

An Overview of the Field of Family Business Studies: Current Status and Directions for the Future

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Based on a review of 217 refereed articles on family business studies, the literature is organized according to its focus on individual, interpersonal or group, organizational, and societal levels of analyses. An assessment of the status of our current understanding at each level is provided and directions for future research are suggested. A discussion of definitional issues, bases of distinctiveness, and family firm performance is used to help understand the domain or scope of the field. Methodological issues and strategies aimed to enhance the pace at which the field achieves a distinctive legitimate place in organizational studies are presented.

Whether measured in terms of number of published articles,¹ publication outlets,² schools offering family business programs,³ research support provided by private donors and foundations,⁴ or the membership of

2002, 2003; D. S. Lee et al., 2003; Schulze et al., 2001, 2003a). Special issues of family business research of some of the top-ranked entrepreneurship journals such as Entrepreneurship Theory and Practice (27(4)), and Journal of Business Venturing (18(4) and 18(5)) have been published in the year 2003.

³ The AACSB (Association to Advance Collegiate Schools of Business) website <<http://www.aacsb.edu/members/communities/interestgrps/familybusndoc.asp>> lists nearly 50 accredited schools with family business programs. Aronoff and Ward (1995) report that more than 70 universities, including leading schools such as Harvard, North-Western, Notre Dame, the University of California in Los Angeles (UCLA), Wharton, INSEAD, and IMD, have active family business programs.

⁴ Some notable examples include the Coleman, Cox, Kauffman, Mass Mutual, and Raymond Foundations in the United States; Lombard Odier Hentsch & Cie in Europe; and the Tanenbaum foundation in Canada.

¹ An ABI inform search indicates the number of articles on “family business” in peer-reviewed scholarly journals has shown a dramatic increase: 33 articles up to 1989; 110 from 1990–1999 (an average of 11 articles per year); and 195 articles in the four-year period from 2000–2003 (almost 49 articles per year indicating over four-fold increase!).

² Family business research has begun to emerge in mainstream journals such as Academy of Management Journal, Academy of Management Review, Journal of Finance, and Organizational Science (e.g., Andersen et al., 2003, 2003a; Burkart et al., 2003; Gomez-Mejia et al.,

family firm associations,⁵ the interest in family business studies is increasing. As a field of study develops, it is important to intermittently pause to evaluate the progress made and reflect on the directions to pursue in future so as to gain deeper insights into the phenomenon of interest. The purpose of this review is to provide such a reflective moment for the field of family business studies, as the primary scholarly journal of the field, *Family Business Review*, embarks on its new journey with Blackwell Publishing.

The guiding principle of any professional investigation in social sciences is to clarify our understanding of the segment of the social world that is of interest (Lindblom & Cohen, 1979). Scholars and practitioners interested in family firm studies seek to gain new insights and knowledge into the causal processes that underlie these firms (cf. Lewin, 1940). Theory is an efficient tool that guides the development of knowledge because it helps make connections among observed phenomenon, thereby helping build conceptual frameworks that stimulate understanding (Sutton & Staw, 1995). It aids in building connections between the work at hand and preexisting research, thus making use of our cumulative knowledge to reveal a range of alternatives for effective action (Lindblom & Cohen, 1979; Moore, 1962; Weiss, 1977). Kurt Lewin's (1945) often-quoted endorsement of theory, "there is nothing so practical as a good theory," suggests the key role of theory in guiding effective practice.

⁵ Examples include the Family Firm Institute (FFI), which was founded in 1986, had about 500 members in 1992, and now has nearly 1,200 members; Canadian Association of Family Enterprises (CAFÉ), which was established in 1983 with 15 founding members and now boasts more than 2,400 members representing almost 900 family firms across Canada.

This article is based on a rigorous review of 217 peer-reviewed articles on family business studies. The point of departure for this review was the previous consolidation attempts of the literature by Sharma, Chrisman, and Chua⁶ (1996, 1997). Although an attempt is made to provide an overview of the literature, the size and scope of it precludes detailed descriptions of individual studies or an exhaustive listing of every article that was reviewed. Instead, given the importance of theoretical knowledge in a scholarly inquiry and development of a field of study (Whetten, 1989, 2002), the focus here is primarily on research that is theoretically oriented.⁷

Scholarly research can be undertaken at various levels of analyses: individual, interpersonal/group, organizational, and societal (cf. Low & MacMillan, 1988). Although it is possible to theorize across multiple levels, given the preparadigmatic status of family business studies, with few exceptions, most of the literature is focused on one level rather than the conceptually complex domain of multiple-level theorizing (cf. McKinley, Mone, & Moon, 1999). This article organizes the family business literature according to the four levels of analyses, provides an assessment of the status of our current understanding at each level, and presents suggestions for future research.

⁶ In addition to these broad-based literature reviews, Bird et al. (2002); Chrisman, Chua, and Sharma (2003); Dyer and Sanchez (1998), Handler (1994), and Wortman (1994) have presented more focused reviews of a selection of the family business literature.

⁷ Although not included in this article, some insightful experiential and prescriptive articles include Hubler (1999); Kaye (1999); Krasnow (2002); McCann (2003); Mendoza and Krone (1997); and Murphy and Murphy (2001).

However, before presenting the highlights of the literature, the following section engages in a discussion of the domain or the scope of the field of family business studies. This is accomplished through a discussion of definitional issues, basis of distinctiveness of the field, and various facets of family firms' performance. Strategies for efficient creation and dissemination of knowledge that should enable the field of family business studies to progress toward being considered a legitimate scholarly field that is theoretically rich and practically useful are shared in the last section.

Domain of the Field of Family Business Studies

In an information-overloaded and competitive world of organizational studies, in order to attract intellectual and financial resources, interested scholars and practitioners need to provide convincing reasons for directing research efforts on family business studies (cf. McKinley et al., 1999). Thus far, the main reason provided by scholars for directing scholarly research toward family firms has largely been the observed dominance of these firms on the economic landscape of most nations.⁸ Although an effective starting point in generating interest and gaining attention, this approach is not unilaterally sufficient to gain legitimacy for the field. Convincing, theoretically based answers must be provided for questions such as: Are family firms really dif-

ferent from other business organizations? and Why do these firms deserve special research attention? In working toward a response to such questions, there is a need to clarify the definition of family firms, source of distinctiveness of the field, and the different facets of family firm performance. Each of these is discussed below.

Definition

A challenging task in most social sciences,⁹ the importance of establishing clear definitions of family firms cannot be denied as these will assist in building a cumulative body of knowledge. Numerous attempts have been made to articulate conceptual and operational definitions of family firms. Various scholars have reviewed existing definitions, made attempts of consolidation of thoughts, and conceptualized another definition of family firms (e.g., Chua, Chrisman, & Sharma, 1999; Handler, 1989a; Litz, 1995). The focus of most of these efforts has been on defining family firms so that they can be distinguished from nonfamily firms. Although none of these articulations has yet gained widespread acceptance, most seem to revolve around the important role of family in terms of determining the vision and control mechanisms used in a firm, and creation of unique resources and capabilities (e.g., Chrisman, Chua, & Litz, 2003; Habberson et al., 2003).

Reflecting on the well-established fact that a large majority of firms in most countries

⁸ Evidence of the prevalence of family firms has been provided by Klein (2000) in Germany; Morck and Yeung (2003) in Sweden; and Astrachan and Shanker (2003) and Heck and Stafford (2001) in the United States.

⁹ For example, a struggle for resolving the issue of definitions continues in the literatures of entrepreneurship (Shane & Venkataraman, 2000), corporate entrepreneurship (e.g., Sharma & Chrisman, 1999), and leadership (Yukl, 1989).

have a significant impact of “family” in them (e.g., Astrachan, Zahra, & Sharma, 2003; Corbetta, 1995; Klein, 2000), scholars question the homogeneity of these firms (Sharma, 2002). Empirical research has revealed that these firms are only rarely an either-or scenario (Tsang, 2002). Instead, they vary in terms of degrees of family involvement. Attempts to capture the varying extent and mode of family involvement in firms have been directed in three general directions: articulation of multiple operational definitions of family firms (e.g., Astrachan & Shanker, 2003; Heck & Stafford, 2001; Westhead & Cowling, 1998); development of scales to capture various types of family involvement (Astrachan, Klein, & Smyrnios, 2002); and development of family firm typologies (Sharma, 2002).

Using three modes of family involvement, Astrachan and Shanker (2003) provide three operational definitions of family firms.¹⁰ Their broad definition uses the criteria of family’s retention of voting control over the strategic

direction of a firm. In addition to retention of such control by the family, the mid-range definition includes firms with direct family involvement in day-to-day operations. The most stringent of definitions classifies firms as family firms only if the family retains voting control of the business and multiple generations of family members are involved in the day-to-day operations of the firm. Using these definitions, these researchers estimate between 3 to 24.2 million family firms in the United States that provide employment to 27–62% of the workforce, and contribute 29–64% of the national GDP.

