Understanding the Family Firm – A New Framework for Theory and Research

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ABSTRACT

A new theoretical synthesis is presented drawing upon biosocial, psychological and organizational concepts. It argues that family firms can avoid the agency problems and moral hazards attributed to them and outperform non-family businesses. They can do this by securing strong and adaptable cultures through mastery over the special challenges that confront them. The key to this, that the paper elaborates, is the family system and how it shapes leadership choices in ownership, governance and succession.
Family business is a forgotten world in the field of management. It scarcely receives a mention in the leading journals of our discipline or in the pedagogy of most leading business schools, where the corporate model remains the predominant paradigm (Gersick, Davis, Hampton, & Lansberg, 1997; Litz, 1997). Perhaps it is because family firms are seen as “different” (Donckels & Frohlich, 1991) that they hardly feature even in the field of entrepreneurship – itself a partially segregated enclave from the management mainstream (Busenitz et al., 2003). The consequence is that theory and empirical research are seriously underdeveloped.

Four reasons can be offered for the need to reverse this neglect:

1. Family owned and run firms account for a majority of businesses and a large proportion of GDP in just about every market economy (Colli, 2003), and in some parts of the world they hold the commanding heights of the economy (Dutta, 1997; Redding, 1990).

2. They offer examples of some of the most outstanding examples of business performance and longevity (Collins & Porras, 1994), yet at the same time firms in the sector are often fraught with viability-threatening perils and rife with conflict (Kets de Vries, 1993).

3. Many of the most successful businesses grew from family origins (Porter, 1973), an ontogeny that persists; yet there is no consensus over the factors that distinguish family firms that achieve excellence and growth from those that experience failure and early death.

4. There is a rich array of theoretical challenges in the field, some of which have wider business resonance, to the extent that family relationships and cultures are
archetypes of all business interactions and communities. Some of their major flaws and critical success factors may be general to other kinds of business.

**OVERVIEW OF THE FRAMEWORK**

The framework draws upon ideas from multiple sources and disciplines including evolutionary biology and genetics, economics, family psychology and organizational behavior. It places agency, in the form of the family system and leadership choices, in a central explanatory role (Davis & Stern, 1980), conceiving the unique challenges and opportunities of family firms as arising from alignments and misalignments between kinship and ownership, executive responsibility and accountability (Kepner, 1986; Reiss, 1981).

The framework, portrayed in Figure 1, seeks to identify and explain how family firms can achieve outstanding performance and avoid agency problems by integrating the unique web of interests and capabilities that characterizes each of them. The framework takes as its point of origin culture and economy, since the historical and geographical context has a determining role over the structure and functioning of family systems. The family system – consisting of structural, dispositional and cultural elements – determines not only the identity of the leader or leading group, but also the constraints and legitimacy under which leaders operate. With or without the support of advisors, leadership choices in three critical areas are necessary to avoid agency problems and moral hazards, and to achieve the alignments of organizational structure, strategy and culture that deliver performance. Feedback loops are implied throughout the model, but omitted in the diagram and most of the discussion, in the
interests of brevity and clarity. Some of the most important are the time-lagged consequences of leadership decisions impacting the family system, and indeed, future leadership.

The best way to explore the implications of the main propositions of the model is by reverse engineering its causal flow – looking first at family business performance and concluding with the family system in context. In sequence, therefore the paper discusses:

1. What are the main elements underlying variation in family firm performance?
2. What is the role of leadership choice in determining performance?
3. What is the role of the family system as an input to leadership?

Before undertaking this a prior question should be addressed: what is a family firm?

FAMILY FIRMS: DEFINITION & PREVALENCE

This question can risk being a stalling point for research, since there is no obvious and straightforward answer (Colli, 2003; Rothausen, 1999). There is scope for debate about what threshold of family involvement would qualify a firm for the appellation (Handler, 1989), and the question can only be answered by declarative rather than analytical means.

For the purposes of the present paper, which is to root the framework in a recognition of the biosocial status and functioning of the family (Booth, Carver, & Granger, 2000) one may start this task by asking, what is a family? The answer given by evolutionary biologists is: “An assembly of relatives who interact regularly, but do not necessarily share residence” (Davis & Daly, 1999; Emlen, 1995). To this can be added a clause that captures the usage of most authorities in family business (Neubauer
& Lank, 1998; Ward, 1987) “firms where one or more families has an effective controlling ownership interest.” This definition allows non-owning kin, such as children, former owners, and non-active spouses to be included, and excludes family members who have negligible material interest or involvement. However, the definition does embrace those businesses, many of the largest family firms, where members with quite modest stakes are still able to exert control (Neubauer & Lank, 1998).

A key consideration is kinship, to which we will return later. Childless couples are relatives only by virtue of pair bonding, and adopted children likewise count as unrelated family members (recognized in anthropology, as “affinal” and “putative” kin respectively, Schusky, 1965). Moreover, in human families it is quite common for members to be uncertain or mistaken about paternity and relatedness (Symons, 1979), because humans, unlike many other species are unable reliably to detect kinship by smell or other visible and reliable markers (Fletcher & Michener, 1987). Relatedness, in other words, is an assumption people make, usually symmetrically. This means that family is necessarily a social construction around a biological prototype. In some cultures, such as Japan (Hambata, 1991), it is quite common for family businesses to incorporate nonkin as if they were family members, usually via marriage. Married copreneurs (Fitzgerald & Muske, 2002), and even same or opposite sex friends founding a business, such as Hewlett & Packard, can be considered as “incipient” family firms under this definition.

