck also cautions researchers of the danger of ignoring those family members, particularly wives and daughters, who are excluded from direct participation in a family's business. Indeed these excluded or underutilized family members may exert an influence on the business far exceeding their official status.

Oligarchic Family Elites

History provides many examples wherein dynastic families play prominent roles in business and society: e.g., biblical stories, Icelandic sagas, the Medici in Italy, the merchant and banking classes of Amsterdam and London, Chinese clans, Indian castes, and the monarchies of many countries. Even in the 21st century oligarchic families play dominant roles in some countries, especially when the institutions that normally support widely held professionally managed forms of organization are weak or absent. Family firms may be optimal in terms of minimizing agency problems when legal and political protections for minority shareholders are weak (Burkart, Pannunzi, & Shleifer, 2003), but domination of an economy by family firms can have its disadvantages too. Nepotism is a common human (possibly even biological) behavior and families can use their advantageous position to hoard power and resources. A critical question is what role do oligarchic family elites play in the "creative destruction" (Schumpeter, 1934) so necessary for innovation and entrepreneurship to occur?

Families are often able to create advantages that other firms find hard to duplicate (Miller & Le Breton-Miller, 2004). Morck and Yeung (2004) explore the consequences of carrying this advantage too far. These authors subscribe to one of entrepreneurship's fundamental precepts: innovation is critical to economic development (Schumpeter, 1934). They then explore one of entrepreneurship's most enduring questions: what are the societal conditions under which innovation and entrepreneurship are allowed to flourish? They observe that restraints on political rent seeking are critical to economic development. For these authors, innovation can be stifled if actors can realize a greater return on investment through political rent-seeking activity. Morck and Yeung suggest that because of blood ties with political elites, longevity, small numbers, ability to make advance commitments, discretion, power to punish, and diversification, oligarchic families may possess innate advantages as political rent seekers.

Much of Morck and Yeung's article fits within Granovetter's (1985) much cited observation that modern economic behavior is embedded in networks and social relationships. Thus, Morck and Yeung's examination of the economic actions of oligarchic families may be seen from the perspective of overembeddedness. The sociological (Granovetter, 1985; Powell, 1990) and economic (Williamson, 1985) literatures commonly depict economic exchange as occurring within a continuum between market and hierarchy, at one end of which are ideal atomistic markets wherein buyers and sellers have arm's-length ties and frequently switch exchange partners when it is to their advantage. At the other end of the continuum are embedded relationships wherein strong ties generate a series of ongoing economic exchanges. Recognizing that network ties and trust are important elements of innovation and entrepreneurship, Morck and Yeung explore the negative consequences when these ties become overembedded as in the case of oligarchic families. Paradoxically, the core elements of societal wealth creation can become an impediment to innovation and entrepreneurship if the actors involved resort to political rent seeking.

Conclusion

The world's socioeconomic landscape is dominated by organizations, large and small (Baum & Rowley, 2002). Although family is a prominent social institution that shapes many organizations, it is under-researched. This volume represents a further recognition of the neglected importance of family in business affairs. The articles and commentaries lead us to the conclusion that family firms may be more complex than non-family firms. There is likely interplay between family culture, family business culture, and the extant culture that affect the goals, strategy, structure, and performance of a family firm. The relationship among family members and between family members and non-family members in a business may run the entire spectrum of stewardship at one end and agency at the other, depending on the life cycle stage one examines. Succession provides an important mechanism for organizational renewal. Finally, the contributions of family firms to innovation and economic development may depend on their orientation and relative size. While entrepreneurial families may have advantages in innovation and new venture development and contribute significantly to it, dominant family firms that pursue political rent seeking may inhibit it. Clearly, there is no lack of interesting directions to pursue in family business research.

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