



ResearchMatters

BUSINESS FAMILIES CENTRE'S WHITE PAPER SERIES

Research Matters in the Family Enterprise Field: Where Theory and Practise Meet

"Begin at the beginning and go on till you come to the end: then stop."

- Said by the King to the White Rabbit, Alice's Adventures in Wonderland, by LEWIS CARROLL, English author & recreational mathematician (1832 - 1898)

BY JENNIFER HALYK

OCT 3, 2012

The Business Families Centre at the Sauder School of Business is a non-profit organization which offers programs, education and resources to entrepreneurial families, as well as the professionals and non-family executives that collaborate with them. Our mission is to illuminate the journey for business families while providing comprehensive support; lead the way in the field with research and education; provide a gathering place for community and innovation; and to advance the continuum of learning in the field of family enterprise by using the transformative powers of education.

In keeping with our mission and in pursuit of increasing education and awareness among business family members, advisors, and professionals in the field, the Business Families Centre is launching a series of white papers to initiate further discussion about, and foster a stronger appetite for, the latest research in the growing field of family enterprise studies. Complemented by personal accounts from business family members, practitioners and professionals at the forefront of the field, our series is an ambitious and uncompromising look at the issues that have nothing less than a critical effect on our businesses, our communities, and our economy. In this inaugural paper we will look at the field of family business research and practise as an emerging independent discipline. We will address the struggle for a definition of the term family business; outline its distinctiveness as compared to non-family firms; and address its significant contribution to the economy.

Why does it matter, and why should it matter?

Much of the literature in the field of family enterprise begins by making a case for its relevance, and endeavours to answer the question: why does family business research matter? While we need not look very hard for an answer, there are no simple explanations. While there aren't any Canadian statistics on family businesses alone, strictly speaking, the best research and estimates known in the field show that:

- About half of the Canadian workforce is employed by a family enterprise
- Canadian family enterprises create anywhere from 45 to 60 percent of its GDP
- Family enterprises create an estimated 70 to 90 percent of global GDP annually
- While 41 percent of small and medium-sized Canadian business owners plan to exit their business within five years, only 35 percent are planning for their future succession, and of those, the majority are informal and unwritten (Bruce & Picard, 2005)
- Internationalization (of a business) becomes more likely when younger family members are involved in managing the company (Fernandez & Nieto 2005)

The existing research in the field also tells us that the actual number of family-controlled enterprises in the world constitute 80 per cent of all businesses. However, fact-seekers will find there are discrepancies between sources, perhaps because of a lack of consensus regarding the term family business in general

Research Matters is made possible through the generous support of CIBC



(Handler, 1989; Astrachan, Klein, & Smyrniotis, 2002; Benavides-Velasco, Quintana-Garcia, & Guzman-Parra, 2011). Fortunately or unfortunately, depending on your view, the most recent studies and surveys focussed explicitly on family businesses are led by partnerships or collaborative efforts between companies and institutions, including financial companies, insurers, universities and colleges, and increasingly, family enterprise resource centres.

“One of the most important issues ... is how and why this form of organization behaves and performs in a distinguishably different way from a nonfamily firm” (Craig and Salvato, 2012)

For the purposes of this paper, we will begin at the beginning, as Lewis Carroll wrote in *Alice in Wonderland* – and the beginning starts with an endeavour to determine the definition of the term family business. Indeed, a definition, depending on the source, will include any number of criteria; not least because it is difficult “to provide from the outset a clear and concise definition of what is meant by family,” and also that there are “various definitions reported in the literature” (Astrachan et al., 2002). However, when broadly examined, most definitions focus either on content; ownership; ownership and management involvement of an owning family; and/or generational transfer (Astrachan et al., 2002). But experts can agree that even “a detailed review of definitions employed in studies reveals that there is no clear demarcation between family and nonfamily businesses and that no single definition can capture the distinction between the two types of entities” (Astrachan et al., 2002).