This broad definition, which includes first generation owner-managers and their kin since they could be considered incipient family businesses, puts the proportion of family firms at over the 75% mark in most economies (GEM, 2002; Shanker & Astrachan, 1996). It also embraces some 37% of the Fortune 500 (Shankar and

Astrachan, 1996). It has been reckoned that some 21% of the Business Week 1000 list employing executives who are direct descendants of the founding family (McConaughy, 1994).

**FAMILY BUSINESS PERFORMANCE**

Starting in the lower section of the model in Figure 1, the issue of the strengths and weaknesses of family firms has recently become a focus of attention in relation to debates within agency theory (Schulze, Lubatkin, Dino, & Buchholtz, 2001; Schulze, Lubatkin, & Dino 2003). Family firms solve one of the major agency confronting business by unifying ownership and control (Fama & Jensen, 1983), but Schulze and colleagues argue that this benefit is outweighed by the costs they incur through unique and daunting range of fresh agency problems. These include “self control”, family members making decisions that are harmful to the interests of the business; “adverse selection”, failing to make appointments on merit, and “altruism”, altering the incentive structure to favor people on grounds of sentiment. They are also seen as especially vulnerable to the moral hazards of free riding and shirking, the risk of “hold up” by influential individuals, and additionally, in the absence of share price indicators, having to bear the additional costs of monitoring firm performance (Lubatkin et al., 2002). It is certainly true that family firms are notorious for their dislike of administration, planning, and formal control mechanisms (Geeraerts, 1984; Daily & Dollinger, 1991; Ward, 1987), and they often have difficulty divesting non-performing relatives (Levinson, 1989), but are these the principal causes of their failure? It is true that family firms are vulnerable to untimely demise, but the research record shows that moral and agency hazards are less often the cause than other failings that stem from family dynamics, such as interpersonal conflicts, mismanaged succession, family/non-
family schisms, and poor decisions over divisions of equity (Aronoff, Ward, & Visscher, 1995; Gersick et al., 1997; Lansberg, 1999; Morris, Williams, & Nel, 1996; Neubauer & Lank, 1998).

Moreover, if there are so many ways for a family business to fail – arguably, more than in other types of business – how does one account for their sustained popularity and economic importance (Aronoff & Ward, 1995), or their capacity to achieve outstanding performance and longevity (Family Business Magazine, 2003; O’Hara & Mandel, 2002)? A recent study comparing the business performance of public family and non-family businesses in a controlled comparison of S&P 500 firms has confirmed that family firms outperform their non-family comparators on ROA, and are also more profitable in firms where a family member rather than a non-family executive serves as CEO (Anderson & Reeb, 2003). Among private firms it is also claimed that family firms are more unstinting in their effort, making them more productive than their non-family counterparts (Rosenblatt, 1985). Moreover, public corporations are not immune from agency problems and moral hazards, as business history of the first years of this century has shown. Flawed governance structures and over cushioned incentive systems seem to offer scant protection against moral hazard and self-interested decision-making among its executives (Bebchuk, Fried, & Walker, 2002).

At the base of Figure 1 are four dimensions which are claimed to be areas of performance advantage for family firms: adaptation, innovation, productivity and longevity (Beckhard & Dyer, 1983; Rosenblatt, 1985; Aronoff et al., 1995; Tagiuri & Davis, 1996).

The explanation I am proposing here for the ability of family firms to generate exceptional performance is that they are a survivor population. Like vines that produce
the finest wine by having had to struggle to survive in unsympathetic conditions, the family firms that prosper have qualities enabling them to overcome the special challenges presented by the overlapping of family and business interests, a point acknowledged 40 years ago by Alfred Chandler (1962). This advantage is claimed by those that have been able to build uniquely strong cultures, unifying effort, talent and willpower around a shared spirit and vision (Daily & Dollinger, 1991; Tagiuri & Davis, 1996; Beehr, Drexler, & Faulkner, 1997). However, no one to date has explained the casual elements that enable some firms and not others to do this.

I wish to argue that the root dynamic of this path can be taken from a perspective that combines concepts of agency with biogenetic forces. Family businesses are reproducing elements that are consistent with our evolved design as working social animals (Nicholson, 2000; Lawrence & Nohria, 2002) – specifically, kinship identification with the products of labor and a dissolving of the work/non-work schism through the family functioning as a unit of production, consumption and reproduction (Sahlins, 1972). This dynamic confers four unique potential benefits on firm culture:

1. **Identity.** Ownership means, as Anderson and Reeb (2003) put it, that the firm is seen as an asset held on behalf of future generations rather than wealth to be consumed in the owners’ lifetimes. In the best performing firms this identity is shared with non-family members and other stakeholders in a spirit of unrivalled loyalty and community (Beehr et al., 1997). In relation to suppliers, customers and other stakeholders the same spirit persists (Lyman, 1991), along with the accountability of having the “family name being above the door” (Brokaw, 1992).

2. **Continuity.** Leaders last longer and, where they do not outstay their welcome nor mismanage succession, they help the firm to retain identity across multiple
generations (Beckhard & Dyer, 1983). This supports cultural continuity and
communitarianism, as well strategic integrity (Dreux, 1990; Fiegener, Brown,
Prince, & File, 1996). Family firms are more willing and able to play a long
game financially (Donckels & Frohlich, 1991; James, 1999), with what has been
called “patient capital” (Aronoff et al. 1995)

3. Confidence. Longevity means executives are able to build stable networks of
relationships, and ownership means they are able to govern with free from the
pressures and accountabilities that can make employed leaders defensive (Collins,
2001). This may also enable family executives successfully to enact styles that
combine tight leadership with loose delegation (Goffee & Scase, 1985).

