TOWARDS A THEORY OF THE FAMILY FIRM: APPROACH TO AN OPERATIONAL DEFINITION AND A FRAMEWORK FOR FAMILY BUSINESSES RESEARCH

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RESUMEN:
La empresa familiar es un campo de estudio relativamente nuevo, en el que se están dando aun los primeros pasos. Diversos autores (Chrisman, et al., 2005) sostienen que se precisa desarrollar una "Teoría de la Empresa Familiar" que permita explicar las características que hacen que la empresa familiar sea "única" y, por tanto, distinta de otro tipo de empresas. Dicha Teoría debería comenzar por proporcionar una definición de lo que constituye una empresa familiar, puesto que definir el objeto de estudio en cualquier campo es un requisito fundamental para su avance. Sin embargo, hasta la fecha no existe una definición generalmente aceptada de empresa familiar, lo que probablemente se deba a la complejidad de cada uno de los dos subsistemas que coexisten en la misma: la empresa y la familia. Por tanto, en este trabajo realizamos una revisión de la literatura a fin de proporcionar una aproximación hacia una definición sencilla y operativa de empresa familiar. Además, se analizan diferentes teorías en aras a desarrollar un marco teórico que permita interpretar adecuadamente la investigación empírica y comprender mejor las características, resultados y comportamientos de las empresas familiares. Así, analizamos la teoría de la agencia, la teoría de los recursos y capacidades y la teoría de la administración. El trabajo concluye con la presentación de futuras líneas de investigación en la empresa familiar.

ABSTRACT:
Family business research is still a relatively new field of study in which researches are hardly giving their first steps. 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, since defining the object of study is a key requirement for progress in any field. 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. We conclude by discussing directions for future research concerning family business.

KEYWORDS*:* Family business, definition, framework, theory of the family firm.

1. INTRODUCTION

Neubauer and Lank (1998, p. xiii) point out that *"...throughout our economic history no institution has driven economic development the way the family-based enterprise has"*.

Family businesses dominate the economic landscape of most countries (Leach, 1994; Heck and Trent, 1999; Klein, 2000; Heck & Stafford, 2001; Barclays Bank, 2002; Astrachan & Shanker, 2003; Colli, Fernández Pérez and Rose, 2003; Morck and Yeung, 2004; Van Gils, Voordeckers and Van den Heuvel, 2004; KMU Forschung Austria, 2008; European Commission, 2009) and remain a key component of the private sector throughout the world. It is not a surprise the abundance of family-owned business when one realizes that a new business commonly starts as a result of an entrepreneur who often gets the support of his/her family (Steier, 2003). In the domain of publicly-traded firms, family businesses constitute over 35 percent of the S&P 500 index (Anderson and Reeb, 2003). 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. Although the research field of family firms has gained momentum in the past decade, much remains to be done since there are still numerous research questions to be answered (Chrisman, Chua, and Sharma, 2005; European Commission, 2009; Le Breton-Miller and Miller, 2009; Astrachan, 2010; Pieper).

To start with, there is a lack of official statistics about the real amount of family business per country and geographical areas. Besides, most of statistics about the number of family business settled in a country or region usually differs from some studies to others and they are just mere estimations. One explanation to this matter may be the significant challenge in quantifying this collective since there is no a definitive definition of family business. Therefore, an agreement over the definition of the family business should be reached by scholars promptly.

Another point that has been brought to debate is whether the unit of analysis should be the family or the business itself. In relation with this it has been pointed out that most previous family business research suffers from omitting the relevant family dimension (Rogoff and Zachary, 2003), being viewed the business as the most important system under study. Conversely, some authors complain of the business being treated as secondary to the family in the family business research (Crampton, 1993), since many scholars (Davis and Tagiuri, 1989; Dumas, 1989; Cole, 1997; Heck and Trent, 1999; Vera and Dean 2005), specially in the earlier years, employ the broad theoretical framework of family systems Theory to research family firms. To this respect, we consider that both the family and the business must be studied as whole and not as separate parts, because they interact together and influence each other. De facto, family business research has evolved to the point where *"to understand the family business we must recognise that the two subsystems (family and business) co-exist and it is their relative powers that make a family business unique"* (Sharma, Chrisman and Chua 1997, p. 20), a concept recently supported by Basco and Perez Rodriguez as well (2009). Nevertheless this aspect will not be discussed in this work.

