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Guest Editors

Special Issue

New Perspectives in Family Business Research

What is a Family Business?¹

Abstract

Defining the concept of family business is an ongoing challenge. The debate around it is here discussed from the point of view of business history and family business theories as developed in the last fifteen years. Historians are interested in reflecting changes in family businesses at different periods and within different societies, and focus their research work on ownership and control within family firms. For their part, family business theorists still understand the concept as a compound or a circular scheme consisting of elements such as business, family and owners or power (governance and management participation), experience (generation in charge) and culture (family and business values).

Keywords: Family Firm; History; Business

The title of this introduction is taken from the seminal article by Chua et al. (1999), which began by posing this very question: ‘what is a family business?’ and contributed to the debate by providing a compilation of the definitions and approaches on family business produced by the

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literature. This introduction does not aim at making an exhaustive review of the literature on what family business is, but at underlining the recurrence of that question at two different points in time: the turn of the century, in relation to the debate on Chandler's work, and fifteen years later, when scholars are still discussing the topic, although not as intensely anymore. On the other hand, the answer to the question is now provided from two different fields of knowledge: business history and family business theory.²

The preoccupation to define the concept of family business was contemporary to the rising influence of Chandler's works. Those were years in which the Chandler's interpretation of family business as being old fashioned, uncompetitive in world markets and lacking necessary investments in plant, marketing and organisation was commonly accepted (Chandler 1977; 1990). The association of managerial hierarchies with successful modern economic growth, especially as found in the United States, contrasted with the British climacteric and the survival of family businesses, where the small scale of the market structure acted as a supposed institutional barrier to growth (Lazonick 1981; 1983; Mass and Lazonick 1990). The neoclassical perspective did not provide a more favourable vision of family firms. In fact, it considered them as being too small and inefficient, in the sense that managers were selected from within the owner's family rather than on grounds of merit, and growth was achieved 'organically' by reinvesting profits, with the use of capital markets limited to short-term financing. As a result, family businesses suffered low profitability and had long-term survival problems, as even the most prosperous firms often ended up having trouble with the descendants of the firm's founder (Buddenbrook syndrome). It is interesting to see how, years later, authors still draw on Chandler's work to explain the different behaviours of family

² On the evolution of family business studies, see Fernández Pérez and Puig 2013.

businesses in the process of professionalising their structures, an essential condition for their survival (Fernández Pérez 2013, 36-37).

When it comes to defining the concept of family business, the complex relationship between the subject and the changing political and institutional context in which it exists is always present. In fact, different authors have stressed the difficulty of providing a definition of family business from an ahistorical perspective, because a family firm is a pliable subject that adapts to changes in its legal, political or technological environment (Fernández and Colli 2013; Lubinski et al. 2013 and Fernández Pérez and Lluch 2016).

During those years at the beginning of the 21st century, two works were published that are worth mentioning here: one from the field of business families studies –an article by Sharma (2004)–, and the other from the field of business history –a book by Colli (2003). Each of them had a different perspective on the definition of family business, but they both showed an urgency to distinguish the subject itself. In fact, Sharma (2004, 3) insisted on the importance of having clear definitions to build a corpus of knowledge in social sciences.

Colli (2003) devoted an entire chapter to trying to understand the nature of family businesses and to reach a definition of the term. His book, which compared family and managerial companies, was written while Chandler's work was being contested. According to this author, managerial firms are easier to discern than historically changing –both in time and space– entities like family firms. Colli (2003) provided a definition of the classic family business as one 'in which property and control are firmly entwined, where family members are involved in both strategic and day by day decision-making, and the firm is shaped by a dynastic motive'. The definition was built around those aspects that are usually considered when describing companies: ownership, control and management. In general terms, and as pointed out by

Guillén and Tschoegl (2007, 157), quite a few definitions are indeed built on those aspects, from the earliest one by Jones and Rose (1993) to more recent ones.

In an attempt to synthesize a definition of family firm from the point of view of management, some scholars have focused on the share of ownership and/or management held by family members; others scholars have defined family firms in terms of the degree of family involvement or potential for generational transfer; finally, others have included the percentage of equity are under family control (Sharma 2004; Handler 1989; Westhead and Cowling 1998). When compared, it is possible to observe that the definitions differ mainly in the percentages of one or the other indicator meant to determine whether a company is a family business or not (Handler 1989; Westhead and Cowling 1998; Astrachan and Shanker 2003). Colli (2003) made an effort to describe family firms from a qualitative point of view, taking into account aspects such as the companies' size, large/small dichotomy, degree of profitability, efficiency and conservatism of the implemented strategies, endurance and continuity.

