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Trends and Directions in the Development of a Strategic Management Theory of the Family Firm

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This article provides a review of important trends in the strategic management approach to studying family firms: convergence in definitions, accumulating evidence that family involvement may affect performance, and the emergence of agency theory and the resource-based view of the firm as the leading theoretical perspectives. We conclude by discussing directions for future research and other promising approaches to inform the inquiry concerning family business.

Introduction

The economic landscape of most nations remains dominated by family firms (Astrachan & Shanker, 2003; Morck & Yeung, 2004). Therefore, it is fitting that academia has begun to recognize the importance of family business studies. Although the field has gathered momentum in the last several years, much remains to be done. For example, researchers continue to disagree over the definition of a family business—the object of research; researchers differ on whether the firm or the family should be the unit of analysis, and there has not yet appeared a framework to help integrate the many promising approaches (e.g., from strategic management, organizational theory, economics, sociology, anthropology, and psychology) used by researchers to study family firms.

The purpose of this article is to follow on the work of Sharma, Chrisman, and Chua (1997) by taking stock of the recent progress achieved by one of these approaches—strategic management—and to propose future directions. Thus, we focus only on trends that contribute to the development of a strategic management theory of family firms. This focus reflects our interest in the business side of the family-business dyad and our belief that considerable understanding can be gained by applying the concepts of strategic

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management (Hofer & Schendel, 1978) toward that end. The focus also reflects our belief that without theory, research will lack the causal linkages that are needed to help family firms manage their businesses better and guide researchers toward the most fruitful areas of investigation.

This article contributes to the literature by helping to clarify the progress already made and what still needs to be done in developing a strategic management theory of the family firm. In the following sections we discuss what we consider to be the most important developments toward a strategic management theory of family business. They are: (1) approaching convergence in the definition of the family firm; (2) the empirical evidence that family involvement affects firm performance; and (3) the emergence of two strategic management oriented explanations for the differences: agency theory and the resource-based view (RBV) of the firm. Following that, we discuss what we consider to be the most important future research directions for the further development of a strategic management theory of the family firm.

Toward Convergence in Defining the Family Business

It is reasonable to demand that family business researchers define the family business—the object of research—before proceeding with their research. Ideally, all researchers should start with a common definition and distinguish particular types of family businesses through a hierarchical system of classification consistent with that definition (cf. Chrisman, Hofer, & Boulton, 1988; Sharma & Chrisman, 1999). Unfortunately, traditional definitions of family businesses have been operational in nature and fragmented, with each focusing on some combination of the components of a family's involvement in the business: ownership, governance, management, and transgenerational succession (see Chua, Chrisman, & Sharma, 1999). Researchers have had problems making these components precise and it is not readily apparent how they could or should be reconciled. Importantly, these definitions lack a theoretical basis for explaining why and how the components matter, or in other words, why family involvement in a business leads to behaviors and outcomes that might be expected to differ from nonfamily firms in nontrivial ways. The observation that firms with the same extent of family involvement may or may not consider themselves family firms, and that their views may change over time, has prompted some scholars to define the family business theoretically by its essence: (1) a family's influence over the strategic direction of a firm (Davis & Tagiuri, 1989); (2) the intention of the family to keep control (Litz, 1995); (3) family firm behavior (Chua et al., 1999); and (4) unique, inseparable, synergistic resources and capabilities arising from family involvement and interactions (Habbershon, Williams, & MacMillan, 2003).[1]

An important philosophical difference between the two approaches to defining the family firm appears to be the implicit sufficiency conditions. The *components-of-involvement* approach is based implicitly on the belief that family involvement is sufficient to make a firm a family business. The *essence* approach, on the other hand, is

1. We follow Chua et al. (1999, p. 25) in defining a family business as "a business governed and/or managed with the intention to shape and pursue the vision of the business held by a dominant coalition controlled by members of the same family or a small number of families in a manner that is potentially sustainable across generations of the family or families."

based on the belief that family involvement is only a necessary condition; family involvement must be directed toward behaviors that produce certain distinctiveness before it can be considered a family firm. Thus, two firms with the same extent of family involvement may not both be family businesses if either lacks the intention, vision, familiness, and/or behavior that constitute the essence of a family business.

The particular value of the essence approach, however, is that it is theoretical in nature and, therefore, has the potential to contribute to an elaboration of a theory of the family firm. For example, taken together, the work of Chrisman, Chua, and Litz (2003), Chua et al. (1999), and Habbershon et al. (2003) suggest that family firms exist because of the reciprocal economic and noneconomic value created through the combination of family and business systems. This RBV perspective implies that the confluence of the two systems leads to hard-to-duplicate capabilities or "familiness" (Habbershon et al.; Habbershon & Williams, 1999) that make family business peculiarly suited to survive and grow. Furthermore, a family's vision and intention for transgenerational sustainability may lead to the institutionalization of the perceived value of the combined family and business systems (cf. Selznick, 1957), suggesting that cooperation in and of itself may create utilities for members of a family business and shape their behaviors and decisions.