Additionally, there is not yet a framework to help integrate the recent approaches from other disciplines used by researchers to study family firms (Chrisman, Chua, and Sharma, 2005) as it is increasingly considered a multidimensional and multidisciplinary subject (Nicholson, 2008; Astrachan, 2010; Pieper, 2010), where economics and firm theories but also other discipline theories might be very useful (for instance, Sociology and Psychology theories are suggested by Nicholson, 2008 and Pieper, 2010). We consider that the first step to find answers to the former questions is to achieve an agreed and operational definition of family business. Only afterwards research in family business will make real sense and researchers will be able to provide some guide and proper rules for the decision makers in family businesses. In relation with this issue it will be analysed the definition recently adopted by the European Union, since we think it could match perfectly the requirements that a definition for the family business should have.

To this aim in this work we review the main theoretical and empirical literature to bring some light about what can be considered a family business in order to propose future directions to researchers in this field and to help governments, researchers, advisers and family businesses owners and managers to develop strategic decisions. In the following sections we discuss about these issues focussing our attention in what Chrisman et al. (2005) consider to be the most important developments toward a strategic management theory of family business. They are: (1) approaching convergence in the definition of the family firm; (2) the empirical evidence that family involvement affects firm performance; and (3) the emergence of two strategic management oriented explanations for the differences: agency theory and the resource-based view (RBV) of the firm. However, we add to the former theories, the stewardship theory, since it fills some gaps that neither Agency theory nor RBV are able to explain. Moreover, we also propose for future research other theories that could be useful to understand the family business strategies and behaviors.

The paper is organised as follow: Firstly, the importance of the family businesses, due to its economical support in most of the countries, is studied. Secondly, some definitions and different perspectives used in the attempt to define the family business are discussed, showing the difficulties in reaching an agreed and operational definition. Thirdly, the European Union project to reach a better knowledge of family business and develop a single and operational definition of family business is described. Next section is dedicated to the development of an approach to a theoretical framework for the study of family businesses. Finally, conclusions and future lines of research are presented.

2. ECONOMIC AND STRATEGIC IMPORTANCE OF FAMILY BUSINESS'S STATISTICS

The importance of family businesses has just begun to be recognized by governments and policy makers in the very recent years. For example, Durão Barroso, President of European Commission, pointed out that *"Family firms have been the invisible giants of the European economy for far too long. (…) It is time for family firms to stand up and fulfil their true potential in Europe!"* (Durão Barroso, 2007). European Commission (2009) suggests that the policy makers' limited awareness of the contribution of family businesses to society is due to the traditionally discrete behaviour of the sector. This lack of awareness of the family business sector is also spread among the general public (European Commission 2009).

The family businesses relevance in the development of most of countries has been widely recognised due to its contribution to employment, Gross Domestic Product (GDP), innovation, etc. Thus, as it is shown in table 1, at least 60% of firms around the world are family businesses (FBI, 2008). In United States around 90% of firms are family firms (Shanker and Astrachan, 1996; Burns and Whitehouse, 1996 Astrachan & Shanker, 2003). In Europe they represent more than 60 % of all enterprises, encompassing a large range of companies from different sectors and of different sizes. Most family businesses are SMEs and most SMEs (especially micro and small enterprises) are family businesses as well (European Commission, 2009). Not only are family firms important because they make an essential contribution to the economy, but also because they bring long-term stability, show specific commitment to local communities and stand for the values and the responsibility their family members feel as owners, but specially because *"they keep the precious factors against the backdrop of the current financial crisis"* (European Commission, 2009). Durão Barroso (2007) points out that family firms are crucial for Europe as they make a significant contribution to Europe's GNP and employment, and tend to be great innovators, with a longer term vision. Likewise, they also tend to display the European values because family businesses are usually firmly rooted in their regional and national culture (Durão Barroso, 2007).

Therefore, the contribution of family firms to the economy is fundamental all around the world as it is shown in table 1. This importance may justify the need of a Theory of the Family firm in order to understand its strategies and outcomes of this sort of firms.

