Deconstructing Diverse Meanings of Family Business in Europe

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ABSTRACT

Family business is a dominant form of organization in most cultures around the world. 76 percent of the top 8,000 companies in the UK (Stoy Hayward, 1989) , about 80 percent of Italian businesses with 20 to 500 employees (Corbetta, 1995), about 70 percent of medium to large Spanish businesses (Gallo, 1995), about 70 percent of all firms in Portugal (IMD International, 2000), 80 percent of all family businesses in the Netherlands (Flören, 1998) and 85 percent of all businesses in Switzerland (Neubauer and Lank, 1998) are estimated to be family businesses. Overall, family businesses are estimated to account for approximately two-thirds of all businesses worldwide (Dreux, 1990).

In this paper, we present many different family business models from cultures around Europe. We assert that many diverse models are indeed family businesses, though they may not fit any single definition of family business.

INTRODUCTION

A family business is generally differentiated in terms of the family involvement, as opposed to the other forms of organization where the family involvement is lacking (Miller & Rice, 1967). However, the researchers differ in how to operationalize family involvement. For instance, Churchill and Hatten (1987) identify the existence of a family successor as an important indicator of family business, which implies that the family-owned and operated business in which the next generation is given a freedom to choose their career would not be a family business.

Westhead and Cowling (1988) examined 427 unquoted companies in the UK using different operational definitions of family businesses. 78.5 percent of the companies were perceived by the CEO to be family businesses. In only 15 percent of the companies, a majority of the management team was from the family group, which owned the majority ownership, and there was at least second generation ownership, and the CEO reported it to be a family business.

A much greater consensus exists on the pre-dominance component to define a family business. The pre-dominance of family in the ownership, management and governance of a business implies the power to appoint the CEO, the management team, and the governance board; a power to govern as per the vision of the family; a power to manage as per the values and culture of the family; and a real option to rely on the unique resources of the family, including reputation, knowledge, uncertainty reduction, and lower transaction costs (Colli, 2003).

However, the application of the pre-dominance concept is complicated by the cultural variations in the structures of family. In some cultures, the priority on property and control is so strong that the extended family members and loyal friends may not be considered a part of the family. Particularly in the Protestant-centric cultures, accumulation of wealth is considered a calling from God (Chapman et al., 2003); and sharing it with anybody other than the immediate family members might go against the very identity of family business.

Notwithstanding the above concerns, and guided by the popular demand for a clear definition of family business, Klein, Astrachan, and Smyrnois (2005) suggest using a combination of pre-dominance (termed as "power"), engagement (termed as "experience"), and identification (termed as "culture") variables in defining a family business in terms of the degree of family influence. Using survey responses from the CEOs of 1,000+ German companies, they report adequate Cronbach's alphas for their F-PEC scale - Power ($\alpha = .75$; 3 items), Experience ($\alpha = .96$; 3 items), and Culture ($\alpha = .93$; 12 items).

However, many scholars have cautioned against

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viewing "family firm" as a generic phrase, transcending economic and cultural boundaries (Poutziouris and Chittenden, 1996).

Next we present our methodology for researching the level of a family's influence in terms of the pre-dominance, engagement, and identification parameters, and for identifying how such influence manifests in different models of family business across cultures.

Research Methodology

Our research methodology comprises of three core steps: operationalizing the concept of culture, constructing family business models in different cultures, and evaluating these models using the three popular parameters predominance, engagement, and identification.

Operationalizing Culture

An important first step in a cultural approach is to operationalize the concept of culture.

As part of the GLOBE program, Gupta and Hanges (2004; in House et al., 2004) developed clusters based on the independent variables, including archeological and historical considerations. They find that the clusters developed as such are well discriminated by the typological measures of cultures in 62 societies. Table 1 provides a list of these clusters, along with the examples of societies included in these clusters under the GLOBE program, and their distinctive societal cultural practices.