4. Pragmatism. The vicissitudes of birth that give rise to family structure, and the
“gene lottery” as we may term it, that determines the unique character of
individual family members (Lykken, McGue, Tellegen, & Bouchard, 1992;
Plomin, 1994), mean that successful family businesses are typically those that
have had the flexibility to find pragmatic solutions to human capital shortages and
resolve the conflicts that may occur. It is the will to do so for the sake of the
business as a family domain that makes family firms so unusually adaptive (Daily

These qualities are allied with sympathetic financial strategies. Family firms
typically structure their finances in ways that retain control and minimize external
obligation, so that, compared to public firms they have lower debt to equity ratios,
better managed capital structures, and more efficient resource allocation (Dreux, 1990;
Monsen, 1969), plus reporting regimes that give competitors less access to their
operational and financial condition (Johnson, 1990). These conditions mean that they
can enact strategies with minimum influence from outsiders (Pettit & Singer, 1985).
To discover these strategies and benefits, I am proposing that leadership choices, underpinned by a strong family culture, can circumvent family and agency hazards to outperform other types of firm.

The first proposition that can be offered is therefore as follows:

HI. Family businesses will outperform and outlast non-family comparators firms, if they enact decisions and practices that align family with business interests.

THE ROLE OF LEADERSHIP CHOICES

Let now look at the critical decision areas that can achieve this alignment. In keeping with an agentic perspective, the pivotal factor is leadership, and more specifically the choices leaders make to deal with external market challenges and the firm’s stakeholders, to reconcile its internal potentially conflicting forces, and avoid the moral hazards and agency problems previously discussed. They are, as shown in Figure 1, ownership, governance, and succession.

Ownership And Asset Management Decisions.

Many family businesses fail because of errors in financial strategy. Leaders face a succession of decisions that are germane to business success and family adjustment. Early in a firm’s history whether to raise capital through debt or equity financing is typical. Family firms exhibit a pronounced preference for the former, typically building a strong equity base through retained profits (Pettit & Singer, 1985; Poutziouris, 2000). This creates subsequent dilemmas about when to extract wealth vs. increase investment, when to widen share ownership beyond the family, how to distribute ownership among the next generation of family members, and when to
Family system factors impinge on all of these decisions, and are a source of agency hazards. Divisions of wealth and ownership may easily succumb to emotional rather than rational considerations, such as unequal investments on grounds of favoritism, or even shares on grounds of equity – a strategy seems to be driven by the biogenetic pull for shares to be commensurate with relatedness (Hertwig, Davis, & Sulloway, 2002). But family businesses often fail when ownership share is not congruent with the degree of offspring involvement and contribution to the business (Ward, 1987; Crosbie, 2000).

In addition to incentives in the form of ownership or wealth extraction for the family, a further key factor is the reward structure for non-family executives (Gomez-Mejia, Larraza-Kintana, & Makri, 2003). Little has been written on this topic, but plainly these relationships are delicate and need handling with care if one wishes to retain executive talent and at the same time maintain good family relations (Danco & Jonovic, 1981). The family system will influence these decisions by its biases towards inclusiveness or exclusivity.

The concept of leadership choice here, therefore, is to do with how far-sighted are leaders in the way they manage resources – for investment, incentives, security, and integrity of the business. Therefore:

**H2. Family businesses will achieve superior performance and longevity by ownership and asset sharing that reflect involvement in the business rather than equity, and which is revised as family circumstances alter.**
Governance Structures & Processes

The general tenor of writings in this area is that family firms tend to be under-governed compared to other kinds of business, because they become reliant on the informal dynamics of family interaction to make business decisions and resolve conflicts (Bork, Jaffe, Lane, Dashew, & Heisler, 1996). Much of the literature consists of practical guidance for family business owners about how to introduce management structures and board representation (Dyer, 1986; Neubauer & Lank, 1998).

The abiding concern here, which impacts directly on performance, is to have governance mechanisms that successfully integrate the family with the business. The strategic question to be answered, and to avoid the hazards and pitfalls identified by Schulze and colleagues, is what precedence to give to the demands of the business or the family – business first or family first (Ward, 1987)? As family businesses mature ownership and control become decoupled. The introduction of professional managers, the retirement of equity owning family members, and the disinterest of others, means that tricky, far-sighted and ethical decisions have to be made to avoid damaging and energy absorbing conflicts.

Many of these decisions feed back to the family system – decisions such as how to ensure that there is sufficient flow of cash to keep “peace in the house” and sufficient ploughed back in investment to satisfy the needs of the business and its professional managers. Keeping the family aligned becomes a major task as its scale increases, and conflicting “pulls” between family branches becomes an increasing threat (Gersick et al., 1997). To manage these pressures it has become commonplace for firms to create new institutions – family councils and written family constitutions – to sit alongside the board and other conventional governance structures (Neubauer & Lank, 1998). Councils operate as forums for family members to align their goals and resolve their
difficulties, and charters or constitutions to provide decision-rules and cultural edicts (Leon-Guerrero, McCann, & Haley, 1998).

\[ H3. \text{ Family businesses will achieve superior performance and longevity that institute and maintain governance arrangements – such as family councils and constitutions – that allow family views to be voiced and reconciled with business objectives.} \]

**Succession and Role Allocation**

Succession planning is notoriously problematic – especially the decision whether to groom the next generation or exclude them from direct involvement in the business (Lansberg, 1999; Morris et al. 1996). The challenge for leadership is to judge whether any member of the next generation has the requisite qualities to receive the baton, whether they can be trained to do so, and alternatively what external recruitment can be envisaged for executive positions. This is very much a matter of person-role fit, but the presence of family ties can yield a premium (Gomez-Mejia, Nunez-Nickel, & Gutierrez, 2001). Leaders need to appraise what positions are available or can be created to match the attributes and interests of active family members, and what are the key tasks that will need to be filled by nonkin. Some of the trickiest decisions come in this domain: especially how to “prune” the family tree (Lank, 2001). This is necessary when members have become ineffective or makeweight, or when it is desirable to rebalance participation – paying off some members in order to give others more leadership responsibility.