A little later, Colli et al. (2003, 28) concluded that, in order to define as intangible a subject as a family business, which varies across nations and according to the historical moment and the society in which it develops, it is important to avoid rigid definitions that could disguise the impact of the family members' intervention in strategical decision-making. Consequently, the definition of family business provided by some British authors, who describe it as a firm in which 'a family member is chief executive officer, there are at least two generations of family control [and] a minimum of five percent of voting stock is held by the family or trust interest associated with it', cannot be said to be the most appropriate one (Colli et al. 2003).

Twenty years after the special issue of *Business History* edited by Jones and Rose, a new special issue was published by the same journal and coordinated by Colli et al. (2013). As if

paraphrasing the lyrics of the well-known tango song ('twenty years are nothing'), the editors acknowledged the line of continuity between the two issues, both of which took the company as unit of analysis and examined relevant issues such as the influence that family ownership and control have on the company's competitiveness and performance.

During this period, Lubinski et al. (2013) found themselves at a crossroads, facing the challenge of defining both the concept of 'multinational company' and that of 'family business'. Their solution for the first part of the challenge is beyond the scope of the present introduction, but to solve the second one the authors went back to the usual dichotomy between ownership and control. The family exerts a significant influence over the company's control, whether through ownership or management, although ownership can be also understood as 'voting rights, veto rights threshold, the issuing of nonvoting shares, holding companies or complicated cross-shareholding structures...' (Lubinski et al. 2013, 3).

Fernández-Pérez (2012, 2) set forth a double idea. First, the evidence that the problem of defining the concept of family business is a persistent one. Second, the fact that the older definitions of family business united ownership and control, two dimensions that in our changing world are increasingly separate. This led the author to adopt a definition from the field of business theory that combined flexibility, resources –both tangible and intangible– and continuity through several generations.

Eventually, Colli tried to put an end to the debate by using the definition of family business provided by the European Commission and trying to complete it with the inclusion of a fifth feature related to longevity (Colli 2013; Colli and Larsson 2014):

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 percent of the decision-making rights mandated by their share capital. This definition includes family firms which have not yet gone through the first generational transfer. It also covers sole proprietors and the self-employed (providing there is a legal entity which can be transferred).

(5) The firm must have been controlled by the same family for at least two generations.³

In the field of family business studies, which is somehow different from that of business history, the understanding and definition of family firms begins in the work of Gersick (1997) and his 'three-circle model', in which business, family and owners were identified as the three main components. However, the article by Chua et al. (1999) was a turning point in the process of defining this concept. These authors pointed out that, whatever the adopted definition, it must reflect the singularity of family businesses, which lies not in the family's ownership or management but in 'the pattern of ownership, governance, management, and succession [which] materially influences the firm's goals, strategies, structure, and the manner in which each is formulated, designed, and implemented' (Chua et al. 1999, 22). This way, the authors moved away from 'share' or 'percentage' definitions to focus on the essence of family firms.⁴ This is how they reached the following definition: 'The family business is a business governed and/or managed with the intention to shape and pursue the vision of the business held by a

³ <http://ec.europa.eu/enterprise/policies/sme/promoting-entrepreneurship/family-business/#h2-2>, accessed on December 2012 and quoted in Colli and Larsson (2014, 40).

⁴ The definitions and approaches gathered by the authors in their article will not be reviewed here. For further information, see Chua et al. (1999).

dominant coalition controlled by members of the same family or a small number of families in a manner that is potentially sustainable across generations of the family or families' (Chua et al. 1999, 25).

Astrachan et al. (2002, 47) did not attempt at finding the definition that would finally put an end to the debate, but chose to describe 'a continuum of family business' ranging from high to low levels of family involvement. The authors proposed a model, the so-called F-PEC scale, which in order to characterise this type of firm took into consideration the following three dimensions: power (governance and management participation), experience (generation in charge) and culture (family and business values), each of which affects in different degrees the configuration of a family business. The authors' purpose was to help researchers understand the phenomenon, not to synthesise it in a single and categorical definition.