Table 1
GLOBE Taxonomy of European Clusters and Distinctive Cultural Practices

Cluster	Examples of societies	Distinctive Characteristics of the Societal Culture Practices
Eastern Europe	Russia, Poland, Greece	High: Assertiveness, In-Group collectivism, Gender egalitarianism Low: Performance orientation, Future orientation, Uncertainty avoidance
Nordic Europe	Denmark, Finland, Sweden	High: Future orientation, Institutional collectivism, Gender egalitarianism, Uncertainty avoidance Low: Assertiveness, In-Group collectivism, Power distance
Germanic Europe	Germany, Netherlands, Austria	High: Performance orientation, Assertiveness, Future orientation, Uncertainty avoidance Low: Humane orientation, Institutional collectivism, In Group collectivism
Latin Europe	France, Italy, Spain	Low: Humane orientation, Institutional collectivism
Anglo	US, UK, Australia	High: Performance orientation Low: In-Group collectivism

The GLOBE program findings showed that while significant inter-firm differences in organizational cultures exist, the societal differences account for more than 50 percent of these differences. Moreover, the clusters account for more than 50 percent of the inter-societal differences in cultures. This suggests that it would be fruitful to undertake a cluster approach to the analysis of family business models worldwide.

Formulating the Evaluation Criteria

We evaluate the family business models in terms of three popular parameters to assess the level of family influence: (a) pre-dominance, (b) engagement, and (c) identification. To facilitate comparison across cultures, we operationalize the concept of family in terms of the immediate family, related by blood or marriage. Building upon the F-PEC scale and other research, we operationalize the three popular parameters as follows:

Pre-dominance parameter

The family exercises a pre-dominant power on the business through

(a) ownership,

(b) management,

(c) governance.

Engagement parameter

a) An over-whelming proportion of family members collectively involved in the business with notable intensity.

b) The involvement of the family in the business has been enduring for several generations.

c) Several successive parent-child links are involved in the business with notable intensity.

Identification parameter

a) Family members are able to cohesively influence the company's decisions.

b) Family members identify the company as their family business with pride and loyalty.

c) Family members have a vision for the company about which they really care.

Family Business Models from EUROPEAN Cultures

Following GLOBE framework, we classify European cultures into five clusters.

1. Eastern European Model

The Eastern European cluster exhibits societal practices that are low on performance orientation and uncertainty avoidance, but high on assertiveness, in-group collectivism, and gender egalitarianism. Examples of societies in this cluster include Russia, Poland, and Greece. In these societies, historically the government under the communism economic system owned all businesses. During the 1990s, these societies gave up communism and embraced market economy system.

A number of new entrepreneurial ventures have since been established, both by taking over the privatized government owned enterprises as well as in the form of start-ups. Most have been founded by the former middle class the professionals, highly skilled workers and military officers who have suffered most of all social groups as a result of the reforms motivated by a desire to retain the previous standard of living for their family.

In the communist era, friendship had an unparalleled value and significance. The citizens reported "finding reliable friends" or "communicating with friends" as one of the most important goals in life ahead of work or family life (Shlapentokh 1989: 174). Friendship was the basis of "deep intimate relations," as well as assistance in "beating the system" in everyday life. The stability of residence and lifetime attachment to the enterprise allowed cultivating and retaining a stable set of friends, as individuals and as couples. The personal friendship networks consequently play an integral role in the family businesses founded in the region since the 1990s (Pistrui, Welsch & Roberts, 1997; Barkhatova, McMylor, and Mellor, 2001).

In the first family business variant, several family couples connected through friendship ties are engaged in a business, referred here as the Friendship model. A high degree of dependence of each family unit on the family business, where both husband and wife are involved, frequently generates tensions among the friends about the decision rights and income distribution. The model is often sustained by giving greater control and decision rights to one of the couples. In addition, informal mechanisms are used for friendly get-togethers to retain non-business relationships (see, for instance, Barkhatova, McMylor, and Mellor, 2001). The model appears to be supported by the uncertainty tolerance and low performance orientation in the cluster.

In another variant, multiple generations of a family are engaged in a business, with the friends of the family participating primarily through their financial contribution (see, for instance, Pistrui, Welsch & Roberts, 1997), referred here as the Goodwill model. The resilience is added to the family business by having one spouse work in an established business, as the other spouse gets involved in the family business. Such a model helps augment the financial resources of the business, and provides weak ties with a more diverse set of skills and relationships through the externally employed spouses. The model appears to be supported by a high degree of in-group collectivism and gender egalitarianism in the cluster. In some cases, the family may have been in the business for a long time before the Communist era, and re-established the business or regained the control over the older business after the end of the Communist era (see, for instance, Hanzelkova, 2004). The distinguishing characteristics of the two models are summarized below (See Table 2 also):

Friendship model: "A stable set of friends engaged in a lifetime of work and family building, sometimes alienating the champion from the friends, and at other times producing a sense of managerial distance enmeshed with human concern."