Succession and preparation of the next generation is a critical concern in every business, but in the family firm it has a compounded complexity, involving such matters as the socialization of individuals from childhood to shape their expectations,
the elimination from consideration of family members with hopes that might be legitimate but misguided, the introduction of non-family executives, and processes that engender team working among all the leading group (Lansberg, 1999).

The qualities required for these challenges include the psychological astuteness needed to balance the mix of personalities and talents, for example ensuring that there are people who can help regulate the complex swirl of emotions and interests by acting as “toxic handler” (Frost & Robinson, 1999; Toegel, Kilduff, & Anand, 2002) or “Chief Emotional Officer” (Dandridge, 2000). Intra-role conflict is also major challenge reported by family owner-managers, expressed as the difficulty of wearing “two or more hats” and having to make tough decisions in areas where uncontrolled spillovers occur between domains of kinship and business (Foley & Powell, 1997).

**H4.** Family businesses will achieve superior performance and longevity by allocating leading roles according to the match between the abilities and drives of family members and the demands of roles, selecting non-family executives to fill identified competence gaps, and by pruning family involvement to enhance perceived person-role match.

The three areas of choice we have been considering are interrelated, in some clear operational ways. Governance processes often prefigure ownership decisions and determine executive role allocation. Ownership structures frame governance arrangements and shape the parameters of succession. Succession and role allocation potentially have a time-lagged impact on ownership and governance. These interrelations have more practical than theoretical importance – pointing to the need for leaders to be aware of these as critical intersecting domains.

As shown in Figure 1 these choices enable the proximal determinants of performance to be delivered:
a) Strategic choice. The challenge here is for diversification to match the achievable and differentiated aspirations of leading family and other interests. Family firms can grow by cell division, as satellite businesses spun-off to satisfy family member interests, or by monolithic accretion as interests unify around a shared purpose and perspective (Poza, 1997).

b) Structure & Systems. Family businesses are notoriously averse to systems, and tend, as a consequence to run the risk of being under-governed and under-managed (Neubauer & Lank, 1998). The goal of leadership choices here is to implant what mechanisms will most effectively regulate the exceptional as well as the day-to-day processes of the firm.

c) Culture. If a strong family culture is the most irreproducible competitive advantage of family firms, then the successful integration of family and non-family members is the means, since not even the largest clan can staff even a small sized business without the aid of outsiders (Gersick et al., 1997).

These elements themselves have to be aligned, in the sense that strategy, structure and culture need to be congruent for any business to achieve excellence (Scott, 1981; Ward & Aronoff, 1994). In the family firm though, each of these has to capture, contain and direct the spirit of the family business towards its objectives.

Use of Advisors

It can be asking a great deal of the family and leadership to make good far-sighted decisions in all these areas. This accords external advisors an especially important role in family firms. They form a varied population, including experts in law, finance, tax and other technical areas, as well as more general trusted counsels in strategic arenas and in relation to intimate family concerns, from a position of long-
standing friendship (Ward & Handy, 1988). Additionally, firms make increasing use of the growing army of professional advisory organizations and consultancies, offering a full range of technical to emotional supports for owners and their families.

Effective use of advisors can be a critical determinant of success, by mediating and shaping choices in these areas. This is likely to be quite constrained by the family owners in terms of how targeted and temporary vs. how extensive and general is their involvement. Generally, it can be asserted that families in business always have need of advice, both to address their areas of deficient expertise, and to give wise counsel on strategic and psychological dimensions. However, they can be overused and become a source of dependency. Sometimes the steadfast and longstanding “family friend” figure can become a source of risk if they are assumed to be a reliable source of general business intelligence. It is best for family business leaders to make targeted assessments of their advisory needs and then search for them on relevant parameters.

**H5. Family leaders will make more effective choices if they make use of advisors, selected and briefed to help problem solve on the basis of domain-specific assessments of need.**

**THE FAMILY SYSTEM AND FAMILY FIRM LEADERSHIP**

So far we have analyzed the core components of successful business performance and the avoidance of hazards and failure in family firms, using an agentic perspective that puts the motives and choices of leaders in a pivotal role. Now we come to the key explanatory dynamic of the model – the primacy of the family as a source of biases and inputs to leadership and decision-making. The family business literature has, surprisingly, devoted little attention, other than in anecdotal case histories, to family systems or leadership. These cannot be reduced to simple
comparisons of leadership style, for the choices that leaders make can be enacted in various ways. What matters more is that leadership style is consistent with the ambient milieu of relationship and values. When one looks at case histories, it is striking how diverse are the leadership models one finds operating successfully.