Astrachan, Klein, and Smyrnios (2002) have presented a validated ready-to-use scale for assessing the extent of family influence on any business organization. This continuous scale is comprised of three subscales: power, experience, and culture (F-PEC scale). Particularly impressive in this study is the power scale, which articulates the interchangeable and additive influence of family power through ownership, management, and/or governance. The experience scale measures the breadth and depth of dedication of family members to the business through the number of individuals and generations of family members involved in the business. Family’s commitment to the business and values are used for the culture scale. These scholars encourage researchers to move away from a bi-polar treatment of firms as family or nonfamily firms toward exploring the mediating and moderating effects of family involvement in their studies.

Using the well-established overlapping three-circles model (Lansberg, 1988), each circle representing family membership, ownership, and managerial roles of internal family firm stakeholders, Sharma (2002) has proposed a typology that identifies 72 distinct

¹⁰ Two other examples of multiple operational definitions include:

1. The 1997 and 2002 National Family Business Surveys that use four different definitions of family firms based on the level of involvement of family in the business. These studies indicate a significant influence of family firms in the United States with over 8.6 million families (one out of every 10 households) in the United States owning family firms. Collectively, these businesses generated between \$1.3–10.4 trillion in gross revenues in 1996, depending on the definition used (Heck & Trent, 1999; Heck & Stafford, 2001).

2. Westhead and Cowling (1998) present seven operational definitions to classify firms in the United Kingdom according to varying levels of family ownership, managerial involvement, and CEO perception of the firm being a family business or not, and conclude that these firms are a numerically important group of businesses in the United Kingdom.

nonoverlapping categories of family firms according to the extent of family involvement in terms of ownership and management. This “collectively exhaustive,” “mutually exclusive,” and “stable” system of classification meets some of the key criteria of a good classification system (Chrisman, Hofer, & Boulton, 1988, p. 416; McKelvey, 1975, 1982). Subjecting this classification system to empirical tests should help identify the types of family firms that prevail in each nation at any point in time. Research has revealed that the national fiscal laws (e.g., inheritance and capital gains taxes) influence the type of family firm that prevails in a country, as firm leaders make attempts to minimize tax payment and retain the fruits of their labor within their family and business (e.g., Burkart, Panunzi, & Shleifer, 2003; Foster & Fleenor, 1996; Wells, 1998). An important task that lies ahead for the field is to subject the theoretical taxonomy developed to empirical tests in different nations. Such an effort should assist in the development of empirical taxonomies that can operationally distinguish family from nonfamily firms and between different types of family firms (cf. D. Miller, 1996).

Distinctiveness

In 1994, after conducting a thorough review of the family business literature, Wortman commented: “no one really knows what the entire field is like or what its boundaries are or should be” (Wortman, 1994, p. 4). Perhaps the lack of definitional clarity at the time compounded the difficulties of pinpointing the source of distinctiveness of the field (cf. Hoy, 2003). As progress is being made on the development of definitions of family firm based on the varying extent and nature of family involvement in a firm, some clarity on the

domain and distinctiveness of the field of family business studies is being experienced.

Encouraged by suggestions based on previous reviews of the literature (Sharma et al., 1997; Wortman, 1994), one stream of effort aimed at finding the source of distinctiveness in family firm studies was directed toward comparative studies of family and nonfamily firms (e.g., Anderson & Reeb, 2003; Coleman & Carsky, 1999; Gudmundson, Hartman, & Tower, 1999; M. Lee & Rogoff, 1996; Littunen, 2003; Westhead, Cowling, & Howorth, 2001; Zahra, Hayton, & Salvato, in press). This research revealed mixed results, with family and nonfamily firms being different on some dimensions (e.g., entrepreneurial activities undertaken, performance, perception of environmental opportunities and threats) but not on others (e.g., strategic orientation, sources of debt financing). Although these efforts have aided in improving our understanding of these firms, no set of distinct variables separating family and nonfamily firms has yet been revealed. Clearly, there is a need to conduct a meta-analysis of this research stream to determine what these efforts have collectively disclosed in terms of distinctions between family and nonfamily firms.

Scholars have suggested broad-based conceptual models of sustainable family businesses that take into account the reciprocal relationship between family and business systems (Stafford, Duncan, Dane, & Winter, 1999). These models are aimed toward the simultaneous development of functional families and profitable firms. Others have encouraged the adoption of a “family embeddedness perspective” by including the characteristics of family systems in research studies (Aldrich & Cliff, 2003; Chrisman, Chua, & Steier, 2003; Zahra et al., in press). Large-scale carefully designed empirical studies have revealed that

the success of family firms depends on the effective management of the overlap between family and business, rather than on resources or processes in either the family or the business systems (Olson, Zuiker, Danes, Stafford, Heck, & Duncan, 2003). A seeming convergence is appearing that it is the reciprocal impact of family on business that distinguishes the field of family business studies from others (e.g., Astrachan, 2003; Dyer, 2003; Habbershon, Williams, & MacMillan, 2003; Rogoff & Heck, 2003; Zahra, 2003).

To crystallize the source of distinctiveness of this field of study from other related fields, it is important to understand its distinction from and linkages with other fields of study. Noteworthy efforts toward this end have been made in the recent special issues of *Entrepreneurship Theory and Practice* (27(4)) and *Journal of Business Venturing* (18(4) and 18(5)). These issues are directed toward exploring the linkages between family business studies and other disciplines or theories developed in other fields.¹¹ Such efforts must be continued in the future as they propel the field toward establishing its niche and identity in the domain of organizational studies.

Family Firm Performance

Recognition of the intertwinement of family and business in family firms has led to a definition of high-performing family firms that takes into consideration performance on both family and business dimensions

(Mitchell, Morse, & Sharma, 2003). It is generally accepted that these firms aim to achieve a combination of financial and nonfinancial goals (J. A. Davis & Taguiri, 1989; Olson et al., 2003; Stafford et al., 1999). Research has revealed significant variations in perceptions of family firm stakeholders regarding even the most fundamental issues (e.g., Poza, Alfred, & Maheshwari, 1997; Sharma, 1997). An important direction for the future is to understand the extent of a lignment in the definition of success used by the key players of family firms. The tenets of stakeholder theory may prove useful in gaining such an understanding (Freeman, 1984). Perhaps, an alignment of stakeholders' perspective on what "success" means to them could be an important predictor of success of family firms, as such an alignment can lead to agreement on appropriate mode and extent of involvement of key family and nonfamily members in the firm. On the contrary, a mismatch in the definitions of success or goals that different stakeholders strive to achieve for the family firm could point toward a tenacious source of conflict (Astrachan & McMillan, 2003).

If family firm performance refers to high performance in terms of family and business dimensions, at any point in their lifecycle, family firms may be successful on either one or both these dimensions. Using a two by two matrix (Figure 1) four variations of the performance of family firms can be conceptualized based on whether a positive performance is experienced on one or both dimensions (cf. Davidsson, 2003; Sorenson, 1999). Although good performance on the family dimension indicates firms with high cumulative emotional capital, good business performance indicates firms with high cumulative financial capital.

¹¹ For example, Aldrich and Cliff (2003) explore linkages of family business studies with entrepreneurship; Stewart (2003) does it with anthropology; Sirmon and Hitt (2003) and Zahra (2003) link it to strategic management.

FAMILY DIMENSION		
BUSINESS DIMENSION	Positive	Negative
	I <i>Warm Hearts</i> <i>Deep Pockets</i> High Emotional and Financial Capital	II <i>Pained Hearts</i> <i>Deep Pockets</i> High Financial but Low Emotional Capital
	III <i>Warm Hearts</i> <i>Empty Pockets</i> High Emotional but Low Financial Capital	IV <i>Pained Hearts</i> <i>Empty Pockets</i> Low Financial and Emotional Capital
	Negative	

Figure 1 Performance of Family Firms.

Warm hearts—deep pockets

Firms in Quadrant I of Figure 1 are the successful family firms; they experience profitable business as well as family harmony. In other words, they enjoy high cumulative stocks of both financial and emotional capital that may help sustain the family and business through turbulent economic and emotional times. Staying in this quadrant over a sustained period of time would be the most desirable performance combination for family firms. Haniel in Germany, Cranes papers, S. C. Johnson, J. M. Smucker, Cargill, and Nordstorm in the United States, Kikkoman in Japan, Beaudoin, Thomson, and Molsons in Canada, and Antinori, Ferragamo, and Torrini in Italy are examples of such firms.