Table 1. Family business statistics: contribution to total firms, employment and Gross Domestic Product (GDP)

Author	Country/ies	Share of firms (%)	Share of employees (%)	Share of GDP
IFERA, 2003 Cited in KMU Forschung Austria, 2008	Supranational	93 Italy; 79 Sweden; 75 Estonia; 74 Netherlands; 70 United Kingdom; 69 Belgium; 60 France		65 Estonia; 60 France and Portugal; 55 Belgium and Denmark; 54 Netherlands; 40-45 Finland
FBI, 2008 Cited in KMU Forschung Austria, 2008	Supranational At least 60 % of all businesses	91 Finland; 85, Estonia; 83 France; 79 Denmark and Sweden; 73 Italy; 61 Netherlands; 65 United Kingdom	61 Sweden, 52 Italy; 49 France; 44 Denmark; 42 Estonia; 41 Finland; 31 Netherlands and United Kingdom	
Shanker and Astrachan, 1996	United States	92	59	50
Burns and Whitehouse, 1996	United States	90		
Astrachan & Shanker, 2003	United States	80-90	62 78 (of new job creation)	64
Burns and Whitehouse, 1996	European Union	85		
European Commission, 2009.	Europe	More than 60	40-50	
IFB report, 2008; GEM report, 2007	United Kingdom[1]	65	41.9	
IEF, 2007	Spain	85 (2.8 million out of 3.3 million)	70	70
Astrachan and Chepurenko, 2003	Russia[2]	31.8	75	3-4.5
Smyrnios et al., 1997	Australia	83 (of private sector)	More than 59	
Smyrnios et al., 2003	Australia[3]	67 (of private sector)	(3 million people)	
Smyrnios and Dana, 2006	Australia[4]	67 (of private sector)	40 (of private sector) 50 (of employment growth)	
Kurashina, 2003, cited in Abdellatif, et al., 2010	Japan	42.68 (of listed companies)		
Dung, cited in SFBA (2007)	Vietnam	92.3 (3mill/3.25million firms)	70	50

Source: Own elaboration.

3. DEFINING THE FAMILY BUSINESS: A SINGLE AND OPERATIONAL DEFINITION IS NEEDED

Providing that family firms and non-family firms perform in a different way a "Theory of the family firm" should be developed (Chrisman et al., 2005). Regarding this, family business researchers (Chrisman et al., 2005; Klein, 2010) and policy makers (Durão Barroso, 2007; European Commission, 2009) believe that the influence exerted by the family in the family firm makes it different from a nonfamily firm. Furthermore, there is a popular stream of family firm research concerns "their potentially superior corporate governance structure" (Braun and Latham, 2009) arising from a synthesis of family goals and business goals, with the results that family firms, in many cases, outperform their nonfamily counterparts (McConaughy et al., 1998; McConaughy,

[1] These figures are estimations.
[2] These figures correspond to SMEs in Russia. It has not been found family firms data, so a view of SMEs firms is provided. Likely a great amount of Russian SMEs are family business, but no data is available regarding the rate of Russian SMEs being family firms.
[3] In this study business owners themselves identified whether their firms were family or nonfamily entities.
[4] In this study business owners themselves identified whether their firms were family or nonfamily entities.

Matthews and Fialko, 2001; Chrisman, Chua and Steier, 2002; Anderson and Reeb, 2003; Zahra, 2003; Anderson and Reeb, 2004, Lee, 2006; Miller and Le Breton-Miller, 2006; Villalonga and Amit, 2006). Nevertheless, researchers have also pointed out that family values and business goals can conflict under certain circumstances, leading family firms and their associated stakeholders to suffer from the family imprint, what is, in fact, another feature of family business that makes it peculiar (Gallo, 1995; Birley, Ng and Godfrey, 1999; Gubitta and Gianecchini, 2002; Graig and Lindsay, 2002).

Therefore, if a theory of the firm is needed, and that seems to be the case, it should start with a definition of the family firm, since defining the object of study is a key requirement for progress in any field (Chrisman, Chua, and Sharma, 2005). Up till now, scholars have not become to an agreement about how to define a family business (Chua et al, 1999; Astrachan et al., 2002; Chrisman, Chua, and Sharma, 2005; KMU Forschung Austria, 2008; European Commission, 2009; Klein, 2010). Two can be the causes of it, and they seem to be closely linked:

- On one hand, family business is a complex system formed by other two complex subsystems: the family and the business. Regardless there are numerous definitions of the concept of "complexity", most of them share as common denominator: the number of elements, the heterogeneity of elements and the interrelation and interdependence of elements (Klein, 2010). The more elements a system has the more complex it becomes, and the same happens when the degree of heterogeneity is high (Klein, 2010). This means that, as the family firm is formed by two heterogeneous subsystems (the family and the business), it is really difficult to reach a single definition that describes and identifies this mix properly. In fact, some authors refer to family business as "the most complex form of business organization" (Birley, Ng and Godfrey, 1999, p. 598).
- On the other hand, family business is still a relatively new and unresearched field of study (Litz, 1997; Sharma, 2004, Astrachan, 2010), which emerges around 1980'. There are still definitional issues in family business studies because the field is in its early development stages and we are just giving the first steps into the creation of a Theory of the Family Business. The words 'family business' only occasionally appeared in the literature before the 1980s, and it was not until 1988 that the first journal devoted to family business studies, the Family Business Review, was published (Astrachan, 2003). Considering the mentioned complexity of the object of study, the family firm, it is obvious that it can take a long time to identify the different elements of each subsystem, their heterogeneity and the way they interact before reaching an adequate and generally accepted definition.

This lack of an agreed definition (Chua et al, 1999) 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). Obviously, when a specific definition is chosen the results reached in those studies are affected (Claver Cortés, Rienda García and Quer Ramón, 2006, p. 22) and it limits their usefulness, particularly for the production of reliable and comparable statistics on the sector (European Commission, 2009). For instance, Liz's definition (1997) was utilized by Reid et al. (1999) to compare orientation of family-firms' with non-family firms' orientation in Scotland and Northern Ireland, just arguing that this definition was "most useful". Another example is provided from The Australian Family and Private Business Surveys of 1997 and 2003, where different definitions were utilised. Whilst in 1997, the survey classified a business as a family business following Smyrnios, Romano and Tanewski's definition (1997) (see table 2), in 2003 survey it was used a self-identification method, asking businesses to nominate whether they thought they were either a family or non-family business (Smyrnios *et al*., 2003). As a result of it, the number of family businesses in Australia was unclear (Australian Institute for Social Research, 2005)[5]. This sort of problems is a real obstacle to make progress in family business definition and research, as we don't know till what level those results are reliable, and this is a kind of "vicious circle".

Shanker and Astrachan (1996) note that a broad definition of a family business should incorporate some degree of control over strategic decisions by the family and the intention to leave the business in the family. They point out that the criteria used to define a family business can include:

- Percentage of ownership
- Voting control
- Power over strategic decisions
- Involvement of multiple generations
- Active management of family member

[5] Note that in 2003 and 2006 the results of the surveys coincide (67%). However, this results are pretty different of that reached in 1997 survey (83%), as it was used another definition of FB.

A very important aspect for defining family businesses and contrasting them to nonfamily businesses refers to the element named "familiness" (Habbershon and Williams, 1999), which comprises i.e., the (social) interrelationship between family and enterprise in economic, management and sociological frameworks. However, due to the intangibility and "softness" of this element it is hardly ever found in the prevalent definitions of family businesses according to a recent study developed by KMU Forschung Austria (2008). Sirmon and Hitt (2003), suggests five unique characteristics of family firms that can differentiate them from nonfamily firms, namely *human capital*, *social capital*, *survivability capital*, *patient capital*, and *governance structures*.

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… (Clayton et al., 2004; Rogoff and Zachary, 2003) (See table 2). 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.

Trying to solve the family business definition problems, Astrachan, Klein and Smyrnios (2002) propose that the extent to which a firm is a family business should be determined by how family *involvement* is used to influence the business. They develop the F-PEC scale, which is based on the three components (power, experience and culture) (Klein, Astrachan, and Smyrnios, 2005) that seem to be the most important dimensions of a firm to measure the amount of influence a family exerts on a business. Whilst "power" is understood as the level of ownership and strategic/managerial, "experience" deals with the cumulated experience the family has brought into the firm, i.e., the number of generations in charge of ownership and management over time. "Culture" refers the values and the commitment of family members towards the enterprise (Astrachan, 2005). Nevertheless, the idea behind the F-PEC scale was not to determine a precise definition for a family business, but instead to provide a measurement allowing for comparisons between studies to be made based on a standardized instrument.

However, it should be considered that a definition or classification of firms based on the way each family uses its involvement to influence the business, taking into account that such involvement is determined for several components (see Chrisman et al., 2005), some of which are intangible or subjective elements, would make the process to define a family business very complicated. What is more, it could lead to multiple categories of family firms (so many as family firms), since there is sufficient evidence to suggest that family businesses are very heterogeneous (Miller et al, 2007; KMU Forschung Austria, 2008; Klein, 2010).