Notably, it seems that there are more options for genuinely shared leadership (e.g. between siblings and cousins) than is found in non-family businesses (Raymond Institute, 2003). Other models include older siblings acting as pseudo-parents for younger siblings or other relatives in the business, especially where there is wide age dispersion in the family age structure (Cicirelli, 1995). The role of women in leadership also departs from conventional experience, for in some family business cultures women find their way to leadership roles much earlier and more readily than in non-family business (Cadieux, Lorrain, & Hugron, 2002; Wicker & Burley, 1991). Indeed, it may be one of the great strengths of family firms in the future that the gene lottery makes females are theoretically as available as males for management responsibility (Curimbaba, 2002).

Leadership potentially encompasses more than one person, for some of the choices we have discussed implicate a top management group, which of course may include non-family members. The essential requirement is that leaders, whether kin or non-kin, have the skills, legitimacy and insight to be able to mediate between the family system and the business system (Davis & Stern, 1980). The relationship of leadership to the family system is key – since the family often determines the identity of the leader(s), their powers and legitimacy, as well as being a constant source of demands, supports and constraints on the actions of leaders, with failure often stemming from excessive family interference (Fleming, 2000)
H6. Effective leadership choices will be made when the family gives optimal discretion, legitimacy and support for leaders to act, free from close control or constraint by the family but informed and legitimized by them.

Figure 2 provides an expanded view of the family system. It has been observed that a “chasm” lies between the analytical approaches of family psychology and family therapy (L’Abate, 1992). Certainly the notion of “family system” is treated quite differently by these disciplines. In family psychology highly abstract cybernetic-type theories attempt to model relations between family goals, communications and outcomes (Whitchurch & Constantine, 1993), while the therapeutic literature makes more simple use of systems thinking to reinforce the point that the entire family is implicated in the presenting problems of any individual member (Hoffman, 1981). A consequence of this gap in approach is that no unified theory exists in the family psychology literature to inform the study of family business.

I shall used the concept of family system here to denote the relationships among three sets of interconnected variables, as elaborated in Figure 2: 1. Family structure: The kinship network form of the family, 2. Personality configuration: The dispositions and motives of owning and controlling members; and 3. Family culture: the prevailing climate of parenting style, norms, values and related parameters. Family outcomes will be discussed as one way of characterizing the adaptive consequences for the family of the family system.

Continuing the reverse engineering approach to the framework, we shall first examine the role of family culture and outcomes, before going on to discuss the two sets of inputs to them: family structure and member dispositions.
Family Culture

The concept of culture has been deployed anecdotally rather than systematically in the family business literature. Within the family therapy and family psychology literatures there are no generally accepted taxonomies of family functioning, but rather a multiplicity of occasionally deployed constructs such as: degrees of openness to the outside world, sensitivities, individualism-collectivism, governance by implicit or explicit rules, and the presence of coalitions and alliances (Broderick, 1993). Additionally, one finds discussion of strengths of bonds of affection, communication structures, degrees of hierarchy, and power distance (Aldous, 1996).

Where writers have suggested classifications of family firms, they tend to be structural or functional, as in Gersick et al.’s (1997) schema: owner-managed, sibling partnership, cousin consortium; Gallo’s (1995) distinction between family-labor, family managed, investment, and provisional family businesses, and Habbershon & Williams (1999) scale of “familiness”, which combines aspects of ownership, management, employment, heritage and family involvement.

One recent attempt to capture more cultural variations has been Ling’s (2002) adaptation of Todd’s (1995) 2x2 grouping of families by their degree of equality/inequality and authority/liberty. This classification was in turn derived from the writings of Le Play, a 19th Century sociologist, who modeled the dimensions on parental and sibling relationships as archetypes. This focus certainly goes some way to capturing how the values and norms of the family as a culture might constrain or direct leadership choices, but arguably what is missing from this and other writings is an account of the internal dynamic of family functioning. One source in the family psychology literature that has attempted to model and measure this is the work of
Bengston and colleagues (Bengston, Olander, & Haddad, 1976; Bengston & Schrader 1982) who conceived of family solidarity via six constructs: intergenerational family structure (size, type and geographical distribution), and five psychological/behavioral constructs: associational, affectional, consensual, functional, and normative solidarity. These summarize patterns of interaction, mutual support, positive emotions, shared values, and perceived obligation, but there has been little or no follow up on these in the literature.

The other corpus that has an explicit bearing on family climate is parenting style, which tends to be, by extension, a characterization of culture. The classic distinction in the literature contrasts authoritative, authoritarian and permissive styles (Baumrind, 1972; Reitman, Rhode, Hupp, & Altobello, 2002; Wolfradt, Hempel, & Miles, 2003), and many scholars in the field also focus on spillovers from the quality of parental relationships to children’s adjustment (Herz Brown, 1991).

To summarize, the key dimensions of culture that would seem to capture the dynamics of family functioning are:

a) Parenting style, i.e. the character of family leadership;
b) Power distance between family members, i.e. norms of hierarchy vs. equality;
c) Shared norms and values, i.e. other dimensions of solidarity and conformity
d) Open expression, i.e. the degree of communicative openness about family issues and emotions.

**Family Outcomes**

The foregoing analysis highlights the bonds and sentiments that unite or divide the family. Another way of characterizing family culture is in the effects these processes have on the integrity of the family, what in Figure 2 are called family
outcomes. This amounts to an analysis of the liability of families to different kinds of change: adaptive vs. centripetal, centrifugal or schismatic tendencies.

1. *Adaptive* families – where affectional bonds underpin stability and harmony, and adaptive problem solving is sustained by receptivity and open expression. The family grows and stays healthy by virtue of an absence of the normative restraints that can obstruct the individuation of growing family members (Boss, 2002).