Pained hearts—deep pockets

Quadrant II firms are characterized by business success but also are tension prone or exhibit failed family relationships. This scenario has been observed in many large family firms, such as McCains in Canada and Pritzkers in the United States, that continue to expand globally and experience increased profits, but the family relationships have been strained by discontent and conflict (e.g., Pitts, 2001). Such firms carry high stocks of financial capital but are low on family emotional capital. Relational issues have been found central to the sustainability and success of family firms as good relationships can overcome bad business decisions but the opposite is more difficult to achieve (Olson et al., 2003; Ward, 1997). This is because, unlike with unre-

lated parties, relationships among family members are densely linked, wherein the tremors of one bad relationship are felt throughout the tight web of other relationships (Astrachan, 2003). Emotional capital and stability provide the fuel to reap the benefits of other types of capital (Puhakka, 2002). Thus, the long-term survival of firms in this quadrant is dependent on them developing support mechanisms aimed at mending family relationships and moving toward Quadrant I.

Warm hearts—empty pockets

Quadrant III firms enjoy strong relationships among family members, though their businesses are low performers. In other words, they are endowed with high levels of emotional capital but low financial capital. The Southam family of the Southam newspaper chain in Canada, Agnelli's of Italy, and Ford Motor Company in the past few years exemplify such firms. The strength of the glue among family relationships can aid these firms to endure poor business performance for some time. However, over longer periods of time, accumulated resources are likely to deplete, causing stress in family relationships as well. Although the nature of intervention required to turn these firms toward Quadrant I is different than that required by firms in Quadrant II, a move toward Quadrant I will be needed for long-term sustainability of such firms.

Pained hearts—empty pockets

Quadrant IV firms are failed firms that perform poorly on both the family and business end. Although failure on the business dimension can be used as a learning experience that may even enable these family members to launch another venture in future (Davidsson, 2003), failure on the family

dimension is likely to create long-term, far-reaching tremors that may take several years to fade, if they do so at all. Although the most desirable position for these firms would be Quadrant I, they may have to follow the path through Quadrant II or III to reach that happy state.

Care must be exercised in the path followed and strategies used to move toward a more favorable quadrant such that firms avoid tripping into the next worst quadrant instead. For example, firms in Quadrant II may be enticed to pay family members with hopes of achieving family harmony and moving into Quadrant III, while their aim is ultimately to achieve a position in Quadrant I. However, over time, they may find themselves unable to pay those fees for sustaining family harmony, which in turn may land them in Quadrant IV instead of I.

The above description of possible outcomes of family business performance is a simplification as only two dimensions, each with only two extreme positions, are considered. Further refinements in conceptualization of family firm performance will be essential to ensure clarity in dependent variables used in theory development and empirical research. Comprehensive scales that measure the performance of family firms along various business and family dimensions will need to be developed and validated. Olson et al. (2003) have provided a very good start in this direction. Future efforts can modify these scales to develop the equivalent of a "Family Business Score Card" (cf. Kaplan & Norton, 1996).

Research also needs to be directed toward understanding why family firms find themselves in a particular quadrant, the factors that influence movement from one quadrant to the next, and pathways followed to move to a

quadrant with superior performance on one or both dimensions.

Some preliminary evidence of the role of family involvement on firm performance and key strategic decisions such as CEO pay have been revealed through recent research conducted on publicly listed family firms. Using accounting and market measures, Anderson and Reeb (2003) found that firm performance increases until a family owns about a third of the business, after which it tends to decrease. Gomez-Mejia, Larrazza-Kintana, and Makri (2003) find family member CEOs receive significantly lower pay than nonfamily CEOs, although family leaders are better protected from systematic (industrywide) or unsystematic (unique to business) risks. This study confirms similar findings by McConaughy (2000).

Important extensions of this research stream would be to conduct research to understand the role of family involvement along other dimensions, such as power, through a combination of governance, management, and ownership, family culture and structure, and experience in terms of number of family members and generations involved on firm performance in publicly and privately held family firms (Astrachan, Klein et al., 2002; Heck, in press).

Summation

The discussion thus far reveals an increasing interest in the field of family business studies. The intertwinement and reciprocal relationships between the family and business systems is being recognized as the key feature distinguishing this field of study from others. Efforts are underway to develop conceptual and operational definitions of family firms. Instead of one definition, a range of

definitions that capture varying extent and mode of family involvement in these firms are being used. Some preliminary efforts are underway to develop general purpose classification systems that distinguish family firms from nonfamily firms and between different types of family firms. A framework to understand firm performance along business and family harmony dimensions is presented.

Levels of Analysis in Family Business Studies

In this section, the family business literature is organized according to its focus on the four levels of analyses: individual, interpersonal/group, organizational, and societal. At each level, a review of the prevailing literature is presented so as to highlight the topics that have received attention, provide an assessment of the prevailing understanding, and give suggestions for future research.

Individual Level

Stakeholders have been defined as “any group or individual who can affect or is affected by the achievement of firm’s objectives” (Freeman, 1984, p. 47). Freeman (1984) identified 16 generic stakeholders¹² and distinguished between primary (those who affect a firm’s objectives) and secondary (those affected by a firm’s objectives) stakeholders. However, he did not include “family members” as a distinct generic category. In an

¹² Owners, employees, unions, customers, consumer advocates, competitors, suppliers, media, environmentalists, governments, local community organizations, political groups, financial community, trade associations, activist groups, and special interest groups (Freeman, 1984, pp. 25, 55).

extension of this concept into the family firm context, Sharma (2001) distinguished between internal and external family firm stakeholders. Those involved with the firm either as employees¹³ (receive wages), and/or owners (shareholders), and/or family members are referred to as *internal* stakeholders. On the other hand, stakeholders not linked to a firm either through employment, ownership, or family membership, but that have the capacity to influence the long-term survival and prosperity of a firm, are referred to as *external* stakeholders. At the individual level of analysis, family business studies have devoted varying attention to four categories of internal stakeholders: founders, next-generation members, women, and nonfamily employees. Research related to each is discussed below.

Founders

Due to their anchoring role in a firm, organizational leaders have been recognized as having a significant influence on culture, values, and performance of their firms (Collins & Porras, 1994; Schein, 1983). Family business literature recognizes the influential position of founders. Due to their long tenures and the centrality of their position in their family and firm, founders exert considerable influence on the culture and performance of their firms during and beyond their tenure (Andersen et al., 2003; García-Álvarez, López-Sintas, & Saldaña-Gonzalvo, 2002; Kelly, Athanassiou, & Crittenden, 2000; McConaughy, 2000). Efforts have been made to understand the leadership styles adopted by these leaders and their relationship with other family and nonfamily members

(Aldrich & Cliff, 2003; Lubatkin, Ling, & Schulze, 2003; Sorenson, 2000).

As compared to nonfamily executives, tenures of family business leaders have been found to be longer. In a sample of publicly traded American firms, McConaughy (2000) found the tenure of family business leaders to be almost three times longer than that of nonfamily executives (17.6 years vs. 6.43 years). These long tenures have been attributed to these CEOs facing higher cognitive costs and psychological barriers to exit their firms (Gomez-Mejia et al., 2003, Lansberg, 1988). Although some have been reported to experience loneliness and boredom in their positions (Gumpert & Boyd, 1984; Malone & Jenster, 1992), others remain energetic and rejuvenated throughout their tenure (Keynon-Rouvinez, 2001). It can be speculated that a combination of individual traits, family structure and values, future goals for the enterprise and the envisioned role of the founder in it, and contextual factors such as the state of economy or industry growth, would influence the disposition of founders during the course of their tenure. Perhaps those involved in mentoring of future leaders or philanthropic activities may continue to feel an excitement in their work lives. It would be useful to understand the reasons for the observed differences in the energy and excitement levels of founders with respect to their jobs and firms.

Using the social network theory (Brass, 1995), Kelly et al. (2000) have developed the concept of founder centrality within a family firm and its influence both during and after the tenure of a founder. They suggest three dimensions of centrality—betweenness (central to the flow of information), closeness (direct linkages with top management group), and connectivity (ability to influence the most connected members). A variety of hypotheses

¹³ The term “employees” is used broadly and includes all levels of the employed workforce in a firm.

are proposed, such as that high founder centrality should lead to (1) an alignment of perceptions between founder and other family and nonfamily executives, (2) better firm performance along the dimensions of success that are important to a founder, and (3) a stronger influence of the founder on the firm after his or her tenure ends.