Notwithstanding the difficulty of defining and extricating these terms, some scholars simply call for more research on family firms as compared to non-family firms:

One of the most important issues that must be addressed in a theory of the family business is how and why this form of organization behaves and performs in a distinguishably different way from a nonfamily firm (Craig & Salvato, 2012).

Thus, generally speaking, a family enterprise could include anywhere from one to 99 per cent of founding

family members as current owners, to family control of less than 10 per cent of the company’s equity, or any combination of ownership, management positions, shareholders, “involvement,” “control,” or “equity,” therein, depending on the source of the figure or whom one speaks to (Miller & Le Breton-Miller, 2005). Other studies use a simplified definition by considering true family enterprises as those which “include multiple family members as major owners or managers,” and treat “lone founder” businesses as distinct from family firms (Miller, Le Breton-Miller, Lester, & Cannella Jr., 2007). A newer and more colloquial definition among experts in the field, and perhaps demonstrative of the pervasive matter of succession in the field of family enterprise, is that family business is defined as any business with “inter-generational intent,” which, as it implies, means the intention to keep the business in the family, at least in terms of ownership. Or perhaps the lack of consensus on a formal definition simply illustrates that the field of study is still in its adolescence, even though family enterprises are known to have existed as early as 578 A.D., according to author William O’Hara:

Before the multinational corporation, there was family business. Before the Industrial Revolution, there was family business. Before the enlightenment of Greece and the empire of Rome, there was family business (O’Hara, 2004).

However, we will not attempt here to examine family businesses beginning as early as 578 A.D.; in the interest of brevity, we will merely summarize the field of study thus far, focussing on the past 60 years, give or take. Many experts would agree that the first relevant literature in the field was published in the 1950s and 60s, and that there is still so much room for growth:

Through its rapid growth during the past decade, family business research has reached its adolescence as a field of study, and family business scholars now regularly contribute interesting and thought-provoking work to top-tier management, entrepreneurship, and finance journals (Gedajlovic, Carney, Chrisman, & Kellermanns, 2012).

While the subject area used to be restricted to the intersecting areas within the disciplines of finance, economics, management, financial and/or family

studies, some say it now warrants its own discipline:

We find that family business research is becoming increasingly sophisticated and rigorous. This bodes well for the development of an independent field for family business (Bird, Welsch, Astrachan, & Pistrui, 2002).

Further:

...there has been an increasing number of contributions published in academic journals ... This growing diversity of research perspectives positively influences the development of a more comprehensive and interdisciplinary body of knowledge that enables the understanding of the complexity of family companies (Benavides-Velasco et al., 2011).

“not many experts, advisors or business family members would dispute that any company which considers itself a family firm has unique problems.”

Distinctiveness of Family Firms and Firm Performance

However, regardless of the ambiguity of a singular definition, and regardless of the field's academic standing (or lack thereof), not many experts, advisors or business family members would dispute that any company which considers itself a family firm has unique problems. Those with considerably higher net worth are certainly not immune to family dynamics, according to Chairman and CEO of Toronto's Northwood Family Office, Tom McCullough: “each family has very specific issues ... nothing is standard” (Beer, Jeff; Your Own Private CFO, Canadian Business October 2011); just as lower net worth family businesses are not, either. It is no longer debatable that families are highly complex systems which are interwoven with business systems, creating a uniqueness not seen elsewhere (Kepner, 1991) - it is only a matter to which degree.

There is also considerable debate about the angle by which to examine the two systems of family and business, depending on one's vantage point: while some authors would say there is too little attention paid to the family system and the effects of the business on the family (Kepner, 1991; Dyer and Dyer, 2009); others would argue that financial firm performance war-

rants further investigation for many reasons (Mazzi, 2011; Miller et al., 2007). This includes those who say further research is needed particularly for the “subset of family-influenced firms whose performance goal is transgenerational wealth and wealth creation potential” (Habbershon, Williams, & MacMillan 2003), and those who aim to determine whether “large U.S. family businesses did not outperform in their market valuations” (Miller et al., 2007). Several authors in the field have asserted that a lack of strategic planning in family enterprises contributes to their failure rate (Beckhard & Dyer, 1983; Ward, 2004), but newer research argues that the connection between business failure and strategic planning is not self-evident (Stamm & Lubinski, 2011).