2. *Enmeshed* (centripetal) families – where through heavy authority and enforced solidarity members become co-dependent to the extent that any member seeking individuation is met with resistance as a traitor and revolutionary (Minuchin; 1974; Cooney, 2000). This kind of break-out is a frequent crisis point in family firms, especially where the owning generation insufficiently relinquishes authority to the next (Lansberg, 1999).

3. *Divided* (schismatic) families – where families are factionally split, forming hostile coalitions and alliances, sometimes all against one perceived “black sheep” (Kerig, 1995). In family firms schisms often occur where family branches, tied by marriage rather than blood, seek to take the firm in different directions (Foley & Powell, 1997). Sibling conflicts also can become amplified through divided ownership.

4. *Fragmented* (centrifugal) families – where members are highly individuated and outward facing, to the degree that they are unable and unwilling to give each other cooperation and support (Dawson, 1991). In family firms this often manifests itself as the succession crisis where no one is willing to follow in the founder’s footsteps (Lansberg, 1999), and subsequent dispersal of family and firm as an entity.
H7. *Families’ liability to adaptive vs. dysfunctional outcomes will be predicted by measurable dimensions of family culture: parenting style, power distance, shared norms and values, and open expression.*

One can expect families to vary in the strength of their susceptibility to these outcomes, and for this to vary over time. A close and nurturing family may become an oppressively enmeshed one, as parents increasingly resist the growing attempts of children to assert their independence. The family system is clearly not a static entity, but subject to continual variation and change (Kreppner & Lerner, 1989). Alterations to family composition and structure, the maturation of individuals, and variations in and character of intra-family relations make this a moving landscape. Researchers characterize this as the family life cycle (Carter & McGoldrick, 1995) or the family career (Aldous, 1996).

These outcomes impact on firm performance and longevity. The adaptive family is in a state of readiness to consider and support leadership choices. The other three types represent common threats to family firms: enmeshed families’ failure to allow the next generation sufficient autonomy to run the business; divided families where internecine conflicts tear the business apart; and fragmented families where there is insufficient coherence or shared commitment to maintain the enterprise as a family business.

The strength of the impact of family outcomes on the leadership of the firm will be mediated by the degree of identity between the family system and the leadership of the firm, i.e. if families only have an ownership interest in the business and the managing executives are non-family, these adaptive risks continue to apply, but with less immediacy and impact.
H8. *Families’ liability to adaptive vs. dysfunctional outcomes will be predictive of their performance and longevity, mediated by the degree of family participation in leadership.*

Now let us consider the two main hypothesized inputs to family culture: family structure and member dispositions.

**Family Structure**

Family structure can be decomposed into four key sets of biogenetic variables: kinship or degrees of genetic relatedness, gender, birth order/family size and age spacing. Combining them potentially offers an objective method for coding family types, and perhaps their propensity for different kinds of dynamic, something that has not been attempted or even discussed in the family literature. Taking kinship first, this can be precisely indexed on a coefficient of relatedness from 0-1. Identity (1.0) is only found in clones, i.e. monozygotic twins, 0.5 occurs in parent-child and sibling relations, 0.25 quantifies niece/nephew and grandparent relationships, and 0.125 is the coefficient for cousins. With knowledge of kinship it is possible to construct indices of aggregate and average relatedness. Evolutionary research has confirmed predictions that the higher is relatedness the more likely are social support, cooperative and altruistic behavior, and perceptions of subjective closeness (Barrett et al., 2002; Kruger, 2003; Neyer & Lang, 2003).

However, it is also the case that the genetic interests of family members diverge, especially siblings and parent-child relations (Dunn & Plomin, 1990; Trivers, 1974). Parents generally desire equality and cooperation among their offspring (they have equal genetic shared interests with all their children) but between siblings interests are divided zero-sum (Hertwig et al., 2002). Yet sibling rivalry is apt to disappear in the
face of external competition from less related or unrelated others (Bank & Kahn, 1982).

It seems that the tighter the bindings of common genetic interest the greater the propensity for conflicts and mismatched demands to be realized. Family business research has generally confirmed both the propensity for these conflicts to occur in family firms (Levinson, 1971), and for collaborative biases to be correlated with kinship (Handler, 1994).

Gender, age spacing, birth order enter the picture as possible moderators of intra-family conflict or cooperation. Family structures can be contrasted in terms of their “density”: resulting from their size and aggregate interrelatedness, the compression of age differences, and their gender mix. These will a) predispose family cultures to be more or less normative, b) leadership/parenting styles to be more or less hierarchical, and c) family outcomes to be more or less likely vulnerable to the dysfunctions identified. In age spacing, closeness has been found to predict conflict among siblings (Burhmester & Furman, 1990). The same can be expected between parents and children, as indeed has been found in the only study in the family business literature to look at intra-familial relationships. Davis and Tagiuri (1981) found father-son age-gaps associated with conflict at critical life stages – typically when the father was too young to let go and son too old to wait for power.

H9. The aggregate relatedness of a family will predict cooperative values and family culture, mediated by age spacing among siblings and between parents and children – wider gaps biasing towards cooperation, closeness towards competition.

