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A FRAMEWORK FOR FAMILY BUSINESSES RESEARCH

Исследуются проблемы, связанные с функционированием так называемых семейных компаний. Введено понятие «семейный бизнес» и предложены некоторые формальные механизмы, которые позволяют строить эффективные организационные структуры и соответствующие средства управления.

According to several scholars a "Theory of the Family Firm" is needed to explain the features that make a family business "unique" and different from non-family firms (Chrisman et al., 2005). This theory of the family firm should start with a definition of the family business. However, so far, there is not a generally accepted definition for the family business. It is probably owed to the complexity of each of the two subsystems that overlap in a family business: the family and the business. Therefore, in this work we review the literature in order to make an approach to a single and operational definition of family business. Moreover, different theories are provided to lead theoretical perspectives and make progress in the construction of a framework in which empirical research can be properly interpreted for better understanding the features, outcomes and behaviours of the family firms. Thus, the agency theory, the resource and capacities theory and the stewardship theory are analysed in this work.

1. Introduction

Family businesses dominate the economic landscape of most countries and remain a key component of the private sector throughout the world (European Commission, 2009). Given the economic significance as well as the ubiquity of family firms, both domestically and internationally, the increasing number of studies emerging on this distinctive organizational form is not surprising either (Chrisman, Chua, and Sharma, 2005; Astrachan, 2010). Nevertheless, only recently have the governments, the public and private institutions and the academia begun to document and recognize the importance of family businesses' contribution to economical development, and the need to better understand the particular way in which family businesses behave.

To this aim, we review the main theoretical and empirical literature to bring some light about what can be considered a family business.

2. Defining the family business: the european union agreed definition

Up till now, scholars have not become to an agreement about how to define a family business (KMU Forschung Austria, 2008; European Commission, 2009; Klein, 2010). This lack of an agreed definition often conducts researchers to choose the definition that better matches their particular studies or convenience

(Le Breton-Miller and Miller, 2009, p. 1170; Claver Cortés, Rienda García and Quer Ramón, 2006). Experts in this area use many different criteria to define a family firm, such as a percentage of ownership, strategic control and/or management by family members, operational involvement of family members, involvement of multiple generations… (Rogoff and Zachary, 2003; Clayton et al., 2004). The result of this is that definitions of family businesses have traditionally been fragmented, with each focusing on some combination of the components of a family's involvement in the business, which according to Chrisman et al. (2005) are: ownership, governance, management, and trans-generational succession.

Some of the problems affecting family business research include a lack of secondary data sources (KMU Forschung Austria, 2008; Klein, 2010) forcing researchers to conduct field research studies. Field studies, in turn, are difficult to achieve because of the family business owners' disinterest in participating in such studies (Jaskiewicz & Klein, 2007; Pieper et al., 2008); the wide spectrum of family businesses; the lack of theories for hypothesis testing; and the lack of commonly accepted definitions of a family business (European Commission, 2009).

Taking into account these problems, in 2007 the European Commission launched the project "Overview of family-business-relevant issues research, networks, policy measures and recent studies" with the purpose of providing a more comprehensive overview of family businesses in Europe, analysing their characteristics, specific needs, the institutional framework and initiatives already implemented in their favour (European Commission, 2009). To this aim an expert group started to work in the very same year, and a study, commissioned to KMU Forschung Austria, was carried out in 2008. Apart from the 27EU Member States at that moment, the candidate countries (Turkey, Croatia and Macedonia) and other EEA countries (Liechtenstein, Norway and Iceland) were covered by this study, comprising a total of 33 countries.

The European Commission (2009) states a fundamental objective of this study: *"It is essential to agree on an accepted* ***definition of what is a family business*** *to have a better view".* More than 90 definitions were identified by the study, although hardly any consideration of family businesses was found across Europe in relation with the legislative framework. The term "family business" is mentioned in different regulations of some of the countries, but in most of the cases no clarification of what is to be understood by a family business is provided. A few exceptions are founded in some legal regulations (Austria, Hungary, Italy, Lithuanian, Bulgarian and Romania), and in two cases where the challenge of providing this definition was considered at ministerial level (Finland and Spain) (KMU Forschung Austria, 2008).

These definitions take into account many aspects, such as family ownership, strategic control and management, intergenerational transfer and business as the main source of income for the family. One common feature to almost all definitions is that they were not operational, what limited their usefulness, in particular, for the production of reliable and comparable statistics on the family business sector (European Commission, 2009). After having analysed existing definitions, the expert group reached a general agreement on three essential elements of the family business: the family, the business, and the ownership, proposing a definition that reads as follows:

"A firm, of any size, is a family business, if:

(1) The majority of decision-making rights is in the possession of the natural person(s) who established the firm, or in the possession of the natural person(s) who has/have acquired the share capital of the firm, or in the possession of their spouses, parents, child or children's direct heirs.