However, the problems of close kinship, ownership and management transfers, and conflicting intentions and behaviors may also create inefficiencies that limit the ability of family businesses to create or renew distinctive familiness (Cabrera-Suárez, De Saá-Pérez, & Garcia-Almeida, 2001; Miller, Steier, & Le Breton-Miller, 2003; Steier, 2001, 2003; Stewart, 2003). Recent work using agency theory (Gomez-Mejia, Nuñez-Nickel, & Gutierrez, 2001; Schulze, Lubatkin, & Dino, 2003; Schulze, Lubatkin, Dino, & Buchholtz, 2001) explains how altruism and entrenchment, combined with intentions to maintain family control, can influence family firm behavior in ways that nullify the value of existing capabilities, prevent or retard the development of new capabilities, and make cooperation dysfunctional. Interestingly, these studies suggest that the sources of agency costs in family firms are somewhat different than those in nonfamily firms.

Recently, Astrachan, Klein, and Smyrnios (2002) propose that the extent to which a firm is a family business should be determined by how family involvement is used to influence the business. Moreover, those authors have developed and validated a scale to measure this involvement as a continuous variable rather than as a dichotomous variable (Klein, Astrachan, & Smyrnios, 2005). Not to overlook the methodological value of this work, its primary contribution may lie in its potential to help reconcile the components-of-involvement and essence approaches. If the component-of-involvement approach defines what is ultimately created as a result of using family involvement to influence the business (in effect, the essence), the gap between the two approaches would narrow significantly, moving the field toward a better understanding of its boundaries of investigation.

In summary, the theoretical issues with respect to defining the family firm are still open to debate; however, the components-of-involvement and the essence approaches appear to be converging. What is encouraging is the fact that this convergence is consistent and synergistic with two theories that contribute to a strategic management view of family firms: RBV and agency theory. However, in the end, the definition of a family business must be based on what researchers understand to be the differences between the family and nonfamily businesses. These differences must be identified and explained through both theory and research. Ultimately, these differences must also be of practical significance. Therefore, in the next section we discuss empirical evidence concerning the differences in performance of family and nonfamily firms.

The Evidence That Family Involvement May Affect Performance

Is it possible that family businesses are not different from nonfamily ones? Family business researchers clearly believe that the two are different; for if they were not, there would be no need for a separate theory of the family firm. A number of studies have concluded that family and nonfamily businesses differ in terms of goals (Lee & Rogoff, 1996), ethics (Adams, Taschian, & Shore, 1996), size and financial structure (McConaughy & Phillips, 1999; Romano, Tanewski, & Smyrnios, 2000; Westhead & Cowling, 1998), international structures and strategies (Tsang, 2002; Zahra, 2003), and corporate governance (Randøy & Goel, 2003). On the other hand, studies have also found little or no difference between family and nonfamily firms on dimensions such as sources of debt financing (Coleman & Carsky, 1999), strategic orientation (Gudmunson, Hartman, & Tower, 1999), management and governance characteristics (Westhead, Cowling, & Howorth, 2001), problems and assistance needs (Welsch, Gerald, & Hoy, 1995), and risk (Gallo, Tapies, & Cappuyns, 2004). From the strategic management point of view, these differences in strategy, structure, and goals must ultimately affect performance to be cogent; from this point of view, it is important to establish differences in performance first. Consequently, and despite the many contributions to our understanding of the differences among family firms, we focus here only on studies that test for differences in the performances of family and nonfamily firms.

Mainstream theories of the firm in strategy have all converged on economic value creation as the dominant goal or, at the minimum, a critical constraint. As observed by Makadok (2003, p. 1045):

> Firms that earn positive or zero economic rents can persist indefinitely, and firms that earn negative economic rents can persist temporarily until they deplete their resource stocks, but firms that persistently earn negative economic rents cannot persist indefinitely. . .

Thus, although noneconomic goals are often important to family firms (Chrisman, Chua, & Zahra, 2003; Lee & Rogoff, 1996; Steier, 2003), empirical research on family business performance has primarily dealt with economic performance and we limit our discussion in this section accordingly (Chrisman, Chua, & Sharma, 2003).

Determining whether family involvement affects performance is harder than it appears at first glance. Differences in performance between firms with controlling ownership by families and firms without controlling ownership cannot be unequivocally interpreted as being caused by family ownership; only differences between firms with controlling ownership held by families and firms with controlling ownership held by a small group of individuals (or institutions) without family connections, can be so interpreted (cf., McConaughy, Walker, Henderson, & Mishra, 1998). This difficulty extends to testing for differences caused by family involvement in management. Differences between firms with involvement in management by families holding controlling ownership, firms without controlling ownership blocks, and firms without the involvement in management by nonfamily controlling ownership blocks cannot be interpreted as being caused by family management; the differences could be caused by controlling owners' involvement in management. The differences that can justify such an interpretation must be between firms with involvement in management by families holding controlling ownership and firms with involvement in management by nonfamily controlling owners.

McConaughy, Matthews, and Fialko (2001) and McConaughy et al. (1998) use the *Business Week* chief executive officer (CEO) 1,000 and Computstat data to present evidence that firm value is higher when ownership is concentrated in the hands of the founding family than when the ownership is concentrated but not in the hands of the founding family. The results of their matched sample tests are compelling and it is regrettable that these immensely important studies did not separate ownership from management. That would have provided more definitive information on whether family ownership, family management, or both were driving the results.