The effects of gender are also mixed. One recent study has suggested that role conflicts occur when wives and husbands work together in the business (Danes & Olsen, 2003). This is consistent with the concept of “gene politics” (Nicholson, 2000)
– the idea that cooperation is most likely when relatedness, ownership and executive influence are congruent and least when they are not (husbands and wives being affinal or unrelated kin). More positive effects can be expected when women play leading roles as family members by blood rather than marriage, and in general the presence of women can be expected to reinforce cooperative values in family business culture (Broderick, 1993; Brush, 1992; Geary, 1998). There is also much informal evidence from popular media accounts of the critical role wives and mothers play behind-the-scenes in family businesses (Hollander & Bukowitz, 1996) & Olson, 2003), much as they do mediating political relationships and strategic decision-making in tribal societies (Coon, 1971).

\[ H10. \text{ The presence and active involvement of women in the family system will attenuate the propensity for intra-family conflict, so long as their influence is congruent with their relatedness and ownership.} \]

The effects of birth order have not figured in the study of family firms. These are potentially complex, compounded by variations in family size. Previous research has produced mixed results – firstborns demonstrate more achievement motivation and parental identification than laterborns (Salmon & Daly, 1998; Sulloway, 1996), but differences are not detected when standardized personality inventories and survey methods are used with adult populations (Freese, Powell, & Steelman, 1999; Jefferson, Herbst, & McCrae, 1998;; Michalski & Shackelford, 2002). The most plausible resolution of these apparent inconsistencies is that birth order affects the orientations of siblings in terms of how they differentiate themselves behaviorally within the family system – for example, parental identification vs. rebellion – without this impacting on the heritable aspects of personality dispositions. One important implication of this for
family business is that strategic change may be more or less likely to follow the succession of laterborn first firstborn offspring. Following this reasoning:

**H11. Sibling competition will arise from laterborns seeking to challenge the values of parents and firstborns, especially for males.**

Family size has mainly been associated with the dilution of resources available to offspring and putative negative impacts on educational attainment, but this is highly controversial (Downey, 2001; Steelman, Powell, Werum, & Carter, 2002). In the context of the family firm one can see increased family size as potentially as source of greater adaptive flexibility, whilst weakening the average involvement of family members with the business through proportional dilution of individual ownership shares. Research suggests that with increased family size comes a greater need for directive parenting and organization to regulate family conduct (Fallon & Bowles, 1993), yet at the same time size offers a wider range of options to attenuate sibling conflicts.

**H12. Sibling competition will attenuate with family size.**

Hypotheses also derive from the forgoing analysis of the linkage between family structure and family outcomes, mediated by culture, as follows:

**H13. Density of structure (high relatedness and age compression) will predict family enmeshment, mediated by family culture (high openness, low power distance, and non-authoritarian parenting style).**

**H14. Density of structure will be inversely predictive of family fragmentation, mediated by family culture (low shared norms, open expression, and permissive parenting style).**
H15. *Family size and mixed density (e.g. dense family branches linked by marriage) will predict family division, mediated by family culture (low shared norms).*

A number of other specific hypotheses in this area can be generated, and await field testing.

**Personality Configuration.**

There has been no systematic research into the personality attributes of family business leaders, though there is a long and controversial history of whether an “entrepreneurial personality” type exists (Nicholson, 1998; Rauch & Frese, 2000). However, it is widely accepted that the stable dispositions of leaders predict their preferences and choices, and consequent upon these, the fate of firms (Chan & Drasgow, 2001; Hogan, Curphy, & Hogan, 1994; Miller & Toulouse, 1986). Behavior genetics research informs us that personality and other individual differences have the seemingly paradoxical status of substantial heritability but without running in families (Bouchard, 1997; Loehlin, McCrae, Costa, & John, 1998; Lykken et al., 1992). The reason for this is that many phenotypic psychological individual differences are explained by gene combinations, plus epigenetic processes (the neonatal switching on of genes) (Ridley, 1999). This consequence has one important and familiar implication for family business – there is no guarantee that offspring or other relatives will share a parent’s interests and motives or be willing to adopt a leading role in the firm. Other heritable individual differences in the cognitive domain are likely to compound the problem (Zajonc, 2001). In sum the family gene pool offers an unpredictable and limited range of options.
This analysis also suggests, however, that the range of decision options will be limited or biased by the *configured* individual differences of the leading group (Moynihan & Peterson, 2002; Pitcher & Smith, 2001). Following the analysis of Moynihan and Peterson, predictions about the effects of specific configurations can be formulated in terms of:

a) The unidirectional influence of the presence or absence of specific traits among the leading group, especially those with extreme values

b) Gaps and overlaps in dispositional biases,

c) Congruence and incompatibility of key family members’ profiles,

d) Contingent configuration: the contextual dependence of specific combinations.

The family psychology literature contains evidence for linkage between member temperament and family culture and functioning (Stoneman, Brody, & Burke, 1989), and in terms of contingent configuration, the family structure is probably the most important context for contingency, e.g. dominance is likely to be more acceptable in the large wide age-spaced family than the close aged nuclear family. Other contingencies will be the nature of challenges and demands facing the firm. Although complex, this seems a promising approach to the study of the conduct of family firms, especially since configural hypotheses have only rarely been applied in field research (Moynihan & Peterson, 2002).

**H16. Family culture will be partially determined by the predominant dispositions of central family members.**

**H17. Family culture will be partially determined by the congruence or incompatibility of the dispositions of central family members.**
H18. Family culture will be partially determined by the congruence or incompatibility of configural patterns with family structure, and the challenges facing the firm.

These hypotheses are broadly framed. Drawing upon the Big Five model of personality, many more could be generated within the framework that are more specific and directional about predicted effects. For example, under H16 the presence of members with high Openness and Agreeableness will be related to a family culture where open expression is high. Under H17 one can hypothesize that benefits derive from members differing in Extraversion. Under H18, for families operating under high pressure high Conscientiousness can be predicted to be especially advantageous and Neuroticism deleterious. Extraversion and Agreeableness can also be seen to help large size families achieve adaptable outcomes, while parents with high Neuroticism and dominance (a facet of Extraversion) will create enmeshment, especially in small families. Many additional hypotheses along these lines can be generated and tested.