Using 13 cases of Spanish family firms, García-Álvarez et al. (2002) observe that the founders' view of the role of business in their family influences the mode and process of socialization they use for next-generation family members, thereby influencing the culture of the firm beyond their tenure. Those who regard their business as a means to support the family, value the feeling of family and limit the growth of their firm. They communicate higher values of group orientation to their successors, who were found to join the firm at a young age, lower position, and with low levels of formal education. On the other hand, founders viewing business as an end in itself encourage successors to achieve high levels of formal education and experience outside the business before joining the family firm at senior levels.

Research conducted on publicly traded firms by Anderson and Reed (2003) and Anderson Mansi, and Reed (2003) reveals a positive role of founder on firm performance in terms of accounting profitability measures, market performance, and cost of debt financing for family firms. This performance compares favorably with performance of family descendants as well as outsiders as CEOs, suggesting that founders bring unique value to the firm.

Family business leaders have been observed to adopt five leadership styles: participative, autocratic, laissez-faire, expert, and referent (Sorenson, 2000). Participative

leaders, who value the input from and consistently evaluate family and nonfamily employees, were found to achieve high performance both on family and business dimensions. However, this study did not reveal conclusive findings on the affects of other leadership styles on performance related to family or business dimensions, suggesting a need for further research on this topic. Research on personality traits and attitudes regarding appropriate power distance between family and nonfamily members may inform why founders adopt different leadership styles. Moreover, a clearer understanding of the long-term goals of founders in terms of performance on family and business dimensions may influence their management and leadership styles and any observed differences in these styles over the course of their long tenure. Stage of life through which an individual, family, and the business are going may further influence the observed leadership style of founders.

The relationship of founders with other family members has received some attention. Two recent conceptual efforts are noteworthy. 1 In a crisp articulation of the linkages between the fields of entrepreneurship and family business studies, Aldrich and Cliff (2003) suggest that families aid founders to recognize the opportunities around which to create a venture and lend support to ensure its birth and sustenance over time. Other research has provided empirical support for the integral role played by family in providing both the financial and nonfinancial support to founders for creating new ventures (Astrachan et al., 2003; Erikson, Sørheim, & Reitan, 2003). 2 Using behavioral economics and organizational justice theories, Lubatkin et al. (2003) propose that the extent of self-control exerted by founders differentiates "far-sighted"

founders from those suffering from “myopic altruism.” Although far-sighted founders are able to withhold immediate gratification of each and every need of family members in favor of actions that enhance long-term value for the family and the firm, myopic altruists find it difficult to take such actions, thereby violating rules of procedural and distributive justice, leading to their being perceived as unjust by family and nonfamily members.

As is evident from this account, at this point in time, a significant amount of research focused on family firm founders is in theory development stages. Although this is a good starting point toward developing clearer insights regarding the role of family firm founders, these conceptual ideas need to be subjected to empirical tests to gauge their validity and generalizability for practice. It would be useful to understand the role of family composition, values and beliefs, and individual personality and dispositional traits of founders on their position in the business; how different types of family involvement during founding and later life stages of a firm influence founder and firm performance along different dimensions; and factors that lead to far- versus near-sightedness of founders in terms of careful planning that leads to sustainable family firms. Although, so far, this literature has focused on individual founders or controlling owners, research needs to be directed toward understanding founding teams of the same or different genders and ethnic backgrounds, given the predicted trend toward team leadership in family firms (Astrachan, Allen, & Spinelli, 2002).

Next generation

Handler (1989b) successfully directed the attention of the field toward the importance

of focusing on next-generation family members and understanding their perspectives. Following her suggestions, research has focused in three general directions: desirable successor attributes from the perspective of leaders; performance enhancing factors; and reasons these family members decide to pursue a career in their family firms.

Exploratory research conducted both in Western and Eastern cultures revealed “integrity” and “commitment to business” as the two most desirable next-generation attributes from the viewpoint of the firm leaders (Chrisman, Chua, & Sharma, 1998; Sharma & Rao, 2000). Other attributes found important are ability to gain respect of nonfamily employees, decision-making abilities and experience, interpersonal skills, intelligence, and self-confidence. The attributes considered important by the leaders are relatively versatile in their applicability to different situations and cultures. However, it would be important to understand why attributes are rated higher or lower, if there are differences based on current and future performance objectives of a firm. Despite the central position of firm leaders, given their emotional involvement with the next generation and their bounded and parenting rationalities¹⁴ (Simon, 1957; Ling, 2002), leaders may not be in the best position to accurately assess either the list of desirable successor attributes or the extent to which members of the next generation possess

¹⁴ Bounded rationality refers to the limited ability of human beings to process information and understand the environment around them (Simon, 1957). In the context of family firms, it is the limited understanding of parents as to the attributes of the next generation that would lead to highest expected returns (referred to as parenting rationality by Ling (2002).

them. Future research in this area will benefit from collecting such data from multiple respondents in family firms and drawing on the psychology literature to develop mechanisms to assess amounts of each attribute possessed by the next generation of leaders. Moreover, whether possession of different attributes leads to high performance on financial and/or nonfinancial dimensions must be studied.

Due to their long tenures, family firm leaders possess a significant amount of idiosyncratic or tacit knowledge related to the firm (D. S. Lee, Lim, & Lim, 2003). It has been suggested that the performance of the next generation is likely to be based on the effectiveness with which this knowledge, and social networks, are transferred across generations (Cabrera-Suárez, Saa-Pérez, & García-Almeida, 2001; Steier, 2001). Research on effectiveness of knowledge transfer between a source and recipient has unequivocally revealed the importance of the absorptive capacity of the recipient and the nature of the relationship between the source and the recipient (W. M. Cohen & Levinthal, 1990; Szulanski, 1995). Defined as the ability to acquire, assimilate, transform, and exploit new knowledge, recipients' absorptive capacity has been found to be dependent on the existing stocks of knowledge and skills (Szulanski, 2000; Zahra & George, 2002).

Mirroring this research, the family business literature has revealed that the level of preparedness of the next generation and its relationship with the senior generation have a significant influence on the next generation's performance (e.g., Goldberg, 1996; Morris, Williams, Allen, & Avila, 1997). A supportive relationship characterized by mutual respect enables the smooth transition of knowledge, social capital, and networks

across generations (Steier, 2001). With this research, preliminary steps have been taken to understand some of the factors that enhance firm performance and knowledge transfer from one generation to the next. In the future it would be useful to understand whether the mode of preparedness of the next generation should vary based on the goals of family firms, and the interests, attitudes, and psychological traits of involved family members. Effort should also be directed to understanding the contextual factors that impede or enhance transfer of knowledge across generations.

As compared to their peers who come from nonfamily business settings, junior-generation members of family firms were found to have lesser clarity about their abilities, talents, goals, and career interest (Eckrich & Loughhead, 1996). Although this observation reveals a difference in vocational clarity of family members, it would be interesting to understand why this lack of clarity prevails, and its implication for individual disposition and firm performance. Perhaps it is a product of the socialization processes that inculcate a sense of obligation among juniors to pursue a career in their firms (García-Álvarez et al., 2002). Knowing they have no real choices to make, they subdue consideration of what their own interests might be. However, these are only some speculative explanations and need to be subjected to careful theoretical development and empirical testing.

Stavrou (1998) observed several reasons for next generation decisions to join the family firm. Why were these differences observed? Would differences in motivating factors impact the performance outcomes of these family members? Drawing on organizational commitment literature, Sharma and Irving (2002) have developed a theoretical model to understand the behavioral and performance

implications of next-generation family members based on their reasons for pursuing a career in their family firms. Behavioral and performance variations are expected depending on whether juniors join their family firms because they want to, from a sense of obligation, due to involved opportunity costs, or from a sense of need. Research directed to assess the validity of this model would improve our understanding of the motivational factors directing next-generation members toward family firms. Also fruitful would be to understand the role of environmental context (family, industry, and business) on the motivations to join and performance of next-generation family members.

Women

Research on this topic suggests that a majority of women in family firms continue to remain in the background, frequently occupying the role of a household manager and taking on the primary responsibility for the household and child-rearing tasks (Cole, 1997; Fitzgerald & Muske, 2002). Although they may seem to occupy a subdued role, such a positioning provides them with a unique vantage point that aids in the development of a rich understanding of the prevailing issues and relationship dynamics (Dumas, 1998; Lyman, Salangicoff, & Hollander, 1995). They can also provide the emotional reservoir to be drawn on for efficient conduct of the business and management of relationships among family members (cf. Puhakka, 2002). If used astutely, their observations, intuition, and emotional capital can make a difference between the success and failure of a family firm, though formal research has still not reached these topics.