Using firms from the S&P 500, Anderson and Reeb (2003) present evidence that accounting profitability measures are higher for firms with founding family ownership and a family CEO but market value creation is higher for those with founding family ownership and either a founding family CEO or a nonfamily CEO. However, this superiority in performance is tempered by the need to balance the interests of the family, as the dominant shareholders, against those of other shareholders (Anderson & Reeb, 2004). Unfortunately, while these studies control for the presence of large institutional block holders, they do not appear to have isolated nonfamily firms where management holds significant ownership stakes.[2]

Tests for differences in performance of family and nonfamily firms have also been measured along dimensions other than value creation: McConaughy et al. (1998) and McConaughy et al. (2001) both indicate higher efficiency in founding family controlled firms; Chrisman, Chua, and Steier (2002) observe that family involvement enhances the first year sales of new ventures; and Zahra (2003) shows higher sales in the international operations of family firms. On the other hand, Gallo (1995) finds that family firms take longer to grow to the same size as nonfamily firms in the same industry; Gomez-Mejia et al. (2001) find family owned newspapers with entrenched CEOs to have lower volumes of circulation; and Chrisman, Chua, and Litz (2004) suggest that short-term sales growth for small family and nonfamily firms are statistically equal. These results must be viewed as preliminary, however, because the methodologies employed did not or could not distinguish between the effects of ownership concentration, managerial ownership, and family involvement. Furthermore, some have small samples, may not have incorporated all of the relevant control variables, and/or use rather coarse-grained measures to test the hypotheses.

In conclusion, empirical evidence suggests that founding family involvement affects the performance of large firms but further research is needed to determine if this holds for smaller and nonfounding family firms. Additional studies are also needed of large firms since there may be other strategic and structural drivers of value unrelated to family involvement that have not been fully accounted for. This question should be examined using both empirical and theoretical approaches; the latter is the topic of the next section.

Leading Theoretical Explanations of the Distinctiveness of Family Firms

Researchers in family business believe that family influence makes a family business distinct from a nonfamily one. To determine if this is so, family business research needs to identify the nature of family firms' distinctions, if any, and determine if and how these distinctions result from family involvement.

To avoid reinventing the wheel, theoretical research in family business has, as it should, concentrated on applying mainstream theories of the firm to explain how family

2. However, the combined studies of McConaughy et al. (1998, 2001) and Anderson and Reeb (2003, 2004) appear to account for almost all the combinations enumerated above regarding testing the influence of family involvement.

firms may be different from nonfamily ones. Recently, researchers using the strategic management approach have begun to rely more and more on two theoretical perspectives that represent a confluence of insights from the fields of strategic management, finance, and economics: the RBV of the firm and agency theory. Consequently, this review focuses on these two perspectives. We believe that this focus is both appropriate and entirely consistent with a strategic management view of the field because RBV and agency theory potentially assist in explaining important strategic management issues such as the formulation and content of goals and strategies, strategy implementation and control, leadership, and succession in family firms. Furthermore, both theoretical perspectives have a performance orientation. Finally, both contribute to what we believe should be an overarching concern in family business studies—answering the fundamental questions related to a theory of the (family) firm: why they exist, and why they are of a certain scale and scope (Conner, 1991; Holmstrom & Tirole, 1989).

Agency Theory and the Family Business

Agency costs arise because of conflicts of interest and asymmetric information between two parties to a contract (Jensen & Meckling, 1976; Morck, Shleifer, & Vishny, 1988; Myers, 1977). Applying this concept to the capital structure decision of the firm, Jensen and Meckling (1976) define the concept of agency costs to include all actions by an agent that contravene the interests of a principal plus all activities, incentives, policies, and structures used to align the interests and actions of agents with the interests of principals.

While agency problems can arise in transactions between any two groups of stakeholders, researchers applying agency theory to family firms have concentrated primarily on relationships between owners and managers and secondarily between majority and minority shareholders.[3] Within these streams, researchers have proposed altruism and the tendency for entrenchment as the fundamental forces distinguishing family and nonfamily firms in terms of agency costs.

Altruism. The original thinkers of agency theory assumed that when ownership and management reside within a family, agency costs would be low, if not absent. For example, Fama and Jensen (1983, p. 306) state, "family members . . . have advantages in monitoring and disciplining related decision agents." However, drawing on the family economics literature (e.g., Becker, 1981), Schulze et al. (2001, 2003) show how a tendency toward altruism can manifest itself as a problem of self-control and create agency costs in family firms due to free riding, biased parental perception of a child's performance, difficulty in enforcing a contract, and generosity in terms of perquisite consumption. They argue that these agency problems cannot be controlled easily with economic incentives because members of the family are already residual owners of the firm. The empirical evidence supports most but not all of their hypotheses.

However, not all research about agency costs related to altruism in family firms has reached negative conclusions. Early results from economic modeling (Eaton, Yuan, & Wu, 2002) appear to suggest that if altruism is reciprocal (both family owner and family

3. Notable exceptions are the work of Anderson, Mansi, and Reeb (2003) and Steier (2003). Anderson et al. show that for large firms, the involvement of a founding family could result in better borrowing terms for the firm due to the common interests of the borrower and lender in the survival of the firm. Steier's case studies of family as a source of venture capital suggests that families will use a mix of market, hierarchical, and relational contracting in structuring and managing such investments.

manager are altruistic toward each other) and symmetrical (equally strong reciprocal altruism), it can mitigate agency problems. In fact, Eaton et al. (2002) show that, with reciprocal altruism, family firms have competitive advantages in pursuing certain business opportunities in the sense that they will have lower reservation prices for those business opportunities. Related to this, if altruism leads to family members' willingness to suffer from short-term deprivation for long-term firm survival, a combination of low overheads, flexible decision making, and minimal bureaucratic processes, can enable family firms to be effective, frugal rivals (Carney, 2005). This competitive advantage bodes especially well in environments of scarcity characterized by low entry barriers and labor-intensive production costs and could provide an explanation for the prevalence of a large number of family firms in service industries, small-scale manufacturing, and franchising environments, where margins are low and labor costs high (Carney, 2005). Another example leading to the conclusion that a family firm could have a lower reservation price for opportunities is the observation by Chua and Schnabel (1986) that if certain assets yield both pecuniary and nonpecuniary benefits, then asset market equilibrium will result in a lower pecuniary return for these assets. This suggests that family firms may have a lower cost of equity.