(2) The majority of decision-making rights are indirect or direct.

(3) At least one representative of the family or kin is formally involved in the governance of the firm.

(4) Listed companies meet the definition of family enterprise if the person who established or acquired the firm (share capital) or their families or descendants possess 25 per cent of the decision-making rights mandated by their share capital".

This definition is recommended to be used by the Member States and the other countries covered by the project. It is a great step ahead in the development of a "Theory of the Family Firm", since it will permit to produce quantitative and comparable information on the sector at European level. European Union has given a first step toward an agreed definition, now European scholars should give the next one using it in their research.

3. A framework for the theory of the family firm

Scholars have outlined the absence of a framework regarding the family firm (Chrisman et al., 2005; Craig and Moores, 2010), what makes very complicated interpreting research results adequately. Until recently, this developing academic field lacked depth in terms of theoretical foundations. Therefore, we agree with them that a Theoretical Framework has to be developed to build the foundations of the "Theory of the Family Firm". According to Klein (2010) the basis for the firm governance discussion in science was until recently almost only constituted by the principal-agent theory. Lately, researchers using the strategic management approach have begun to rely more and more on another theoretical perspective, such as the Resource Based View (RBV) and the Stewardship theory.

Theory of Agency

This theory is based on the rational and selfish behavior of individuals who are supposed to pursue their own goals and they expect the other behave in the same way (Jensen & Meckling, 1976; Eisenhardt, 1989). The theory of agency attends to the often-divergent interests between parties that control firm resources (agents) and those who own them (principals) (Jensen and Meckling, 1976). Therefore, it considers the resulting conflicts (hidden information, hidden action, moral hazard) of separation of management and ownership, whereupon goal incongruence is underlying.

It has been suggested that agency costs in private family firms may be a non-issue since ownership and control are united (Chrisman et al., 2004; Wargitsch, 2008). This was already announced by Jensen and Meckling (1976), who had pointed out that in a family firm the agency costs would be low if not absent, due to the alignment of owner-manager interests. Family firms are nevertheless susceptible to agency costs when the family agenda takes precedence over that of the business and its other stakeholders (Schulze et al., 2001; Schulze et al., 2002; Chrisman et al., 2004). Thus, Schulze et al. (2001) argue that parental altruism can lead to inefficiencies in hiring managers, making the firm vulnerable to what Chrisman et al. (2004, p. 338) consider “honest incompetence and deficits of expertise”. Furthermore, Schulze, Lubatkin and Dino (2002) argue that owner-control engenders agency problems because the effectiveness of external control mechanisms is compromised when ownership is concentrated, as it is when firms are privately held. The owner-control hampers these firms’ ability to compete in the factor markets for management and other employees because they have limited liquidity, and owners are generally unwilling to relinquish or diminish their control of the firm (Morck, 1996). Owner-controlled firms are also less able to entice applicants using the prospects of advancement because upper management positions tend to be occupied and/or reserved for owners or members of their families (Morck, 1996). Moreover, established family businesses can become increasingly conservative and risk averse by curtailing resource allocations at the expense of the firm's efficiency and performance (Carney, 2005; Westhead and Howorth, 2006). Similarly, agency problems may arise as family members, in their role as majority owners, advance their interests in the firm without regard for minority owners (Schulze et al., 2001). In addition, Arosa et al. (2010) point out that agency theory can be used to explain the role of ownership concentration in balancing conflicts between shareholder groups since relevant literature suggests that ownership structure is one of the main corporate governance mechanisms influencing the scope of a firm’s agency cost. In this regard the original thinkers of agency theory (Jensen and Meckling, 1976) suggested that ownership concentration has a positive effect on performance because it alleviates the conflict of interest between owners and managers. However, Arosa et al. (2010) found that the ownership concentration does not have a direct influence on the behavior of shareholders, although this relationship differs depending on which generation manages the firm. While agency theory suggests that family relationships should reduce the family firm’s need to monitor and discipline related decision agents, Schulze, Lubatkinand and Dino (2002) argue that altruism increases the need for family firms to do both. It is due to altruism creates incentives for the CEO to treat family members equally, regardless of their contribution as agents. Nevertheles, Eaton et al. (2002) suggest that, in existence of reciprocal and symmetrical altruism (between family owners and family managers), family firms have competitive advantages in pursuing certain business opportunities, for instance, in environments of scarcity characterized by low entry barriers and labour intensive production costs, specially where labour costs are high and margins low (Carney, 2005).

Despite of the fact that agency theory continues to be a driving theoretical concept in family business studies, this theory has been criticized for its narrow focus on outcomes as the only value of transactions and interactions and its ignorance of the many and important social aspects of relationships (Schulze, Lubatkin, and Dino, 2002; Lubatkin et al., 2007; Pieper, 2010).