Based on interviews with 11 spouses of successful family firms, Poza and Messer (2001)

describe six different types of roles adopted by these women: jealous spouse, chief trust officer, partner or co-preneur, vice-president, senior advisor, and free agent. In another similar attempt, Curimbaba (2002) interviewed 12 potential heiresses of Brazilian family firms to report that they occupy either a professional, invisible, or anchor role in their firms. Although these studies based on small convenience samples provide an indication of the varying types of roles that women in family firms tend to adopt, they do not explain the reasons that prompt their adoption or the implications these role adoptions have on firm performance. This leaves an opportunity to conduct theoretically oriented large-sample studies to understand the role of females in family firms.

The last few years have witnessed a number of female leaders taking over the reins of their family businesses, in some instances alongside their male relatives while in others out-competing them. Some examples include Marcy Syms (Syms Corporation), Gina Gallo (E&J Gallo Wineries), and Abigail Johnson (Fidelity Investments) in the United States and Gail Regan (CARA operations) and Martha Billes (Canadian Tire) in Canada. Despite this trend, no systematic research has yet been directed toward understanding the contextual and individual factors that buoy these women into leadership positions, their performance goals in terms of family and business dimensions, or the leadership and managerial styles adopted by them, pointing toward an interesting and ripe area for serious study.

Nonfamily employees

In terms of number of individuals involved and the impact on the success and growth of family firms, nonfamily employees are an

important stakeholder group (Chrisman et al., 1998; Gallo, 1995; Ibrahim, Soufani, & Lam, 2001). Moreover, these individuals may possess idiosyncratic knowledge of the firm that may be prove valuable in mentoring of future-generation leaders, or filling in the leadership role should a need arise (D. S. Lee et al., 2003). In larger firms, nonfamily executives have been found to play a critical role in strategic decision making (Chua, Chrisman, & Sharma, 2003). However, it is only recently that some efforts are being directed to understand the complexity of their role and their perceptions.

Using transaction costs and social cognition theories, Mitchell et al. (2003) have theoretically demonstrated that in comparison to employees in nonfamily settings, family business employees need to manage dramatically complex cognitions even for performing simple transactions. This conceptualization provides a theoretical explanation of why some individuals may prefer not to work in family firms.

Lubatkin et al. (2003) use behavioral economics and distributive justice theories to suggest that nonfamily employees' perceptions of fairness, in terms of resource allocation exhibited by controlling owners, will be dependent on the extent of self-control exhibited by these individuals. If they are perceived to make decisions that gratify immediate needs of family members as opposed to promoting long-term value for the family firm, they will be perceived as unjust. Such perceptions are likely to lead to dissatisfaction of nonfamily employees and reduce the likelihood of high performance or long tenures of these employees.

We have hardly scratched the surface of understanding this stakeholder group. The theoretical models proposed need empirical

verification. Clearly, there is a need to devote more attention to understanding the perspective of nonfamily employees, issues that are important to them, and that would lead to superior performance of these individuals along various dimensions.

Interpersonal/Group Level

Significant research attention has been devoted to this level of analysis. Three topics related to interpersonal or group levels that have been investigated are nature and types of contractual agreements, sources of conflict and management strategies, and intergenerational transitions.

Nature and type of contractual agreements

In the field of family business studies, interest in this topic was kindled when two sets of scholars—Gomez-Mejia, Nuñez-Nickel, and Gutierrez (2002) and Schulze, Lubatkin, Dino, and Buchholtz (2001)—began to question the applicability of the central tenets of agency theory in the context of family firms. As their works received acceptance in mainstream journals of organizational studies, they attracted immediate and widespread attention in the field, leading to a number of subsequent conceptual developments and empirical studies (e.g., Burkart et al., 2003; Chrisman, Chua, & Litz, 2002; Gomez-Mejia et al., 2003; Greenwood, 2003; Ling, 2002; Lubatkin et al., 2003; Schulze, Lubatkin, & Dino, 2003a, 2003b; Steier, 2003).

Built on the central tenets proposed by Adam Smith (1796), Berle and Means (1932), and Max Weber (1947) agency theory was conceived and popularized in organizational studies by Jensen and Meckling (1976) and

Ross (1973).¹⁵ It is based on the idea that the separation of ownership and management in firms leads to a principal-agent relationship in which the managers (agents) may not make decisions that are in the best interest of owners (principals). Thus, suggestions were made to develop mechanisms to align these interests (Jensen & Meckling, 1976). It was expected that an alignment of ownership and management within a family would alleviate the agency problems in family firms because individual family members would engage in altruistic behaviors wherein they subjugate their self-interests for the collective good of the family.

Two different perspectives exist on the reasoning that motivates family members to engage in other-regarding behavior as opposed to self-regarding acts. The economist perspective is that “altruism is self-reinforcing and motivated by self-interest because it allows the individual to simultaneously satisfy altruistic (other-regarding) preferences and egotistic (self-regarding) preferences” (Schulze et al., 2001, p. 102). From this perspective, family members are viewed as utility maximizers who are rooted in economic rationality. Research related to majority and minority family member shareholders points toward examples of family members who may be motivated partially or exclusively by their self-interests rather than other-regarding family-oriented behavior (Morck, Shleifer, & Vishny, 1988; Moore & Yeung, 2003).

However, an alternate viewpoint, rooted in theological perspective, is offered by ste-

wardship theory (J. H. Davis, Schoorman, & Donaldson, 1997; Greenwood, 2003). Following the views of McGregor (1960), Maslow (1970), and Argyris (1973), this theory uses a humanistic and self-actualizing model of humankind, wherein an individual views himself or herself as a “steward whose behavior is ordered such that pro-organizational collectivistic behaviors have higher utility than individualistic, self-serving behaviors” (J. H. Davis et al., 1997, p. 24). From this viewpoint, the other-regarding or selfless behavior exhibited by controlling family business owners is motivated by their collectivistic rationality that there is greater utility in cooperative behavior (cf. Hofstede, 1980, 2001). Regardless of the reasoning underlying the other-regarding behavior in family firms, these views led to a belief that there was no need for a formal governance mechanism in such instances of aligned management and ownership, as it would be an unnecessary expense that would deter firm’s financial performance.

Scholars working in the context of family firms argue that while the agency costs caused by the separation of ownership and management may be reduced to some extent in family firms, other types of problems arise, revealing darker implications of altruism (Gomez-Mejia et al., 2002; Schulze et al., 2001). When dealing with members of one’s own family, problems of “myopic altruism” may arise, wherein controlling owners may experience a lack of self-control due to which they have difficulty restraining their impulse to gratify every need and wish of their family (Lubatkin et al., 2003). In other instances, being boundedly rational, these owners may not be award of the behaviors that would lead to highest expected outcomes for their children (cf. Simon, 1957). Ling (2002) argues that even

¹⁵ For a more detailed account of development of this stream of research, see Chrisman, Chua, and Sharma (2003).

when parents attempt to engage in self-control, their fundamental ideological beliefs and values will constrain and determine the governance choices made by them (cf. Todd, 1985). All these underlying causes may lead to adverse selection or entrenchment in family firms, leading to placing family members in positions for which they are not best qualified (Burkart et al., 2003). Moreover, family members may engage in shirking or free-riding behaviors to the detriment of firm performance (Gomez-Mejia et al., 2002; Schulze et al., 2001).

Steier (2003) has argued that variants of agency contracts among family members occur within a continuum of positive-altruistic and economically-oriented rationalities among family members. As both positive and negative aspects of altruism have received some empirical support, it is being suggested that family firm leaders engage in self-control and adopt governance mechanisms that would aid in curbing the negative tendencies of altruism even when owners and managers belong to the same family (Gomez-Mejia et al., 2002).

This research stream has been successful in elaborating the boundary conditions of agency theory and extending its theoretical range (Greenwood, 2003). Although the major focus of this research has been on relationships between family members who are owners and family employees, Chrisman et al. (2002) observe that it has opened rich avenues for scholarly examination of agency relationships among various internal and external stakeholder groups of family firms. Some of these relationships have received previous scholarly attention. For example, Morck et al. (1988) and Morck and Yeung (2003) have documented the potential agency costs to minority shareholders in firms that have an

entrenched dominant shareholding, while Myers (1977) and C. Smith and Warner (1979) focus on agency costs in owner-lender relationships. The literature on venture capital financing can be informative in further developing an understanding of this latter relationship.

Future research on this topic would benefit from taking into consideration the conceptualization of success prevailing in a family firm. For example, if maintenance of performance on family dimensions is important, it may be in the long-term strategic interest to keep members of one generation (even if they are underperformers) engaged in a business, with the hope of improving the training and fostering the interest of future generations in the business. In other words, some generations may primarily act as bridge—or connector—generations, maintaining family harmony and financial performance at par or subpar levels until more competent or prepared family members become available. Clearly, the time horizons under consideration in this instance are significantly longer than in cases discussed currently in agency theory. Perhaps systematic study of dynastic family firms may be informative in understanding how these firms have sustained through multiple generations with varying levels of alignment of skills, abilities, and interests of family members of different generations with tasks undertaken by the firm. As the field engages in this inquiry, it would be fruitful to examine the differences between explicit and psychological contracts among the different stakeholders (Argyris, 1960; Kotter, 1973; Levinson, 1962), and take into consideration the role of the family's culture, beliefs, and value systems on the nature and effectiveness of contracts among different stakeholder groups in family firms.