Using a sample of firms with 5–100 employees, Chrisman, Chua, and Litz (2004) show that while the short-term sales growth of family and nonfamily firms are statistically equal, one mechanism for controlling agency costs—strategic planning—has a greater positive impact on the performance of nonfamily firms. These findings suggest that even if the overall agency costs of family firms are not negative, they are lower than those in nonfamily firms, supporting the traditional point of view in the literature (e.g. Fama & Jensen, 1983; Jensen & Meckling, 1976; Pollak, 1985).[4]

Entrenchment. In the context of agency theory, management entrenchment permits managers to extract private benefits from owners. Morck et al. (1988) show empirically that management entrenchment decreases firm value. They demonstrate this by showing that there is a nonlinear relationship between the value of the firm and managers' ownership shares. Initially, as their ownership shares increase from zero, firm value increases. But beyond a certain range, firm value actually decreases with managers' ownership. They interpret this as agency costs arising from the entrenchment of management made possible by increased ownership.

Gomez-Mejia et al. (2001) provide supporting evidence from family firms. They show that the agency problems caused by entrenchment may be worse in family firms than in nonfamily firms. Gallo and Vilaseca's (1998) research yields similar conclusions. While they find that the performance of family firms in general was not influenced by whether the chief financial officer (CFO) was a family member or not, they also show that when the CFO is in a position to influence the strategic direction of a firm, having a nonfamily member in that position is associated with superior performance.

Ownership entrenchment may also occur and this may have serious consequences for minority shareholders and society. Morck and Yeung (2003, 2004) argue that because entrepreneurial spirit and talent are not necessarily inherited by ensuing generations of a controlling family, it is much easier for succeeding generations to use their wealth and influence to obtain competitive advantages through political rent seeking rather than

4. We reiterate our observation that many of the empirical studies referenced here are preliminary in nature because the methodologies used may not differentiate between concentrated ownership, management ownership, and family involvement.

through innovation and entrepreneurship. This problem is more serious if entrenchment is accompanied by a pyramidal corporate ownership structure (Morck & Yeung, 2003). They suggest that, in this case, a family might engage in the predatory behavior known as *tunneling* (Johnson, La Porta, Lopez-de Silanes, & Schleifer, 2000). In tunneling, family owners use cost allocation to push expenses down toward subsidiaries in which they have the lowest beneficial ownership and use transfer pricing to pull revenues up toward the holding company in which they have the highest beneficial ownership. Furthermore, because innovation can cannibalize existing businesses, pyramidal family ownership can create disincentives to innovate if the possibility for innovation occurs at levels in the structure where a family's stake in the profits is lower and threatens businesses at levels where its stakes are higher.

However, the implications of entrenchment are not one sided. Pollak (1985) argues that family businesses have advantages in incentives and monitoring vis-à-vis nonfamily firms. Shleifer and Vishny (1997) suggest that family ownership and management can add value when the political and legal systems of a country do not provide sufficient protection against the expropriation of minority shareholders' value by the majority shareholder. In fact, Burkart, Pannunzi, and Shleifer (2003) show that in economies with a strong legal system to prevent expropriation by majority shareholders, the widely held professionally managed firm is optimal. But in situations where the legal system cannot protect minority shareholders, keeping both control and management within the family is optimal.

Randøy and Goel (2003) find that, as hypothesized, high levels of institutional block ownership and foreign ownership are positively associated with performance in nonfamily firms. Performance is also negatively associated with high levels of ownership by board members in those firms. The authors suggest that such an ownership and governance structure reduces entrenchment and increases monitoring. Interestingly, they find the relationships between governance and performance to be reversed for family firms. Randøy and Goel (2003) conclude that different agency contexts and forms of ownership require different governance structures. Mustakallio, Autio, and Zahra's (2002) research provides further support for that conclusion. These authors suggest that because owners have multiple roles in a family business, the governance of family firms differs from corporate governance for nonfamily firms. Their empirical results generally support their hypotheses that formal and social controls influence the quality of strategic decisions in family firms.

Summary. In summary, researchers have argued that both altruism and entrenchment can have positive and negative effects on family firm performance. Contingencies such as the generation managing the firm, the extent of ownership control, corporate and business strategy, and industry appear to have some influence on whether the influence is positive or negative. Agency issues in family firms may also have broad, societal welfare implications that need to be investigated further. Clearly, research along these theoretical lines is just beginning. But it has already yielded interesting insights for future research.

Resource-Based View of the Family Firm

A key consideration in the development of a theory of the family firm is whether family involvement leads to a competitive advantage because answering this question will provide some insights regarding why family firms exist and why they are of a particular scale and scope. As noted earlier, an RBV approach has the potential to help identify the resources and capabilities that make family firms unique and allow them to develop family-based competitive advantages (Habbershon et al., 2003; Habbershon & Williams, 1999).