Astrachan and Shanker (2003) provided a model that was represented in a figure with three rings defining a family business from a broader perspective to a more restrictive one. The outer ring takes into consideration the family's retention of voting control over the strategic direction of the firm; the second mid-range ring includes as well the family's involvement in day-to-day operations; while the inner one, which is the narrowest definition, adds to the previous two conditions the involvement of multiple generations of family members in the daily activity of the firm (Astrachan and Shanker 2003, 3-5). This idea of various levels of definition opened up new possibilities in understanding what a family business is, although the debate on the definition of this concept was not reopened as such.

In Chrisman et al. (2005) provided a new summary of the state of play in relation to this matter. More recently, Sharma and Nordqvist (2013) incorporated governance as a distinctive feature of family businesses, despite the difficulty of sometimes differentiating it from management.

Sharma and Salvato (2013, 40) analysed the elements of participation approach, which defined family firms according to the scope and nature of the family's involvement in the business. This approach, rather than looking for a closed definition of this kind of company, is interested in answering questions such as, for example: what is the scope of the family's involvement in the ownership, management or governance of the business? Who are the family members presently involved in the firm? Will the members of the next generation also get involved in it? And if so, what role will they play?

Finally, some of the most recent contributions to the field of family business, like those of Sharma et al. (2014) and Short et al. (2016), are starting to leave aside the need to define what a family business is to focus on the firms' time dimensions and other new lines of research.

After a long discussion around the concept, the end meets the beginning and the idea of the three dimensions, rings, aspects or questions, which are more or less measurable and can be used in the common attempt to grasp an almost intangible reality like that of a family business. This special issue of *JESB* aims at reflecting the interest on this topic shown from different fields of knowledge like management, marketing, corporate social responsibility, accounting, delocalisation, internationalisation, and succession. The purpose is to review the existing literature, its evolution and the lines of research that, according to the various authors, are currently being developed.

Thus, Fernando Merino, in his empirical work, enters the world of family business –the very nature of which may influence its success and the type of strategies adopted–, to examine the companies' paths to internationalisation and their decisions to offshore their activities. In order to achieve internationalisation, family firms are required not only to have a product that may be sold in foreign markets, but to overcome their risk aversion and, in some cases, their

limitations so as to open to the possibility of hiring managers outside the family. In this sense, delocalisation may become a key factor contributing to the firm's better position as exporter, because of the resulting increase in productivity, growing wealth of information, implementation of better management procedures, building of an international network, familiarisation with the characteristics of foreign markets and stimulation of the firm's international activities.

The author's conclusion is that family firms engaged in offshoring activities obtain similar profits to those of non-family firms. It is interesting to see how, in the case of small and medium-sized manufacturing companies, delocalisation is quite less common among family businesses than it is among non-family ones. It seems that a large number of family firms could exploit the advantages associated to delocalisation, which, at the same time, are linked to a greater likelihood of sale in foreign markets, although not to a larger export percentage of total sales.

Finally, the author suggests some new lines of research, such as delving into those characteristics of a family business that may be related to its delocalisation, as well as into other particularities (management style, family culture, socioemotional wealth, etc.).

The work by Casillas et al. analyses the development and success of a private initiative, the Instituto de Empresa Familiar (IEF, Family Business Institute), which has become a promoter of research on family firms. Working on the data bases of the ISI Web of Knowledge and Scopus, the authors have performed a follow-up close review of the publications by the network of chairs of family business in Spanish universities, which is a unique example of professional-academic and public-private collaboration that could serve as a model for other countries. This network has stimulated research in the fields of specialisation of the heads of the different

chairs, resulting in works developed from the financial, corporate governance, ownership structure, internationalisation and business orientation perspectives on family business.

Casillas et al. have studied the evolution of international research on management produced by this network of chairs, and have identified 109 publications, most of them in high-impact scientific journals, according to the Journal Citation Report (JCR) developed by Thomson-Reuters. The conclusion is that this network has become a cornerstone for Spanish research in the field of family business, to the extent that 75 percent of the scientific production is signed by researchers belonging to it.