Despite the fact that it is generally accepted that the family's involvement in the business makes the family business unique (Chua et. al., 1999), the literature continues to have difficulty defining the family business on that basis. Regarding this, some scholars (Chrisman et al., 2005) argue that involvement is not enough to consider whether a firm should be defined as a FB and they point out that the *essence* of the firm is a necessary condition to become or not a FB. This essence approach relies on the belief that family involvement is directed toward behaviours that produce certain distinctiveness (familiness, culture, values…). According to Chrisman et al. (2005) *"two firms with the same extent of family involvement may not both be family businesses if either lacks the intention, vision, familiness, and/or behaviour that constitute the essence of a family business"*.

We consider that scholars are so focused in aspects of the family business that are intangible (e.g. culture, vision), that it becomes almost impossible to reach such a single definition. Moreover, a definition based on intangible aspects of the firm could not be operational at all, because the classification of a firm into a family business or a nonfamily business would probably take a long time and, likewise, the classification obtained would be opened to a certain degree of subjectivity. Nevertheless, we do not mean that Chrisman et al. (2005) "essence approach" is wrong. Conversely, it could be very useful once a single and operational definition has been developed and most researchers apply the same criteria to distinguish family firms from nonfamily firms. But at a this early stage of family business knowledge it is very complex to apply a definition based on so many and so complex factors involved in Chrisman et al.'s concept of "essence" of a family business.

To summarise, the theoretical issues with respect to defining the family firm seem still be open to debate although according to Chrisman et al. (2005), they are already converging. For example, doing empirical research, many scholars use the "ownership" criteria as an objective factor that distinguish a family business from a nonfamily one easily (Zellweger, Eddleston, and Kellermanns, 2010; Arosa et al., 2010).

It must be kept in mind that the definition of family business must be single, functional and easy to utilize for its objective, that is, to let us know if a firm is or not a family firm. The conclusion of our former reflexion is that at this stage of knowledge of the family business scholars should abandon the subjective concepts of "involvement degree" and/or "essence" and focus the definition in other objective factors of the family firm in order to reach an agreed definition.

Table 2. Definitions of Family Business		
Author/s	Definition of family business (FB)	Components[6] / Problems of the definition
Liz, 1995	*"A business firm may be considered a family business to the extent that its ownership and management are concentrated within a family unit and to the extent its members strive to achieve and/or maintain intra-organizational family-based relatedness".*	• Ownership (explicit). No minimum level established. • Management/family involvement (explicit). - Governance and trans-generational (they seems implicit but are not that clear). - A *family unit*: ambiguous. Does it mean that a single person or several cousins that create a firm cannot be considered a FB?
Smyrnios, Romano and Tanewski, 1997 (Australia)	A business was classified as a family business when any one or more of the four following criteria were met: • "*More than 50 per cent of the ownership was held by a single family;* • *More than 50 per cent of the ownership was held by more than one family;* • *A single family group effectively controlled the business; or* • *The majority of senior management was drawn from the same family".*	• Ownership (explicit). Minimum level established. • Management (explicit). • Control (explicit) - What should it be understood by *a single family*?
Chua et al., 1999	*"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."*	• Control (explicit). • Governance (explicit). • Management (explicit). • Trans-generational succession (explicit). • Vision (difficult to determine or know it, not operational) - Cannot be considered FB a firm in its first generation?
DGPYME, 2003 (Spain)	*"any enterprise in which an essential part of the company's ownership belongs to one or several families, whose members intervene in a decisive way in the management and administration of the company"*	• Ownership (explicit), "*essential* part": ambiguous. • Management and administration (explicit), "intervene in a *decisive way*": ambiguous.
Leenders and Waarts, 2003	*"A firm is considered a family Business when its ownership and/or management are concentrated within a family"*	• Ownership (explicit) and/or • Management (explicit) What does a *family* mean? What does it mean "*concentrated*"? Does it mean at least 50% ownership?
Kurashina, 2003 (Japan), cited in Abdellatif, Amann and Jaussaud, 2010	Definition of FB is based on two criteria: *"The share of capital held by the family and the involvement of family members in managing the firm. Thus, he considered three types of family businesses:* *• Type B, in which family members hold management positions or are members of the board of directors, as well as the main shareholders.* *• Type C, in which family members do not hold top-ranking management positions but are among the major shareholders".* *• Type D, in which family members hold top management positions but are not among the major shareholders".*	• B: Management (explicit) /or members board of directors/Main shareholders (ownership, implicit) • C: Not top management positions/ Major shareholders (ownership, implicit) • D: Management (explicit) / No main shareholders
Finnish Working Group on Family Entrepreneurship, 2006 (Finland)	*"Firms of any size that meet the following criteria:* *1. The majority of votes is in possession of the natural person(s) who established the firm, or in 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 votes may be indirect or direct.* *3. At least one representative of the family or kin is involved in the management or administration 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 % of the right to vote mandated by their share capital".*	• Possession=Ownership (implicit) (25%) • Involvement of the family/Management (implicit) It is quite a specific definition and it is easy to employ in differentiating a family firm from a nonfamily one as it relies on objective rules. It explains the meaning of *family*, defining the degree and kind of kinship.