Resource Based View (RBV)

The RBV of the firm suggests that valuable, rare, imperfectly imitable, and non substitutable resources can lead to sustainable competitive advantage and superior performance (Barney, 1991). RBV has particular relevance to family business research (Habbershon & Pistrui, 2002). In the RBV, the term *familiness – regarding family firm context-becomes essencial since it refers to a* bundle of idiosyncratic resources and capabilities existing in family firms (Habbershon et al., 2003). As such, familiness is one of the intangible factors that make family businesses different from their corporate equivalents and can be a point of difference that contributes to competitive advantage. Conversely, it can have a stifling effect and inhibit growth (Craig & Lindsay, 2002). According to Sirmon and Hitt (2003) family firms utilize their resources differently compared to nonfamily firms and therefore establish superior competitive advantages. Furthermore Sirmon and Hitt (2003) identify various types of resources (human, social, patient, survivability and governance structures) developed by family firms that demarcate them from nonfamily firms. These five unique resources (which are found in family firms but not in non-family firms) may –if linked to good management capabilities– contribute to wealth creation. The positive attributes of *human capital* include extraordinary commitment, warm, friendly, and intimate relationships, and the potential for deep firm-specific tacit knowledge. On the other hand, the limited utilization of outside managers by family firms has the potential to hinder their wealth creation (Sirmon and Hitt, 2003).

Barney et al. (2002) suggest that family ties may provide an advantage in opportunity identification because family members tend to share information with each other. Carney (2005) observes that family firms may enjoy long-term relationships with internal and external stakeholders and through them develop and accumulate social capital. This could give the family firm a competitive advantage in expanding its scope vis-à-vis nonfamily firms. RBV can also be very useful to identify the distinctive resources and capabilities of family should hand to the next generation succeeding family firm as, for example, the transfer of tacit knowledge suggested by Cabrera-Suárez et al. (2001) Alike, Chrisman, Chua, and Sharma (1998) and Sharma and Rao (2000) provide evidence that integrity and commitment may be more important to the selection and success of a successor than technical skills, due to family firm's reputation usually become very important in the eyes of customers suppliers and employees.

Theory of Stewardship

Unfortunately, both theories do not capture the reciprocal influence between the family and the business different goal systems and distinct performance management requirements. As Corbetta and Salvato (2004) argue, there is a need to identify and explain the elements that enable family firms to achieve high performance. For them, it is the concept of "stewardship" that fills the gap. Thus, to counterbalance the emphasis on rational yet self-serving actors underlying agency theory, family firm researchers have looked to this more humanistic model of managerial behavior to explore the family-business dynamic (Davis et al., 1997). Stewardship theory brings into view self-actualizing managers with altruistic motivations and non-economic aspirations, such as self-efficacy, involvement-oriented management, and worker empowerment. Scholars invoking stewardship theory maintain family businesses exhibit higher-order needs and objectives other than purely economic ones, such as intra-familial altruism, firm longevity, and intra-generational succession (Carney, 2005; Lubatkin et al., 2005). Family members also identify more closely with their businesses, thus increasing responsibility for, and commitment to, the organization and its stakeholders, and they are not so focused in the short-term profit as nonfamily firms usually are (Chrisman et al., 2004). Family firms also place more weight on family and social ties, loyalty, trust, and stability, which in turn increases goal congruence (Corbetta and Salvato, 2004). Stewardship-like behavior in management can have a disadvantageous impact on an organization. Thus, the long-term orientation in family firms may result in managers overlooking opportunistic investments that can lead to strategic stagnation (Carney, 2005). Another potential drawback relating to stewardship may arise from diverging interests among family members, what could lead to decision-making paralysis.

Hence, stewardship theory provides a viable alternative to agency theory and has gained in popularity in family business research alike (Miller and Le Breton-Miller, 2006; Miller, Le Breton-Miller and Miller, 2009). However, its application remains narrowly focused on issues situated at the intersection of family and business systems and only recently has the theory been applied to dynamics within the ownership and family realms (Le Breton-Miller & Miller, 2009).

4. Conclusion

The importance of family businesses in today's society have encouraged a growing number of scholars to study different aspects of the family business, but research on family business has hardly started. Currently there is no a framework neither a theory of the family business to help researches to design adequate empirical research and to properly interpret the results of their investigations. A good place to start building a theory of the family business is to examine whether existing theories of the firm are robust enough to explain family firm behavior and performance. Resource-based theory and agency cost theory are two theories that have been increasingly used: the former to explain mainly the positive side of family involvement and the latter the negative side, while the stewardship theory takes into account the emotional and relational part of family business that those theories did not take into account.

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