Carrera's article is an in-depth and thorough review of the literature on accounting and family business. Its objective is to identify the main findings in this field and to summarise what is known about the role of accounting in family firms. Carrera examines the contributions made by researchers from this field to the study of family companies in areas such as financial accounting and reporting, management accounting and management control, auditing and the history of accounting.

The author reveals how research on accounting has focused on issues like the quality of financial information, performance management and accounting policy options from an agency perspective, and on how the financial information practices of family businesses differ from those of non-family firms. It is possible to observe a growing interest in family businesses from researchers specialised in auditing, accounting and management control. Curiously, these researchers seem to be increasingly willing to adopt alternative theoretical approaches to the agency framework, as shown by recent works implementing the socioemotional wealth (SEW) approach or the institutional theory. This study includes as well the contributions made from the history of accounting, a field that had been neglected in previous literature reviews, to

research on family business. The works reviewed show how rich and useful a historical perspective can be to understand the role of accounting and accountants in the survival or failure of family firms, as well as in the development of accounting and auditing in society.

The article by Melero-Polo and López-Pérez aims at analysing the current state of research on corporate social responsibility (CSR), its theoretical framework, methodologies implemented and possible future lines of research. The work reviews in detail the most relevant journals in the fields of management, marketing, ethics, corporate governance and family business management. The authors conclude that, in the specific case of family firms, the research universe is quite limited.

This thorough analysis has allowed identifying issues related to the consumers' attitude and the market response to CSR activities, financial value and risk management, proving that this is an already mature research field. All things considered, the empirical results show a positive relationship between CSR initiatives and the value of the trademark. In contrast, the relationship between CSR and financial performance is not always so clear and depends on the variables included in the general model, which can alter the results. However, the authors argue that the management style and particularities of family firms make it necessary to integrate other aspects into the analysis, such as their strong bond with the local communities, the transmission of values and a notable interest in preserving the reputation of the brand or the family. Consequently, generalist theories based on the maximisation of economic criteria seem to lose ground, while the stewardship theory and the socioemotional wealth approach emerge as recommended and predominant in specialised literature.

CSR has certainly become a key issue in the agenda of Spanish companies and the authors explain the advantages of implementing CSR policies and practices: improved brand

knowledge, market share, productivity, efficiency, worker's motivation and competitiveness, and an increasingly solid and positive corporate reputation.

The next-to-last work in this special issue is that of Bravo et al., who focus their study on marketing and family business. Generally speaking, there are not many academic researches on marketing in the sphere of family firms and the few existing examples deal with brand management. For this reason, the authors have concentrated their efforts in analysing the concept of trademark within family businesses. In marketing research, brand management is one of the main topics and a reference concept for some of the most important research institutions and main journals in this field, where articles on this subject appear very often.

In this specific case, the authors have delved into the literature published in relevant journals and have identified 15 works on marketing and family firms, 50 percent of which studied the firms' brand management. These data suggest that, while the study of the specific marketing aspects of family businesses has not drawn much attention, brand management, sometimes understood in this context as an extension of the family's image and identity, has spurred greater interest. After their literature review, the authors include a list of considerations that may be useful to adapt global concepts to the specific case of family firms, as well as some propositions for future researches.

The last work included in this special issue on family business is a comparative study of Italian and Peruvian family firms confronted with intergenerational succession. In its effort to define family business, business family and intergenerational change, this interesting work includes a theoretical analysis. It also emphasises the value of knowing the potential of business families to carry out generational transfers.

This special issue offers researchers interested in family business the possibility of updating their information on how research on topical subjects like management, corporate social responsibility, accounting, delocalisation, internationalisation, marketing, and succession is progressing in Spain. The works included cover a wide range of topics, delving into some of them and suggesting new lines of research. The simultaneous publication of Wilson et al. (2017) confirms the current interest on the topics here discussed.

This issue is also the result of a meeting held by the authors in Seville on January 25 and 26, 2017, within the framework of a seminar on Family Business and the new research perspectives in this field. The first drafts of these articles were discussed and contrasted during that event. The seminar was organised with the collaboration of the Escuela de Estudios Hispanoamericanos (School of Spanish-American Studies) of the Consejo Superior de Investigaciones Científicas (CSIC, Spanish National Research Council) and the financial support of research project HAR2014-52079-C2-1-P.

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