Sources of conflict and management strategies

An embeddedness of the family and business systems, which in their original forms are based on fundamental sociological differences, makes family firms a ripe context for misunderstandings and conflict (Boles, 1996; E. J. Miller & Rice, 1988; Swartz, 1989). Conflict has been described as “awareness on the part of the parties involved of discrepancies, incompatible wishes, or irreconcilable desires” (Jehn & Mannix, 2001, p. 238).

Based on work-groups conflict literature (e.g., Jehn, 1995, 1997), three types of conflicts have been conceptualized: task (disagreement on what tasks should be accomplished), process (disagreement on how to accomplish the tasks), and relationship (based on interpersonal incompatibilities about values, attitudes, etc.). Cross-sectional studies in this literature (e.g., Jehn, 1995; Shah & Jehn, 1993) have revealed that relationship conflict is detrimental to individual and group performance, reducing the likelihood that members of a group will work together in the future. A moderate level of task conflict has been found to increase group performance in cognitively complex tasks as it allows groups to benefit from different opinions and avoid group thinking (Janis, 1982). Process conflict has been associated with lower levels of productivity and group morale (Jehn, 1997). Most of these studies, however, have been cross-sectional in nature, focusing on static levels of conflict and ignoring temporal issues. Even in a case where an attempt was made to understand patterns of conflict over time (e.g., Jehn & Mannix, 2001), the study was conducted on graduate students who, at best, have to work together on projects for the relatively limited duration of their program of study.

The family business literature is just beginning to develop conceptual models to understand the nature, causes, and implications of different types of conflict. Scholars recognize the positive and negative aspects of conflict, comparing it to “social friction” (Astrachan & Keyt, 2003; Mitchell et al., 2003). Cosier and Harvey (1998) have proposed that process and task conflicts can be beneficial because they promote creativity and innovation. Preliminary evidence of cross-generational innovation would support this notion (Litz & Kleysen, 2001). Building on this idea, Kellermanns and Eddleston (2002) suggest that task and process conflicts interact with relationship conflict to influence firm performance. These researchers also theorize that the relationship between conflict and performance is moderated by the ownership structure of the firm.

Another stream of literature has attempted to understand how conflicts may be resolved and the impact of adopted resolution strategies on financial and nonfinancial dimensions of firm performance. Sorenson (1999) examined the five conflict management strategies of competition, collaboration, compromise, accommodation, and avoidance used by family firms. Although collaboration strategies lead to positive outcomes on both family and business dimensions, the avoidance and competition strategies performed poorly on both dimensions. Compromise and accommodation were better for the family-related outcomes but not for the business-related ones. Astrachan and McMillan (2003) and Habbershon and Astrachan (1996) have suggested that systems for regular collective encounter among family business stakeholders aid in the development of shared cognitive maps and beliefs. In turn, these shared perceptions enable prediction and pro-active man-

agement of conflict, thus increasing the effectiveness of intervention strategies, should these be used.

Due to the relative stability of membership over time and multiplicity in variety of interactions that take place among family members, family firms offer a natural setting to understand the root causes and temporal dimensions of conflict (Astrachan & McMillan, 2003; Grote, 2003). Moreover, effective resolution of conflict is likely to influence firm performance in terms of financial and nonfinancial dimensions. Thus, this is an extremely important area for future research effort as we need to understand the root causes of each type of conflict, whether there is any linkage between the overall goals of a firm and the frequency of the nature of conflict experienced, and resolution strategies that are more helpful in different types of conflict situations. It is possible to conceive, for example, that relationship conflict may be caused by allocation rules of distributive justice (equity, equality, or need based¹⁶) that prevail in a family (Lubatkin et al., 2003); or differences in fundamental norms guiding a family's values about the nature of relationship among siblings (e.g., whether one sibling is regarded above others in terms of inheritance of parental property or all are considered equal) (e.g., Todd, 1985); or disagreements in terms of choices made along other dimensions of life such as mate selection (e.g., Kaye, 1999).

Intergenerational transition

Since the inception of this field of study, significant research efforts have been devoted

to the topic of succession (Handler, 1994). The interest continues (e.g., Burkart et al., 2003; D. S. Lee et al., 2003; Sharma, Chrisman, & Chua, 2003a; Le-Breton-Miller et al., in press). Earlier reviews revealed the importance of this topic and described efforts devoted to describing the phenomenon of succession process and observed best practices (Bird, Welsch, Astrachan, & Pistrui, 2002; Sharma et al., 1996; Wortman, 1994).

A majority of family firm leaders have been found to be desirous of retaining family control past their tenure (e.g., Astrachan, Allen et al., 2002). Although the initial reactions to such preference were relegated to the propensity of family firms toward nepotism, recent conceptual thinking suggests such preference to be a rational and efficient choice when: (1) the prevailing legal system accords low shareholder protection, such that separation of ownership and control becomes inefficient, (2) the family gains significant nonpecuniary and reputational benefits from retaining the leadership within the family, and (3) the competitive advantages of a firm are based in idiosyncratic knowledge that can only be transferred efficiently to family members or the most-trusted outsiders (Burkart et al., 2003; D. S. Lee et al., 2003).

Both incumbents and successors play critical roles in this process, although they attribute more importance to the others' role (Sharma et al., 2003a). Significant differences in perceptions about the process have been identified repeatedly (Handler, 1989b; Poza et al., 1997; Sharma, 1997), pointing toward the importance of engaging in processes that lead to development of collective beliefs (Habbershon & Astrachan, 1996). Using the theory of planned behavior from the social psychology literature, Sharma, Chrisman, and Chua's (2003b) study of 118 family firm

¹⁶ In equity, allocations are commensurate with contributions; in equality, equal allocations are made regardless of contributions; and allocations are based on need to survive with dignity in need-based systems (R. L. Cohen, 1987; Gilliland, 1993; Lubatkin et al., 2003).

leaders revealed that the presence of a trusted successor willing to take over the leadership of a firm was the spark that controls the succession planning process. This suggests a need to engage the next-generation family members in succession planning, as it is their careers and lives that are involved in this decision. The pursuit of understanding the extent of interest of next-generation family members in their firms and the best mode for getting these individuals involved in the firm must continue (Fiegener, Brown, Prince, & File, 1996).

Attempts have been made to reveal various dimensions and phases of the succession process, differentiating between successful and unsuccessful successions, and identifying the factors that contribute to effective successions (Cadieux, Lorrain, & Hugron, 2002; P. Davis & Harveston, 1998; Gersick, Davis, Hampton, & Lansberg, 1997; Harveston, Davis, & Lynden, 1997; Morris et al., 1997; Murray, 2003; Poza et al., 1997; Sharma, Chrisman, Pablo, & Chua, 2001; Sharma et al., 2003a). Most of these studies subject theoretically developed models to empirical tests, thereby improving our understanding of the succession process (Rogoff & Heck, 2003). This process has been revealed to be a multistaged phenomenon with trigger events or markers distinguishing one stage from the other (Cadieux et al., 2002; Gersick et al., 1997; Keating & Little, 1997; Lansberg, 1999; Murray, 2003). For example, using an analogy of a relay race, Dyck, Mauws, Starke, and Miske (2002) suggest the importance of sequence (appropriateness of successors' skills and experiences), timing, technique (details by which succession will be achieved), and communication between the predecessor and successor. It is generally agreed that this process extends over time and needs to be carefully planned (P. Davis & Har-

veston, 1998; Harveston et al., 1997; Sharma et al., 2003a). Recently, Le Breton-Miller, Miller, and Steier (in press) developed an excellent integrative model for successful successions that describes the succession process while taking into account the contextual variables within the family, industry, and society. Although research needs to be directed toward subjecting this model to empirical testing, this effort is successful in providing a comprehensive conceptual framework to understand the succession process in family firms.

Parallel efforts have been directed toward understanding the reasons that successions fail when failure is defined as successor dismissal or firm bankruptcy (Dyck et al., 2002; D. Miller, Steier, & Le Breton-Miller, 2003). Based on their study of 16 failed successions, D. Miller et al. (2003) note that at the heart of failed successions is the misalignment between an organizational past and future. Three observed patterns of this alignment are conservative (attachment to the past), rebellious (wholesale rejection of the past), and wavering (incongruous blending of the past and present). Each pattern leads to different performance implications. These studies present conceptual models that are simply waiting for large-scale empirical testing. In related efforts, it would be useful to carefully consider the effect of performance objectives, family values and beliefs, and other contextual variables that might influence the effectiveness of a succession process.