The RBV of the firm suggests that valuable, rare, imperfectly imitable, and nonsubstitutable resources can lead to sustainable competitive advantage and superior performance (Barney, 1991). Sirmon and Hitt (2003) provide arguably the most encompassing application of RBV to family businesses. They distinguish between five sources of family firm capital: human, social, survivability, patient, and governance structures, and argue that family firms evaluate, acquire, shed, bundle, and leverage their resources in ways that are different from those of nonfamily firms. Overall, they believe that these differences allow family firms to develop competitive advantages. In support of this, Carney (2005) describes three characteristics of family firm governance—parsimony, personalism, and particularism—that may lead to cost advantages, help in the development of social capital, and encourage entrepreneurial investments. Expanding on Sirmon and Hitt's (2003) proposal of patient capital as a family business resource, Miller and Le-Breton-Miller (2005) show in a study of large, long-living family firms that continuity and the power to institute changes without outside interference or control enables these firms to generate and make exceptional long-term use of patient strategies and relationships with stakeholders.

Some of the differences noted by Sirmon and Hitt (2003), however, such as family firms' difficulty in shedding human resources, may have negative impacts on economic performance. Elaborating on this, Sharma and Manikutty (2005) discuss how a family firm's inability to shed resources is affected by family structure and community culture. Kellermanns (2005) extends that discussion by explaining how family structure and community culture might also influence resource accumulation both positively and negatively.

Other scholars also suggest that a family business connection may yield unique advantages in the acquisition of resources (Aldrich & Cliff, 2003; Haynes, Walker, Rowe, & Hong, 1999). Again, the benefits are not without limits though. Thus, Renzulli, Aldrich, and Moody's (1998) panel study suggests that a nascent entrepreneur's likelihood of starting a venture is negatively associated with the proportion of kin in the network used for venturing dialogues. In a similar vein, Barney, Clark, and Alvarez (2002) use social network theory to propose that maintaining family ties reduces family members' ability to maintain other strong social ties. Considering the tendency for the assets of family members to be redundant, they argue that family ties are not likely to be a major source of the rare and specialized resources needed for entrepreneurship and value creation. Therefore, they conclude that family firms will not have advantage in acquiring resources. On the other hand, Barney et al. (2002) suggest that family ties may provide an advantage in opportunity identification because of family members' greater willingness to share information with each other.

Carney (2005) observes that family firms may enjoy long-term relationships with internal and external stakeholders and through them develop and accumulate social capital. While the fixed costs of creating and maintaining social capital is high, social capital can contribute to economies of scope because the different units of a large diversified family firm can use it advantageously. This could give the family firm a competitive advantage in expanding its scope vis-à-vis nonfamily firms. The results of study of the short-term sales growth of small to medium size family and nonfamily firms confirm Carney's assertions (Chrisman, Chua, & Kellermanns, 2004) about the advantages of family firms in making use of external relationships. Chrisman et al.'s study also appears to support Barney et al.'s (2002) contentions since no performance difference between family and nonfamily firms was found with respect to resources emanating from internal relationships. Finally, Chrisman et al. found that while operating resources affect the performance of both family and nonfamily firms, the former does not appear to benefit from increases in operating resources to the same extent as the latter.

Zahra, Hayton, and Salvato (2004) tested whether organizational culture, which has been proposed as an inimitable resource (Barney, 1986), affects entrepreneurial activities in family firms. They observed that the relationship between entrepreneurship and the cultural dimension of individualism is nonlinear. Too little individualism discourages the recognition of radical innovation while too much inhibits the trust, acceptance, and cooperation required to adopt the innovation. They found, however, that the relationships between entrepreneurship and three other cultural dimensions: external orientation, distinctive familiness (Habbershon & Williams, 1999), and long- versus short-term orientation (James, 1999) are linear and positive. This is again consistent with the theoretical arguments of Carney (2005) and Barney et al. (2002).

Aside from helping us to eventually understand the unique roles and advantages of family firms in the economy, identification of the distinctive resources and capabilities of family firms will help answer a critical question in family firm succession: What resources and capabilities should one generation hand to the next in order to give ensuing generations the potential to realize its vision? As Miller et al.'s (2003) study of 16 failed successions indicates, the transference of acumen is by no means a foregone conclusion.

Case studies by Tan and Fock (2001) suggest that the entrepreneurial attitude and abilities in a successor may be the key to success in family firm succession. Taken together, Chrisman, Chua, and Sharma (1998) and Sharma and Rao (2000) provide cross-cultural evidence that integrity and commitment may be more important to the selection and success of a successor than technical skills. Since such attributes may be associated with a family firm's reputation in the eyes of customers and suppliers, not to mention present and prospective employees, how these attributes can be developed is an important topic for future research. Building on this, Sharma and Irving (2005) draw on the organizational commitment literature to provide a conceptual model of four sources of successor commitment: affective, normative, calculative, and imperative.

Cabrera-Suárez et al. (2001) and Steier (2001) have treated the issue of resource transfer across generations in greater depth. Cabrera-Suárez et al. use resource- and knowledge-based theories to advance the concept of tacit knowledge transfer in succession. Tacit knowledge is situation-specific knowledge that is gained through experience and actions. It is more difficult to transfer than explicit knowledge because the latter is based on facts and theories that can be articulated and codified (Grant, 1996). Cabrera-Suárez et al. suggest that the transfer of tacit knowledge is important for preserving and extending competitive advantage because the continued success of a family business often rests upon the unique experience of the predecessor. In providing a model for the study of knowledge transfer in family businesses the authors not only provide a structure to explain the findings of prior research on family business succession, they also provide a theoretical basis for future studies on one of the key sources of competitive advantage that potentially exist through family involvement in a firm.