Putting aside the debate around firm performance, most business families would likely agree with authors Aldrich and Cliff that the effects of the business on the family, and the business' performance, are not mutually exclusive, yet both critically important:

Families and businesses have often been treated as naturally separate institutions, whereas we argue that they are inextricably intertwined (Aldrich & Cliff, 2003).

Very little attention has been paid to how family dynamics affect fundamental entrepreneurial processes ... After all, business and families are commonly considered to be distinct social institutions and, as such, are typically investigated by scholars in separate faculties. Nonetheless, the vast majority of businesses are family businesses, and accumulated research findings show that family and business dynamics are highly interrelated (Aldrich et al., 2003).

Economically Critical

Black-and-white facts and figures tell us that family businesses create as much as 90 percent of global GDP annually, although more research is needed in order to compare statistics internationally. As previously mentioned, accurate Canadian figures, specifically, are much more difficult to come by. But since research tells us that family owned and controlled businesses account for an enormous percentage of employment, revenues, and GDP in most capitalist countries (Miller et al., 2003), it is clear that they are critical to the global economy. According to John L. Ward, an early pioneer and current leading author-

ity in the field of family business, the world's family enterprise stand at a critical threshold:

Look at all businesses in North America and Western Europe - large or small, public or private - and you will find that two out of five have two generations of family members working in them This means that more than 40 percent of all the companies in the world are going through or anticipating a succession process - the passing of a business from an incumbent senior generation to the next generation of leadership and ownership (Ward, 2004).

Future family businesses will likely start with a broader market or audience than their predecessors, due to the growing global market and the international reach provided by the internet (Simmonds, et al., 2007).

Theory versus Practise

The field of family business studies has previously exhibited a strong preference for practice-oriented research methods (Zahra & Sharma, 2004), perhaps because the emergence of the field is tracked to the demand from practitioners rather than the pull of scholarly inquiry (Sharma, Hoy, Astrachan, & Koironen, 2007). This partly explains the perpetuating dichotomy between theory and practise, in which some researchers call for increased examination and creation of theoretical frameworks of family business, and practitioners and advisors are scrutinized for a lack of knowledge in family dynamics. However some studies do attempt to bridge theory and practise:

The purpose [of our research is] to reconcile the gap between theory and evidence. Our thesis is that agency relationships in family firms are distinctive ... and so are characterized by altruism (Schulze, Lubatkin, & Dino, 2003).

“research tells us that family owned and controlled businesses account for an enormous percentage of employment, revenues, and GDP in most capitalist countries,” (Miller et al., 2003)

Our view is that future progress in the field will require important contributions from both family business “specialists” as well as “generalists” from traditional disciplines in the organizational sciences. For

family business specialists, the primary challenge will be to widen their focuses to address questions that range beyond the narrow confines of the field as it is presently constituted. To those scholars who frame their research domains in more generalist terms, more frequent incorporation of the ubiquitous family firm into their theoretical frameworks and research designs would strengthen the validity and generalizability of their findings. (Gedajlovic et al., 2012).

But one could argue that further study must be balanced with an open-minded approach to a still-emerging field, and therefore:

Family firm research has come far but has a long way to go. This research has been fragmented and descriptive, lacking theory. Prior findings have also been incremental. We hope our discussion will promote a greater excitement about doing research at the intersection of cross-disciplines, thereby paying more attention to the context of the major decisions that family business owners make ... Family firm research has to advance so as to offer greater theoretical grounding of the research to be conducted (Zahra et al., 2004).