In the past few years, questions have been asked about whether continuity of a family business is always a good thing (Drozdow, 1998; Kaye, 1996). Although experience and intuition point toward a negative answer to this question, systematic conceptual development of this issue has not yet been undertaken. Some have made suggestions for adopting

broader definitions of “success” of succession (Kaye, 1996) and differentiating between elements of a family business that should and should not be transferred across generations. Research based on a resource-based view of the firm suggests the importance of transferring the tacit embedded knowledge (Cabrera-Suarez et al., 2001), networks and social capital (Steier, 2001), passion (Andersson, Carlsen, & Getz, 2002), and innovative spirit (Litz & Kleysen, 2001) across generations, as such transfers would lead to competitive advantages for family firms. Future research needs to be directed toward understanding effective ways of transferring these resources across generations, as well as exploring the extent of importance of their transfer in different types of family firms located in varied cultures (Dyer, 1988). Literatures on diffusion of innovation and knowledge transfer could be informative in this regard (e.g., Roger, 1983; Szulanski, 1995, 2000).

Organizational Level

At the organizational level of analysis, efforts have been largely directed toward the identification and management of resources in family firms. Resource-based theory of the firm has been used to inform the research directed toward identification and management of the unique resources in family firms. Habbershon and Williams (1999) suggest that it is the “familiness” or the idiosyncratic internal resources built into a firm as a result of the involvement of family that makes family firms distinctive. Further, they argue that “familiness” can be used either as a source of strategic competence (distinctive) or encumbrance (constrictive) by family firms.

In an article that conceptually consolidates different types of capital, Sirmon and Hitt

(2003) distinguish between five types of capital resources and the characteristics that distinguish family from nonfamily firms. These sources of capital are human, social, survivability, patient, and governance structures. They suggest that to gain competitive advantage, family firms need to evaluate, acquire, shed, bundle, and leverage their resources efficiently. The interaction between family and business in these firms provides some advantages and challenges to pursuing these activities.

To truly understand the strategic decision processes of family firms, it is important to incorporate the role of family beliefs and culture. In one related attempt, Sharma and Manikutty (2003) have presented a conceptual model for understanding the interactive role of prevailing community culture and family beliefs on resource-shedding decisions in family firms. They hypothesize varying levels of inertia to divest unproductive business units by family firms depending on the values held by the owning family and the culture that prevails in the community where the family business is located. However, empirical testing of the conceptual models developed in this research stream is necessary.

Research directed toward understanding the sources of financial capital used by family firms has consistently revealed a “pecking order” with highest preference given to internal financing, followed by debt and equity financing (Coleman & Carsky, 1999; Erikson et al., 2003; Morck & Yeung, 2003; Poutziouris, 2002; Romano, Tanewski, & Smyrniotis, 2000). External financing is generally avoided because it is a source of accountability. However, research focused on understanding the cost of debt financing in publicly traded family versus nonfamily firms has revealed a lower cost of debt financing in family firms

(Anderson et al., 2003). The rationale offered for this finding is that the bondholders perceive lower conflict of interest with family firms due to their long-term orientation and undiversified portfolios. This perception, in turn, leads to a reduction in the cost of debt financing (Anderson et al., 2003).

Clearly, more attention needs to be directed toward the firm level. For example, there is a need to understand the mechanisms family firms use to develop, communicate, and reinforce desired vision and organizational culture over extended tenures of leaders and across generations; strategies used to maintain long-term relationships with external stakeholders and other organizations; ethical dilemmas faced and resolution strategies used; and human resource strategies used, especially as these firms provide limited leadership opportunities for nonfamily executives.

Societal/Environmental Level

A majority of the research efforts directed toward understanding the role of family firms at the societal level have focused on establishing the extent of economic importance of these firms in various nations such as Germany (Klein, 2000), the Gulf region (J. A. Davis, Pitts, & Cormier, 2000), Italy (Corbetta, 1995), Spain (Gallo, 1995), Sweden (Morck & Yeung, 2003), and the United States (Astrachan & Shanker, 2003; Heck & Stafford, 2001). As a consistently high influence of family firms has been found in most nations where such studies have been undertaken, perhaps it is time to get to the question of why these firms endure, try to understand the impact of fiscal systems on the formations that persist in different environments, and take a look at the role of these firms in their

communities. Theories such as institutional theory and population ecology might be used in such endeavors.

Summation

Overall, the majority of research on family firms in the past decade or so has been directed toward the individual or group levels, with only scant recent interest in the organizational level. Topics such as organizational vision and culture development, marketing strategies used, human resource practices, interorganizational relationships, and so forth remain unstudied. Further, the impact of family firms at the societal level has largely been ignored, except for the documentation of a large number of these firms in different nations.

At the individual level, founders and next-generation members have received the most attention, with only some attention shown women and nonfamily employees. The long terms and significant influence of founders on their firms during and after their tenures is well established. However, the reciprocal impact of family on founders and the firms is only just beginning to gain attention. Although different leadership styles have been observed, there is still lack of clarity on styles that may be more effective given different organizational goals and personality traits of founders or leadership teams. The focus has largely remained on individual founders; issues related to team founding and leadership await attention. From the perspective of leaders, committed next-generation family members with high integrity are desirable successors, even though such individuals might remain unclear about their abilities, skills, or career interests. Women are found to play multiple roles. Nonfamily employees face

a complex environment in family firms. Our understanding of either of these stakeholders is preliminary at this stage, showing a need for more systematic research attention in future.

At the interpersonal level, agency theory has dominated the research related to the nature of contractual agreements between family owners and family employees. These efforts have revealed that an alignment of ownership and management within a family may not reduce the overall agency costs because, although some costs are alleviated, new types of problems arise. The dark side of altruism has been revealed, displaying human limitations in terms of accurate understanding of how actions taken today might influence the future of a firm, or the impact of one's control impulses in decisions related to family members. Research on the nature of conflict and resolution strategies has highlighted different types of conflicts and varying degrees of effectiveness of resolution mechanisms, although this stream is still in its infancy. In terms of the leadership transition process, it is now clear that this process is a long one and marked with trigger events. Both the departing and incoming leaders play a critical role, although their perceptions on key dimensions may vary significantly. Comprehensive conceptual models of the succession process have been developed, and are awaiting empirical testing.

Moving Forward: Strategies for Knowledge Creation and Dissemination

The ultimate aim of the field of family business studies is to improve the functioning of family firms. This aim can be achieved by gaining deeper understanding of the forces that underlie these firms. Creation and dis-

semination of usable knowledge is a painstaking effort that requires strategic thinking. Not only must we efficiently use our collective intellectual resources, we must continuously attract and retain good thinkers who will devote their energies toward gaining insights into the world of family firms. In this section, I present some thoughts related to gaining efficiencies in the tasks of knowledge creation and dissemination. Strategies that can be adopted at the individual and community level to expedite our collective understanding of family firms are discussed.

Knowledge Creation

Three aspects related to creating knowledge about family firms merit some consideration: What topics deserve attention? How can we effectively organize our ideas around questions of interest? How can we design effective scientific investigations?

Choosing research topics and questions

Asking the right questions is the first critical step in finding the right answers. A major difficulty in a new field of study is to determine the projects that must be undertaken and intelligently formulate the research questions. Review papers and directions for future research listed in research articles provide some suggestions to individual scientists. However, the level of thoughtfulness and sophistication with which projects are chosen can be greatly enhanced by a mutually interactive process among scientists, and between scientists and practitioners, in which the system achieves a rationality superior to that of any individual in it.

Some efforts along this dimension are underway. For example, the International

Family Enterprise Research Academy's (IFERA) annual researchers meeting and the scholars program at the Family Owned Business Institute (FOBI) at Seidman School of Business, Grand Valley State University have initiated efforts to aid critical evaluation of research proposals related to family business studies. Such efforts can avoid uncoordinated efforts of isolated individuals and help make good choices for research projects. Moreover, such meetings enable development of coordinated efforts among scholars, as exemplified by the F-PEC study that involves nine scholars in four nations. Another good example of research collaboration is the 1997 National Family Business Survey that involved 25 scholars from 17 institutions across the United States and Canada (Winter, Firzgerald, Heck, Hayes, & Danes, 1998), with follow-up U.S. reinterviews in 2000 (Winter, Danes, Koh, Fredericks, & Paul, in press). Further progress can be made by involving family firm practitioners and the scientific community more closely in relation to issues faced by both communities.