Source: Own elaboration.

[6] We present the main components of the definition, and we also include the expression "explicit", meaning that it is one of the common components that experts use to define family business if so.

4. TOWARDS AN AGREED DEFINITION: THE EUROPEAN UNION PROJECT

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 (Chua, Chrisman, & Sharma, 2003, 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, which 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, which is based on the one formulated by the Finnish Working Group on Family Entrepreneurship[7] (2006) (See table 2). However, some slight modifications to the terminology were introduced[8] in order to make it clearer and applicable to all types of firms and particularly to SMEs, since most of the family business all around Europe are SMEs as it was formerly mentioned. The definition proposed by the European Commission (2009) 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.

Note that this definition includes one sole proprietor firms (i.e., companies owned by a single person but eventually employing family and/or non-family staff members) and self-employed (i.e., companies in which only the entrepreneur who is working without any officially employed staff members). In this regard, it has to be outlined that in almost 1/3 of the countries under study one-person enterprises/self-employed are seen as family businesses while in about another 1/3 of countries this type of business activity is not considered to be a family firm (KMU Forschung Austria, 2008, p. 36).

[7] The Finnish definition has been used in some European countries and has the advantage of being comprehensive and operational (European Commission, 2009).

[8] For example, the term 'management and administration' was replaced by 'governance', 'votes' was replaced by 'decision-making rights', and, it is also required that at least one representative of the family or kin is 'formally' involved in the governance of the firm.

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.

5. APPROACH TO A FRAMEWORK FOR THE FAMILY BUSINESS: DEVELOPING 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), which 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".

As it should be expected, theoretical research in family business has concentrated on applying mainstream theories of the firm to explain how family businesses could be distinct from nonfamily ones (Chrisman et al., 2005). According to Klein (2010) the basis for the firm governance (in general) discussion in science was until recently almost only constituted by the principal-agent theory (Jensen & Meckling, 1976).

In this regard, a recent review of the 25 most influential articles in family business research (Chrisman, Kellermanns, Chan, and Liano, 2010) shows that agency theory is the prevailing theoretical foundation for family business research. So, apparently family business researches follow the conventional theoretical approach used for the firm in general. **Agency theory**, assumes that people pursue their own self-interest (i.e., maximize the outcome) and expect others to behave in the same way (Jensen & Meckling, 1976; Eisenhardt, 1989).

More recently, researchers using the strategic management approach have begun to rely more and more on another theoretical perspective (Chrisman et al., 2005), the **Resource Based View (RBV)** (Barney, 1991), to explain finance, strategic management and economics in general. And family firm researches have also applied RBV, as it could be expected, to explain the distinctiveness nature of family firm. Eventually **Stewardship theory** (Davis, Schoorman, & Donaldson, 1997) has been proposed as an alternative to agency theory by using more realistic psychological and sociological forms of human behaviour.

In the following lines, we briefly explain the three theories that have received more attention in family business research. We describe their main features and how these theories have been used or could be used to identify and understand those factors that make a family firm "unique". Some empirical evidence is also shown in each 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.

Theorists suggest that agency costs in private family firms may be a non-issue since ownership and control are united (Chrisman *et al.*, 2004; Ang, Cole and Lin, 2000; 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.

Another line of argument holds that 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 (Lew and Kolodzeij, 1993; 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; Zahra, 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 short, ample evidence exists to support the prevalence of agency costs relating to the family's dysfunctional behavior in the firm.