And finally, it must continue to be interesting:

If work fails to challenge prevailing theories, an audience will probably regard the contribution as uninteresting because it is already part of their taken for granted theoretical framework ... '[I]nteresting' propositions strive for a deeper truth behind the phenomenological appearance of investigated phenomena that others have taken for granted (Salvato & Aldrich, 2012).

In other words: challenging assumptions is one part of the reason we continue to study family businesses, and we still have a long way to go.

More questions than answers?

In closing, perhaps it seems as though we have merely raised a number of contentious issues within the field of family enterprise without providing any of the answers that may lie within these debates; and perhaps this will be mitigated by our efforts to begin a conversation - a discussion, a process - about the family and the business, together, in this white paper series. As such - while we may not be able to address

all of the aforementioned issues surrounding family enterprise and business families, we will attempt to wade into the fray, separating fact from fiction, and hopefully informing and entertaining you in the process. However, there will be limitations, as an exhaustive review of every aspect of the family business field would constitute a life's work. Doubtless there is no shortage of information, anecdotes, myths and stories surrounding the subject of family businesses and business families; at times it seems nearly impossible to extricate one recurrent theme from another. Indeed, such is the nature of family business.

“Doubtless there is no shortage of information, anecdotes, myths and stories surrounding the subject of family enterprise and business families; at times it seems nearly impossible to extricate one recurrent theme from another”

However, in this white paper series, we will endeavour to: outline the relevance of a theme or topic in the field; discuss the challenges or problems therein; and attempt to provide solutions, or at least relevant context and background information, according to

available, proven research and working practises. While our process may not be perfect, we will aim for excellence. We invite you, members of the business family community, to read, reflect, and discuss this information at events, workshops and meetings, and within your businesses and your offices, and amongst your colleagues and your families.

We also want to hear from you - in person, by phone, email, Facebook and Twitter. Please get in touch, and let's start an elevated conversation about topics that greatly concern and affect all of us. Let's walk together on this journey. Welcome to Research Matters, the Business Families Centre's White Paper Series. Enjoy, and we look forward to learning, together.

- Aldrich, H. E., & Cliff, J. E. (2003). The pervasive effects of family on entrepreneurship: Toward a family embeddedness perspective. *Journal of Business Venturing*, 18(5), 573-596.
- Astrachan, J. H., Klein, S. B., & Smyrnios, K. X. (2002). The F-PEC scale of family influence: A proposal for solving the family business definition Problem1. *Family Business Review*, 15(1), 45-58.
- Beckhard, R., & Gibb Dyer Jr., W. (1983). Managing continuity in the family-owned business. *Organizational Dynamics*, 12(1), 5-12. doi:10.1016/0090-2616(83)90022-0
- Beckhard, R., & Gibb Dyer, W. (1983). SMR forum: Managing change in the family firm- issues and strategies. *Sloan Management Review (Pre-1986)*, 24(3), 59-59.
- Beer, J. (2011, Oct 24). Your own private CFO. *Canadian Business*, 84, 51-52. Retrieved from <http://ezproxy.library.ubc.ca/login?url=http://search.proquest.com/docview/918793863?accountid=14656>
- Benavides-Velasco, Carlos A.; Quintana-García, Cristina; and Guzmán-Parra, Vanesa F. (2011). Trends in family business research. *Small Business Economics*. DOI 10.1007/s1187-011-9362-3
- Bruce, D., & Picard, D. (2005). *Succession can breed success: SME succession and Canada's economic prosperity*. Toronto, ON, CAN: Canadian Federation of Independent Business.
- Craig, J. B., & Salvato, C. (2012). The distinctiveness, design, and direction of family business research. *Family Business Review*, 25(1), 109-116.
- Davis, M. (1971). "That's interesting!" Towards a phenomenology of sociology and a sociology of phenomenology. *Philosophy of the Social Sciences*, 1, 309-344.
- Dyer, W. G., & Dyer, W. J. (2009). Putting the family into family business research. *Family Business Review*, 22(3), 216-219.
- Fernández, Z., & Nieto, M. J. (2005). Internationalization strategy of small and medium-sized family businesses: Some influential factors. *Family Business Review*, 18(1), 77-89. Retrieved from <http://ezproxy.library.ubc.ca/login?url=http://search.proquest.com/docview/211083678?accountid=14656>
- Geđajlovic, E., Carney, M., Chrisman, J. J., & Kellermanns, F. W. (2012). The adolescence of family firm research. *Journal of Management*, 38(4), 1010-1037.
- Habbershon, T. G., Williams, M., & MacMillan, I. C. (2003). A unified systems perspective of family firm performance. *Journal of Business Venturing*, 18(4), 451-465.
- Handler, W. C. (1989). Methodological issues and considerations in studying family businesses. *Family Business Review*, 2(3), 257-276. doi: 10.1111/j.1741-6248.1989.00257.x
- Kepner, E. (1991). The family and the firm: A coevolutionary perspective. *Family Business Review*, 4(4), 445-461. doi:10.1111/j.1741-6248.1991.00445.x
- Kets de Vries, M. F. R. (1993). The dynamics of family controlled firms: The good and the bad news. *Organizational Dynamics*, 21(3), 59-71. doi:10.1016/0090-2616(93)90071-8
- O'Hara, William T. (2004). *Centuries of Success: Lessons from the World's Most Enduring Family Businesses*. Ohio: Adams Media.
- Mazzi, C. (2011). Family business and financial performance: Current state of knowledge and future research challenges. *Journal of Family Business Strategy*, 2(3), 166-181.