Development and organization of conceptual thoughts

After developing well-thought-out research questions, the next step in scientific investigation involves development and organization of conceptual thoughts. Theory is an efficient mechanism to build conceptual frameworks that stimulate understanding and provide a strong foundation for conducting systematic research (Sutton & Staw, 1995). In explaining a phenomenon, a good theory identifies the variables that are important and why, specifies how and why the variables are interrelated, and identifies conditions under which they should or should not be related (Campbell, 1990). A high priority needs to be placed on

continuously building and improving our theoretical and conceptual knowledge base as over time such efforts aid in generating usable knowledge (Lindblom & Cohen, 1979).

In the academic realm, theoretical knowledge is the distinctive intellectual capital that provides legitimacy to a field of study (Elsback, Sutton, & Whetten, 1999). It assists in developing a language to express the reality around us, build on each others' work, and attract and retain the attention of scholars from other disciplines to contribute to the field (McKinley et al., 1999).

Similar to this pursuit in most other social sciences, the ultimate aim of the field of family business studies is to develop "theory/ies of family firms" that take into account the reciprocal relationships between family and business systems. A starting point for achieving this ultimate objective is to reexamine the current theories in the family and organizational fields to test the extent of their validity when these two systems are intertwined (Figure 2). Such filtering process will ensure that the theories developed are valuable and robust so that they will apply to a vast majority of organizations in the world (Chrisman, Chua, & Steier, 2003).

Research directed toward an examination of agency theory in the context of family firms (e.g., Gomez-Mejia et al., 2002, 2003; Schulze et al., 2001, 2003a, 2003b) is an excellent example of how a reexamination of an accepted theory in the domain of family firms has revealed the limited scope of the original theory, suggested extensions that aid in its elaboration and refinement, and at the same time aided the field of family business studies to gain deeper insights and rapid legitimacy in the broader academic arena.

As a community of scholars, we must direct efforts toward training researchers interested

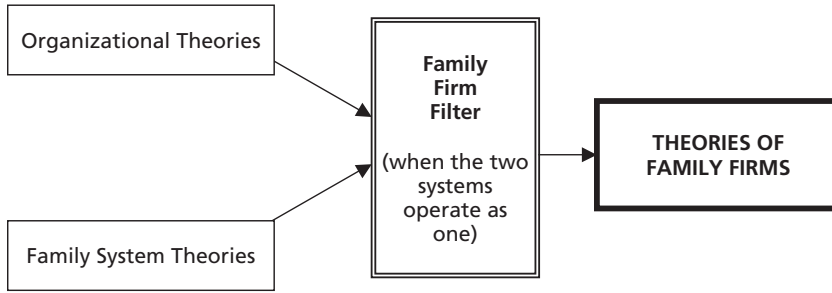


Figure 2 Toward the Development of Theories of Family Firms.

in the field to learn the craft of theory building and writing for scholarly publishing. Research conferences such as the “Theories of Family Enterprise Conferences” organized by the Universities of Alberta, Calgary, and Wharton, are an effective way to promote and support scholarship in the area. Such efforts should be continued and similar initiatives undertaken to promote interaction between senior and newer scholars. At an individual level, we need to make continuous efforts to educate ourselves on the nuances of theory building, and share our research findings in varied venues.

Designing effective studies

Research designs must be chosen based on the research question of interest and the prevailing level of understanding on the issue. In the “full cycle” of research, there is an important role of both qualitative/process and quantitative/variance approaches to develop rich generalizable theories (Cialdini, 1980; Mohr, 1982). Although the process theories use events and states to tell a story about how outcomes are achieved, the variance theories use independent variables as necessary and sufficient causes of variation in dependent variables (Elsbach, Sutton, & Whetten, 1999).

In an emerging field of study as standards are being laid down, it is critical to understand and adopt widely accepted tenets and guiding principles of the chosen approach (e.g., Langley, 1999; Whetten, 2002). Research on succession in family firms has made good progress through its pursuit of rigor in both qualitative (e.g., Handler, 1989a) and quantitative (e.g., Sharma, 1997) methods.

As significant differences in perceptions of leaders and other family members have been revealed (e.g., Poza et al., 1997; Sharma, 1997), it is necessary for researchers to use multirespondent data-collection methods to capture different prevailing perspectives. Topics of interest in family firm studies such as firm performance along financial and nonfinancial dimensions across generations, sources of conflict, efficacy of resolution strategies, and succession process extend over long periods of time, and suggest a need for longitudinal studies or cross-sectional studies repeated over time.

As we work toward building cumulative knowledge on family business studies, it is extremely important to share in detail the methods used, definitions of variables of interest and their operationalization, and research instruments (Handler, 1989a). The

trend in the field is in the right direction as good descriptions of methods are beginning to emerge (e.g., Cole, 1997; Danes, Reuter, Kwan, & Doherty, 2002; Keating & Little, 1997; Mustakallio, Autio, & Zahra, 2003; Poza & Messer, 2001; Smyrnios et al., 2003), and definitions and research instruments are being shared more often (e.g., Astrachan, Allen et al., 2002; Olson et al., 2003; Westhead & Cowling, 1998).

In our role as reviewers, we should strive to maintain the highest standards by encouraging research that is developed on a theoretically strong foundation and is methodologically sound (Bird et al., 2002). Although our judgments should be based on high quality, our reviews should be developmental so that we can support each other toward the conduct of good research. In short, the field can benefit from using rigorous designs both in qualitative and quantitative research methods, longitudinal or repeated cross-sectional studies using multiple respondents, and adoption of a culture of sharing and mutual support.

Dissemination of Knowledge

Efficient dissemination of acquired knowledge is at least as important as its acquisition. Scholars of an emerging field of study need to find effective ways to share their ideas both within the academic community and among practitioners. Below, strategies that can enable effective dissemination in both these communities are presented for consideration.

Dissemination within the academic community

It is largely through academic journals and conferences that research is communicated within the academic community. Although we are fortunate in this field to have this journal

devoted exclusively to family business studies, in order to attract more scholars to the field and generate widespread interest and credibility, it is important to continue our efforts to disseminate our research in a variety of journals and conferences, and invite scholars from other fields of study to conferences devoted to family business studies in an effort to increase awareness.

At the community level, efforts can be made to organize meetings where successful senior scholars are placed in mentoring roles for junior family business researchers so as to generate interest in a wider community of academics and aid the new scholars to learn the craft of publishing (Whetten, 2002).

Dissemination among practitioners

For improving the functioning of family firms, it is critical that created knowledge be effectively disseminated into the communities of practice. However, transfer of knowledge is a challenging task as significant losses are experienced in the transmission process, leading to a time lag between knowledge creation and its use (Lindblom & Cohen, 1979). Adding to the challenge is a general human resistance to change and the adoption of new ideas (Lewin, 1943).

Research has revealed that knowledge transfer can be expedited by involving the recipients in the generation of research questions and studies, ensuring communication mechanism are adapted to the absorptive capacity of users, and developing an intimate trusting relationship with the users (Szulanski, 1995).

At individual levels, researchers must continue to make efforts to communicate research findings in a manner conducive to practitioners. Usage of diagrams and models has been suggested to help in providing struc-

ture to thoughts and communication of complex ideas (Whetten, 2002). Enlightened practitioners must make efforts to keep abreast of new research findings. Collaborative efforts between scholars and academics can be hugely beneficial in generating and disseminating usable knowledge. Associations such as the Family Firm Institute can play a significant role in aiding the knowledge transfer process by providing opportunities for increased interaction between scholars and practitioners, and making efforts to develop objective standards of achievement, without which no learning can take place.

Summation

Overall, this review has revealed a positive trend in the field toward more sophisticated research that is based on rich theory-based conceptualizations of various phenomenon of interest. Although such efforts should continue in future, it is equally important to subject the theoretical models developed to carefully designed empirical (qualitative or quantitative) studies. Only through continuous theory development and testing can we find ourselves closer to the creation of usable knowledge.

In conclusion, the state of the field of family business studies can be described using Jim Collin's analogy (2001) of a huge heavy metal flywheel mounted horizontally on an axle. The aim of interested scholars is to turn this wheel of understanding family firms fast and long. At first, through persistent efforts of early researchers in the field such as Beckhard, Danco, Dyer, Hollander, Lansberg, Levinson, and Ward, it inched slowly and imperceptibly. As more individuals joined the field, the wheel gained momentum. At this point in time, the wheel seems to be turning slowly using its

own weight. Before it gains unstoppable momentum, it is worthwhile to take stock of its current direction and take care that future efforts are made in a desirable manner so as to ensure that the wheel of understanding family firms moves expeditiously. This is my attempt at stock taking for the field of family business studies.

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