Steier's (2001) exploratory study adds to our knowledge of how tacit knowledge emanating from social capital is transferred during leadership transitions and suggests how different methods of transfer may influence postsuccession performance. He points out four modes of succession and transference of social capital across generations. Two of these—"unplanned sudden succession" and "rushed succession"—are caused by unanticipated events or changes in the current management structure. Over half the respondents who experienced these successions indicated a low level of preparedness for succession. In the third type of succession called "natural immersion," the successors gradually assimilate the nuances of the network relationships. It is only in the "planned" transfers that leaders recognize the importance of transferring social capital and make deliberate attempts to introduce successors to the social networks of the organization.

While RBV helps explain how the possession of resources (e.g., familiness) could lead to competitive advantages and provides some insights for explaining how these resources have been or can be acquired through family involvement (e.g., the development of tacit knowledge), its role in explaining the requirements for preserving the business as a *family* institution has only begun to be explored. The work by Stafford, Duncan, Danes, and Winter (1999) on sustainable family businesses is a start toward filling this gap. However, Olson et al. (2003) conclude from their household sample study that the effect of the family on the business is greater than the effect of the business on the family.

Concluding Observations about the Two Theoretical Perspectives

As discussed above, the agency theoretic approach to explaining the distinctiveness of family firms is based on altruism and entrenchment. Of the two, altruism is a credible attribute for distinguishing family and nonfamily firms because it is easier to accept its possible existence among family owners and family managers than its existence among nonfamily owners and managers. That it could have both positive and negative impacts on family business performance makes its incorporation into an agency theory of the family firm a very promising direction because the interactions between the family and the business are too complex to be satisfactorily explained by a feature that yields simple conclusions. The strong indications that there are contingencies that might influence the relationship between altruism and performance are also important because it implies that the variations are not random.

Entrenchment flows from concentrated ownership, regardless of whether it is by a family or a nonfamily group. Therefore, an agency theory of the family firm based on entrenchment may have more difficulty explaining differences between family and nonfamily firms.

Conceptually, applications of agency theory to the family business situation would be more useful if the set of goals and objectives proposed is expanded to include noneconomic benefits. If agency costs are the result of managers pursuing goals that are different from those of owners, then many actions considered agency costs in nonfamily firms, because they primarily pursue economic goals, might not be so for family firms, because they pursue a more balanced goal set. The difficulty is that there is likely to be more substantial variations in the noneconomic goals of different family firms than in their economic goals. The measurement of economic performance is relatively straightforward compared to the measurement of noneconomic performance, which might include concerns ranging from family harmony to philanthropy to environmental preservation.

Of course, research that focuses purely on economic goals and performance will continue to be important. The problem is that an exclusive emphasis on economic performance is of only limited utility to family owners and managers who must struggle with achieving a balance between economic *and* noneconomic goals when making strategic, administrative, and operating decisions. Thus, to better reflect reality, and make a more meaningful contribution to practice, we need to better understand the interests of family business owners, whatever they may be. By doing so we will be in a better position to measure agency costs by the decisions and actions pursued in contravention of owners' actual interests, and the activities, incentives, policies, and structures owners set up to prevent their interests from being contradicted.

Scholars adopting the RBV perspective have generated an even richer array of ideas about how family involvement may create differences in the performances of family and nonfamily firms. The proposed antecedents and types of distinctiveness for family firms are more numerous and the pathways of influence more complex; as a result, they are less clear-cut. Research has only begun to investigate these ideas and more is clearly needed.

As with agency theory, an important weakness of the RBV approach is the implicit assumption that wealth creation through competitive advantage is the sole goal of family firms. Although it is possible to have an RBV of the family firm as a partial theory dealing with how a firm might achieve wealth creation, an expansion of the goal set remains important for the RBV approach because decisions or behaviors that are intended to achieve other goals could directly impact what and how resources are deployed, with concomitant impacts on the economic performance of family firms. Similarly, agency cost-control mechanisms that might improve economic efficiency might also damage the fabric of a family firm as an institution and therefore reduce its ability to achieve important noneconomic goals. As suggested by Corbetta and Salvato (2004) this may also have long-term implications for the economic performance of a firm if, in lowering agency costs, the motivation of managers to maximize organization effectiveness is reduced.

Recently, Coff (1999) enriched RBV by pointing out that while valuable, rare, inimitable, and nonsubstitutable resources and capabilities may create competitive advantages, a firm may, nevertheless, not create value for its owners. This happens if other stakeholders have enough bargaining power to appropriate the economic rents generated. Coff (1999) notes that owner-managers usually have significant bargaining power because of their role in generating the economic rent, their access to information, and their legitimate residual claims. On the other hand, if owners do not contribute directly to the generation of economic rent but, instead, simply supply financial resources that are generic, fluid, unspecialized, and easy to substitute, then the owners are replaceable. If, in addition, managers are able to control owners' access to information, then the former can appropriate economic rents from the latter despite the latter's legitimate residual claims. Although asymmetric information, which is central to agency theory, is a necessary component of the argument, it must be combined with an understanding of stakeholders' roles in and contributions to generating economic rent to explain differences in bargaining power. Thus, there appears to be an opportunity to combine RBV insights with those of agency theory by building on the rent-appropriation concept.