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, based on concentration ownership, no significant evidence of different performance between non listed SMEs family firms and non listed SMEs nonfamily ones, was found by Arosa et al. (2010). They found that the ownership concentration does not have a direct influence on the behavior of shareholders, which could be related to the non-listed status of firms. Nevertheless, their research shows that the relationship between ownership concentration and firm performance differs depending on which generation manages the firm (Arosa et al., 2010).

According to Chrisman et al. (2005, p. 560) “*while agency problems can arise in transactions between any two groups of stakeholders, researchers applying agency theory to family firms have concentrated primarily on relationships between owners and managers and secondarily between majority and minority shareholders. Within these streams, researchers have proposed* ***altruism*** *and the tendency for* ***entrenchment*** *as the fundamental forces distinguishing family and nonfamily firms in terms of agency costs*”.

Regarding **altruism**, 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. Paradoxically, altruism may also make the family firm CEO loath to adopt and enforce formal governance mechanisms like boards, decision hierarchies, incentives, and rules and procedures that govern the allocation of property rights (Daily and Dollinger, 1992). It is due to altruism creates incentives for the CEO to treat family members equally, regardless of their contribution as agents.

Nevertheless, 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 (due to lower reservation prices for those business opportunities). Thus, altruism can lead to family members’ willingness to suffer from short-term deprivation for long-term firm survival, and combining low overheads, flexible decision making, and minimal bureaucratic processes, family firms might become effective, frugal rivals (Carney, 2005). This also could provide an explanation for the prevalence of a large number of family firms in service industries, small-scale manufacturing, and franchising environments, where labour costs are high and margins low (Carney, 2005).

In relation with **entrenchment,** it has to be note that despite management entrenchment permits managers to extract private benefits from owners, in the context of Agency theory, Gallo and Vilaseca (1998) found that the performance of family firms in general was not influenced by whether the chief financial officer (CFO) was a family member or not. However, when the CFO was in a position to influence the strategic direction of a firm, having a nonfamily member in that position was associated with superior performance (Gallo and Vilaseca, 1998). This could be due to the fact that spirit and talent are not necessarily inherited by ensuing generations of a controlling family (Morck and Yeung, 2003, 2004).

Agency 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; Shapiro, 2005; Lubatkin et al., 2007; Pieper, 2010). Agency theory is based explicitly on self-interest, so it ignores altruistic motivations for interaction. Pieper point out (2010) that is quite amazing that this theory “serves as the main foundation for research on a type of organization that is known to operate on a highly relational base, be highly emotionally loaded, driven by both economic and noneconomic goals (Schulze, Lubatkin, and Dino, 2002; Chua, Chrisman and Steier, 2003; Chrisman, Chua and Sharma, 2005), and known to pursue strategies that do not conform with traditional (i.e., rational) economic assumptions (Gomez-Mejia, Haynes, Nunez-Nickel, Jacobson, and Moyano-Fuentes, 2007; Astrachan and Jaskiewicz, 2008; Zellweger and Astrachan, 2008)”. Despite the criticism, agency theory continues to be a driving theoretical concept in business and management research and family business studies alike.

In summary, Agency issues in family firms may have broad, societal welfare implications that need to be investigated further. It is also believed that the application of the principal-agent theory is an excessive simplification to understand how family business' mechanisms involved work. Therefore, agency theory can not fully explain how individuals actually behave and interact in family business.

Resource Based View

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 essential since it refers to a* bundle of idiosyncratic resources and capabilities existing in family firms (Habbershon et al., 2003; Sharma, 2008). 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). Specifically, Habbershon et al. (2003) propose that familiness-related resources and capabilities can present both a source of advantage as well as a source of disadvantage to the firm. Family norms and culture constrain individual behaviour but they also encourage trust (Dyer and Handler, 1994) and an emotional element in a relationship which is less common in other social situations. Thus the *"intrinsic 'tribal' sense of a unique….identity"* is a powerful positive force for many family firms (Kotkin, 1992).

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. The results of study of the short-term sales growth of small to medium size family and nonfamily firms confirm Carney's assertions (Chrisman, Chua and Kellermanns, 2004) about the advantages of family firms in making use of external relationships.

RBV can also be very useful to identify the distinctive resources and capabilities of family should hand to the next generation succeeding family firm.