- Miller, D., Le Breton-Miller, I., Lester, R. H., & Cannella Jr., A. A. (2007). Are family firms really superior performers? *Journal of Corporate Finance*, 13(5), 829-858.
- Miller, D., & Le Breton-Miller, I. (2005). *Managing for the Long Run: Lessons in Competitive Advantage From Great Family Businesses*. Boston, MA: Harvard Business School Press. 310 pp. Hardcover.
- Miller, D., Steier, L., & Le Breton-Miller, I. (2003). Lost in time: Intergenerational succession, change, and failure in family business. *Journal of Business Venturing*, 18(4), 513-531. doi: 10.1016/S0883-9026(03)00058-2
- Salvato, C., & Aldrich, H. E. (2012). "That's interesting!" in family business research. *Family Business Review*, 25(2), 125-135. doi: 10.1177/0894486512446327
- Schulze, W. S., Lubatkin, M. H., & Dino, R. N. (2003). Toward a theory of agency and altruism in family firms. *Journal of Business Venturing*, 18(4), 473-490. doi: 10.1016/S0883-9026(03)00054-5
- Sharma, P., Hoy, F., Astrachan, J. H., & Koiranen, M. (2007). The practice-driven evolution of family business education. *Journal of Business Research*, 60(10), 1012-1021. doi: 10.1016/j.jbusres.2006.12.010
- Simmonds, R., Green, Mark T., Sommers, P., Brilling, S., Koenig, Hall., Brown, Nicole. (2007). Laird Norton Tyee Family Business Survey. PDF format. Retrieved from http://www.familybusinesssurvey.com/2008/2007/pdfs/LNT_FamilyBusinessSurvey_2007.pdf
- Stamm, I., & Lubinski, C. (2011). Crossroads of family business research and firm demography—A critical assessment of family business survival rates. *Journal of Family Business Strategy*, 2(3), 117-127. doi: 10.1016/j.jfbs.2011.07.002
- Ward, J. L. (2004). *Perpetuating the family business: 50 lessons learned from long-lasting, successful families in business*. Houndmills, Basingstoke, Hampshire: Palgrave Macmillan.
- Zahra, S. A., & Sharma, P. (2004). Family business research: A strategic reflection. *Family Business Review*, 17(4), 331-346.