Surprisingly, researchers have not adopted this enrichment to RBV to help explain family firm performance. For example, it may be useful in explaining why family firms tend to congregate in certain industries; these could be industries where nonfamily stakeholders have weaker bargaining power. It might also be used to explain differences in value creation by family firms as ownership passes to succeeding generations. If a successor's role in economic rent generation is reduced, the bargaining power of nonfamily stakeholders could be strengthened. Rent appropriation might even be a driving force for keeping succeeding generations of a family involved in both ownership and management if continued involvement is perceived as necessary to sustain the bargaining power of the family, vis-à-vis other stakeholders.

Directions for Future Research

We believe that the ultimate aim of research about family business is to develop a theory of the family firm. We further believe that such a theory should incorporate a strategic management perspective. A starting point for achieving this objective is to examine whether and how current theories of the firm can be applied and combined to study family businesses. This is why we consider recent research activities applying mainstream theoretical models to the study of family firms to be an important and valuable trend. These models make certain assumptions, however, about the goals and rationality of the behavior of family firm owners and managers. Thus we believe that research must be conducted to ascertain the validity of these assumptions and the consequences of relaxing these assumptions.

Differences in the Behavior of Family Firms

Do family firms really behave differently from nonfamily firms? If so, how and why are they different? These questions have not been fully answered. In addition to well-designed quantitative studies of functional policies, business strategies, and entrepreneurial activities, we advocate field studies that document in detail the activities of family business owners, family managers, other family members, and nonfamily managers to answer these questions. The approach could be ethnographic or primatological and must involve a comparison with similar stakeholders in nonfamily firms. The data collected must be designed to identify any differences in control processes as well as strategic decisions and actions. This type of study, aside from enabling us to verify the validity of applying assumptions embedded in mainstream theoretical frameworks to family firms, will undoubtedly yield many new directions for research using larger samples.

Driving Forces in Family Firms

While there have been studies about the goals of family firms (e.g., Lee & Rogoff, 1996, Tagiuri & Davis, 1992), they did not identify the driving forces behind those goals. If we do not understand the fundamental driving forces, we may confuse symptoms with causes.

Researchers applying agency theory (e.g., Eaton et al., 2002; Schulze et al., 2001), following the tradition in economics, have used altruism as one of the driving forces. In a recent article, Lubatkin, Ling, and Schulze (2002) propose that family values with respect to fairness, social justice (in the Rawlsian sense), and generosity are the—although not entirely compatible—driving forces. Within a theory of the family firm, fairness could be the absence of free riding, social justice could be a constraint guaranteeing a minimum standard of living for the least productive family member, and generosity could simply be anything above that minimum.

Some researchers (e.g., Corbetta & Salvato, 2004) propose that family business management could be accurately described by stewardship theory (Davis, Schoorman, & Donaldson, 1997), which has a long history in theology (cf. Thompson, 1960). According to stewardship theory, managers are driven by a commitment to the interests of owners and will be as diligent and committed as owners would be in managing the business. We are unaware of extensive research about the basis of stewardship; as a result, we do not really know whether stewardship requires selflessness, self-control, or altruism. However, it can be shown conceptually that a situation of reciprocal perfect altruism—both managers and owners place the same weight on their own and the other party's interests—is sufficient to result in stewardship.[5] This suggests it may be possible to use stewardship

5. Yuan (2003) made this observation in a conversation with the second author. To illustrate this point, let "V" be the value of the firm, "w" be the wage paid to the manager, "a_{mo}" be the manager's altruism toward the owner, and "a_{om}" be the owner's altruism toward the manager. The owner's interest equals (V – w) while

theory as a special case of agency theory (Albanese, Dacin, & Harris, 1997). Thus, we see some potential for studying family and business governance mechanisms that inspire stewardship as opposed to agency. Similarly, the infusion-of-value-processes of institutionalization (Selznick, 1957) that inspire cooperation may be effective substitutes for monitoring or economic incentives in some family business settings.

From a RBV the emerging school of thought is that the creation of distinctive and enduring familiness (Habbershon et al., 2003; Habbershon & Williams, 1999) may be a driving force (as well as an end result) behind the vision and goals of family firms. This may be a way of conceptualizing the intangible legacy that one generation leaves to another (cf. Baker & Wiseman, 1998; Kelly, Athanassiou, & Crittenden, 2000). Work on family business conflict may be of particular relevance in this regard. Thus, relational conflict may lead to constrictive familiness (Habbershon et al.) if it stifles constructive task and process conflicts that are necessary to develop distinctive familiness or other sources of competitive advantage (Jehn, 1997; Kellermanns & Eddleston, 2004). Sorenson (1999) suggests that collaborative conflict management strategies are superior to avoidance, accommodation, compromise, or competition for positive outcomes on both family and business dimensions. However, much more work is required before we will understand how the relationships among family members can be harnessed for good rather than ill. As Mitchell, Morse, and Sharma (2003) point out, the cognitive processes necessary for superior performance may be much more complex in family firms due to the added transactions within the family and between the family and business.

Strategic Alternatives Available to Family Firms

Do family firms have the same strategic alternatives as nonfamily firms? This is not about size because broad definitions of family firm can encompass firms as large as Wal-Mart, McCain's, Seagram, Bechtel, S.C. Johnson, Mars, Cargill, etc. Surprisingly, with the exception of the recent work by Miller and Le-Breton-Miller (2005), the literature provides very little insight on the business or corporate strategies used by family firms to exploit their unique resources and capabilities. It is also silent on functional alternatives except in the area of financing (e.g., Coleman & Carsky, 1999; Gallo & Vilaseca, 1998; Poutziouris, 2001). While altruism and entrenchment could constrain strategic choices, the RBV perspective should be especially useful in explaining the value-maximizing choices a family firm might have.