Cabrera-Suárez et al. (2001) have treated the issue of resource transfer across generations in greater depth. Cabrera-Suárez et al. use RBV to advance the concept of tacit knowledge (it is gained through experience and actions) transfer in succession. They suggest that the transfer of tacit knowledge is important for preserving and extending competitive advantage because the continued success of a family business often rests upon the unique experience of the predecessor. They provide a model for the study of knowledge transfer in family businesses. 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.

Regarding succession Steier (2001b) points out four different methods of succession and transference of social capital across generations that may influence post-succession performance. While "unplanned sudden succession" and "rushed succession" may conduct to choose a successor with a low level of preparedness for managing the family firm, "natural immersion" allow successors gradually assimilate the nuances of the network relationships. However, it is only in the "planned" transfers that leaders recognize the importance of transferring social capital and make deliberate attempts to introduce successors to the social networks of the organization.

More recently, Pistrui et al. (2010) examine family-based resiliencies and transgenerational phenomena in family business contexts and introduce the trans-generational family effect (TFE) construct. The TFE influences long-term strategy and culture in family-based entrepreneurial ventures. Their findings suggest that the TFE promotes vision and wealth creation across generations in family businesses.

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. In arguing for the benefits of stewardship behavior, Davis *et al.* (1997, p. 25) state that "a steward protects and maximizes shareholders' wealth through firm performance, because, by doing so, the steward's utility functions are maximized".

Scholars invoking stewardship theory maintain that family businesses are already representative of corporate stewards (Pieper *et al.*, 2008; Miller and Le Breton-Miller, 2006; Corbetta and Salvato, 2004). Thus, 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; Anderson and Reeb, 2003). 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). Family scholars argue that these stewardship dynamics provide the family firm with a superior governance structure.

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. That is, without a common organizational goal to unite the family, the business may become factionalized, leading to decision-making paralysis.

Hence, stewardship theory provides a viable alternative to agency theory and has gained in popularity in mainstream management (Sundaramurthy and Lewis, 2003) and 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, such as management and control issues (typically summarized as governance relationships). Only recently has the theory been applied to dynamics within the ownership and family realms (Le Breton-Miller & Miller, 2009).

6. CONCLUSIONS AND FUTURE LINES OF RESEARCH

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. Whilst thirty years ago there was no appreciable academic research on this field, at present we are witness to an ever increasing number of works dealing with family business (Astrachan, 2010). 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. Development of a rigorous theory of the family firm is just beginning. However, there is an increasing number of works in the last decade and scholars from mainstream disciplines are attempting to apply the dominant theoretical frameworks from their respective disciplines to study family firms, what is very encouraging. Using these dominant frameworks is likely to help impose more discipline and structure on family business research.

Regarding future lines of research, taking into account the heterogeneity of this type of business, some scholars propose other theories that could help to determine the main features of family influence, and the utility of these theories have to be tested through empirical studies. Thus, Centeno-Caffarena (2006), using the Institutional theory approach, tries to explain the role of informal institutional factors in the family business, but it could also be applied to formal factors. Wargitsch (2008) recurs to Stakeholder theory to illustrate different stakeholder structures underlying family firms (that nonfamily firms do not have) in explaining family firm behaviour concerning internal control, but some more research need to be done regarding external stakeholders and their influence in the family firm. Nicholson (2008) and Pieper (2010) suggest that a greater inclusion of psychological theories is required if we are to understand fully the particular nature and behavior of family businesses. Thus, Psychology and Sociology theories could very useful to understand motivations, attitudes, values, culture, etc., of the family firms. Finally, Zellweger et al. (2010), basing on familiness concept, have suggested to use the Organizational Identity theory to understand how the family can contribute to the family firm success.

Moreover, it makes sense to recur to different explanatory approaches from each discipline and for the different types of family businesses (Klein, 2010),

There is also a need for more applied research, which could be useful for decision makers. Although research has increased in recent years, more work should be focused on getting results with a cross-national approach and to quantitatively measure the scale of the phenomenon from the point of view of its economic and social importance (European Commission, 2009). Other fields for research are innovation in family firms, the performance of family businesses, ownership and mergers in family enterprises.

In conclusion, it appears that we may be witnessing the early stages of the development of a dominant paradigm for the family firm. This paradigm is likely to result from the integration and adaptation of different mainstream theories of the firm that are applicable to the different facets of family business, where is still a great need of empirical and theoretical research.

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