There is also the question of the relationship between family structure and personality configuration. This is not elaborated in the model, but it is likely to be a one-way (in the short-term) causal link: personality being weakly affected by family structure.

CULTURE AND CONTEXT

The framework has wider social policy implications. The framework set out here has at its core the family system impacting on the decisions leaders make that enable the business to prosper, avoid the familiar hazards, and survive. It has some major business policy implications for the leadership and governance of family firms. It also has wider social policy implications, emanating from the feature at the top of
Figure 1: the family system is also embedded in a wider context of cultural biases that filter all the variables we have examined. Family businesses may share many features worldwide, but they also differ as a function of culture and economic-specific sets of social norms and values, finance and taxation regimes, and kinship patterns and practices (Busch, 1990; Fiske, 1991; Sampath, 2001; Todd, 1985). In terms of structure, family size is highly subject to international and cross-cultural variation, and historically apt to decline as economies develop. It is said that in the West we are currently witnessing the development of the “beanpole” culture – multiple generations (through longevity) but no breadth (through declining birthrate) (Markson, 2003). The business that depends on this structure will have a different culture and be exposed to different hazards than the firm that has extended breadth and shorter life expectancy, as firms do in many parts of the developing world (Colli, 2003; Hagestad, 1984; Bengston, Rosenthal, & Rosen, 1990).

Major social change is underway in many economies where family businesses occupy a key role. The framework I have presented may help to anticipate some of the consequences of demographic, cultural and macroeconomic trends. A major undeveloped theme of the literature in the field is, indeed, the need for a better understanding of whether the distinctive strengths or hazards of family firms are more exposed in some cultures than in others.

CONCLUSION – ARE ALL BUSINESSES FAMILY BUSINESSES?

This paper has argued the need for a better understanding of family firms, and their greater recognition in the mainstream management literature, on the grounds of their economic prevalence, theoretical challenge, and empirical interest. This could still mean they are dismissed as irrelevant to the remainder of the corporate business
world, even though family influence continues to pervade the big public firms of the US and other economies (Colli, 2003).

There is one other argument for greater attention in organizational science to family firms. This is that all firms carry the residue to family feeling and relationships within them. This is due to what I have elsewhere called the “as if” principle (Nicholson, 2000). The uncertainty of paternity generated by our lack of any kinship detector organs and visible fertility markers means that much of our kinship is taken on trust, on the basis of report and inference. This is counterbalanced by our powerful bonding capabilities. Together these design features enable us to build large communal clans of loose genetic relatedness, including an unusual (relative to other species) acceptance of adoptive childrearing (Silk, 1990). For all our evolution before the modern age this was the adaptive environment of humans: clans made up of strong and weak genetic ties (Keesing, 1975; Megarry, 1995). It is only recently that we have come to commune with strangers and nonkin, and it is not surprising that within our clans, we operate with the inferential paradigms of kinship relations. Friends act “as if” they were siblings or cousins, bosses act like parents, mentors like grandparents or uncles and aunts, and subordinates like offspring (Kram, 1988; James, 1991; Nykodym, Longenecker, , & Ruud, 1991). The psychological investments we make in close associations draw from the same well as kinship. However, it is this logic that makes people so sensitive to perceived betrayal and contract violations in organizations (Rousseau, 1995). It is also what leads departing bosses to treat the succession to their position as if it were dynastic and familial (Sonnenfeld, 1988).

If this is the case – that elements of family process and culture are present in all firms – then it follows that the processes highlighted here will also be widely relevant. One can infer how leader choices could be highlighted in parallel domains to those
have been examining, such as the likely effects of stock holding, informal councils, and succession processes – as bearing on the culture and effectiveness of firms. Likewise, it would follow that inputs identical to or analogous to those we have considered here – personality configuration, relational structures among the leading group, and the group culture they create – would shape choices in a similar fashion in non-family firms.

At a time when shareholder capitalism has been under fire from many quarters it is as well to remind ourselves that strong and vigilant high-trust cultures are our best protection against agency problems and moral hazards, as well as a key to sustainable competitive advantage (Barney & Hansen, 1994; Etzioni, 1993). It is perhaps easy to be cynical about firms that claim to recreate the values of the community and the spirit of the family, but as has been argued in this paper, family and community are biosocial institutions of fundamental resonance, and the businesses that repeatedly achieve the accolades of highest regard by the business community and by their employees and other stakeholders are firms that successfully are able to create and sustain the spirit and values of the adaptive extended family.
REFERENCES


FIGURE 1
A Framework for Analyzing the Performance of Family Firms

Culture & Economy

The Family System

Family structure ---- Personality configuration

Family culture & outcomes

Leadership

Use of Advisors

Choices & Hazards

Governance structures & processes --- Succession & role allocation --- Ownership & asset management

Strategic Direction

Appropriate diversification to balance interests

Structures & Systems

Sufficient & consistent for goals & values

Culture

Integrating family & non family

Performance

Adaptation ---- Innovation ---- Productivity ---- Longevity
FIGURE 2
The Family System

Family structure
Genetic relatedness
Birth order patterns
Age spacing
Gender balance

Personality configuration
Trait polarities
Contrasts & complementarities
Shared traits & overlaps
Gaps & underlaps

Family culture
Parenting styles
Power distance
Shared norms & values
Open expression

Family Outcomes
Adaptive – Divided – Enmeshed – Fragmented