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that of the manager equals w. If the owner seeks to maximize his utility, which is a linear function of his interest plus an altruistic part linearly related to the manager's interest, we get: Owner's objective = Maximize $(V - w) + a_{om} \cdot w$.

Let the manager also seek to maximize his utility, which is of the same form as that of the owner. Therefore, the manager's objective will be: Manager's objective = Maximize $w + a_{mo} \cdot (V - w)$.

If the owner and manager are reciprocally and perfectly altruistic, then both a_{mo} and a_{om} are equal to one. Substituting these two values into the two objectives, we get: Owner's objective = Maximize $(V - w) + w = V$; and Manager's objective = Maximize $w + (V - w) = V$.

Thus, the owner and the manager have the same objective and we have stewardship although the manager's interest (w) is different from the owner's interest (V − w). Note that neither selflessness nor self-control is required.

Of course, if the manager acts as an opportunistic agent rather than as an altruistic steward, $a_{mo} = 0$ and the manager's objective becomes: Maximize $w + 0 \cdot (V - w)$ = Maximize w and we have an agency problem.

Reciprocal Influence of Family Stakeholders

Agency theory and RBV, as they are currently applied to family firms, do not address the reciprocity of influence between the family and the business. Initial attempts by Stafford et al. (1999) and Olson et al. (2003) have phrased this in terms of sustainable family businesses. Because the family form of organization involves the interplay of a number of stakeholders with a diverse set of economic and noneconomic goals, we believe that incorporating stakeholder theory into future research can help fill some of this theoretical gap. As suggested by Sharma (2000), stakeholder theory fits the needs of family business research well. In this respect, advances such as Mitchell, Agle, and Wood's (1997) stakeholder salience theory has the potential to explain how the different players, through the interplay of their stakes, power, legitimacy, and urgency in formulating organizational goals and strategies cause resources to be acquired and agency costs to be eliminated or amplified.

While recent work (Schulze et al., 2001, 2003) emphasizes the importance of altruism in developing a theory of the family firm, family consensus (Samuelson, 1956) and bargaining (e.g., McElroy & Horney, 1981) models of allocation and distribution as discussed by Pollak (1985) may also shed some light on the politics of value determination that influences a family firm's vision, strategy, and distinctive (or constrictive) familiness. Coff's (1999) work should also be useful in understanding how stakeholders appropriate economic rents and noneconomic benefits.

Performance of Family Firms

Clearly, if family firms have economic and noneconomic goals, then the measurement of overall performance is much more complex. Family firms may be willing to trade economic performance for noneconomic benefits. Research must be directed toward determining the marginal rates of substitution between these performance measures. Studies about the determinants of these rates of substitution will also be very important in helping us understand the distinctiveness and competitiveness of family firms.

Summary and Conclusions

In this article, we focused on three important trends relevant to the development of a strategic management theory of the family firm. First, we discussed the two approaches to defining the family business: the *components-of-involvement* approach and the *essence* approach, and clarified the philosophical basis for the differences in the approaches and the value of a theoretical definition. We observed that the two approaches appear to be converging because recent refinements in the components-of-involvement approach are only short steps away from incorporating what we believe to be the essence of a family business.

Second, we reviewed the empirical evidence on whether family involvement affects performance. We conclude that the accumulated evidence is persuasive with respect to founding family involvement in large firms but further research is needed to determine whether this is true in small firms and in firms where family involvement is not confined to a founding family (i.e., family management buy-outs and purchasing an existing business by a family from the outside). And, to conform with the same standard of proof, empirical research examining behavioral, strategic, structural, and tactical differences of family firms must be mindful of the need to distinguish between the general influence of concentrated ownership and owner-management, and the particular influence of family involvement.

Third, we reviewed how agency theory and RBV have been applied toward the development of a strategic management theory of the family firm. Based on this review it appears that family businesses most likely have agency costs and distinctive resources. The manifestations of agency costs appear to be somewhat different in family firms and while in general their effects seem to be less severe, situational variables seem influential. Similarly, the initial evidence suggests that family businesses have capabilities and competencies that make them better suited to compete in some environments rather than in others. But we have only begun to identify the exogenous and endogenous variables that affect the development and rent-generating potential of family firms, let alone the extent to which those rents might be endangered by the bargaining power of internal or external stakeholders.

Development of a rigorous theory of the family firm is just beginning. It is encouraging nevertheless, to see scholars from mainstream disciplines applying the dominant theoretical frameworks from those disciplines to study family firms. Using these dominant frameworks is likely to help impose more discipline and structure on family business research. However, as we discussed in the article, both agency and resource-based theories rely on assumptions that may only partially hold and both leave some gaps that need to be filled if we are to develop a strategic management theory of the family firm. Notable by its virtual absence in our discussion, the potential to combine these perspectives to obtain a better understanding of the conditions under which the positive forces of family involvement can be unleashed and directed toward the economic and noneconomic objectives of a family, firm, and society has also not been tapped.

In conclusion, it appears that we may be witnessing the early stages of development of a strategic management theory of the family firm. The studies cited in this article have contributed toward this development but much interesting research remains to be done.

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