Goodwill model: "Parents, siblings, and extended personal friendship networks all contribute finance and two to three generations work together to launch a business, or in some cases to regain control over the traditional family business after the fall of the Communism, while spouses work with more established business."

2) Nordic European Cluster

The Nordic European cluster is distinguished by societal practices that are high on future orientation, uncertainty avoidance, institutional collectivism, and gender egalitarianism, but low on in-group collectivism and assertiveness. Examples of societies in this cluster include Sweden and Denmark. In these societies, many family businesses are in their third or fourth generation. The founders and the leaders of the family business tend to show belief in the importance of personal character, and a sense of obligation to preserve the business for the future generations. The family CEO may coordinate through a holding company, which oversees the investment decisions. Different family members may be given charge of different business operations, and be allowed independence in management. As many members as possible of the family's various branches are offered training, and their work in the business is then used as a basis to select who is suitable for future leadership.

Ownership succession is conditional both on the inter-generational preservation of controlling shares in the family companies, and on the presence in the next generation of an individual with both the ability and the desire to assume family leadership. All top positions tend to be held by the members of the family. Once a family member displays sufficient competence, that person then assumes the leadership. When there is no natural heir within the family, the top positions are filled by a non-family member from within the business. Such non-family members are selected from a group of persons who are viewed as supportive of the firm's business plan and able to cooperate with the family. This leadership also creates opportunities for non-family members to be innovators, and encourages and rewards them for doing so. However, the family leaders may not confine their oversight of the non-family-led subsidiaries to overarching strategic questions, but also deal with more specific problems, such as personal issues. Thus, non-family executives who have long-term relationships with family businesses may have come to accept such interventions as a standard business practice. Internal recruitment for leading positions strengthens the cohesion of the business (see for instance, Koulouvari, 2004; Larsson, 2004). The characteristics of this "Heritage model" of family business are summarized below (See Table 2 also).

Heritage model: "socially conscious family head inspires an enduring family heritage, rooted in a belief in personal character and in the family ability to correctly evaluate people, with a sense of obligation to preserve business for the future generations, actively encourages children to have education and experience abroad, different family members given charge of different business operations, non-family members encouraged to be innovative and selected for their ability to cooperate with the family, non-family CEOs appointed for short or long periods until a competent family successor emerges, a supervisory board bridges the family owners and the management team, and family wealth deposited in family charitable foundations."

3) Germanic European Cluster

The Germanic European cluster is distinguished by social practices that are high on performance orientation, future orientation, uncertainty avoidance, and assertiveness, but low on in-group collectivism, humane orientation, and institutional collectivism. Examples of societies in this cluster include Germany and the Netherlands.

The older form of family business model in the region is termed as the "Actualization model". Most of the family businesses in the region tend to be in their second or later generations, and are completely held by one family. Most family businesses employ spouses also, although sometimes only on a part-time basis, and have one or more children working in the business, if those children are adults. They prefer not to hire recent graduates, and tend to give higher level of responsibilities to their family members than they would get in other businesses for the same amount of compensation. In cases where the family businesses do rely on professional managers, they tend to form supervisory boards for building bridges between the owners and the management team; such family businesses tend to be larger than those that do not rely on professional managers (see, for instance, Flören, 1998; Klein, 2000).

Over the recent years, a new form of family business organization distinctive of this region has emerged, referred to here as the "Venture Model". In this form, families tend to pursue a series of entrepreneurial ventures, with an intent to rapidly exit by venture sale, as opposed to continuing the venture over successive generations (see, for instance, Klein, 2000).

The characteristics of the two models are summarized below (See Table 2 also):

Actualization model: "Parents and their adult children working together, assuming challenging responsibilities and stretching their personal potential, using family boards for open communication among the family members, sometimes hiring professional managers for driving their growth and adding a supervisory board as a formal bridge between the owning family and the non-owning professional managers."

Venture model: "A family, sometimes working with friends and colleagues, funds a new business and then sells that after a short time and invest in another business."4) Latin European Cluster

The Latin European cluster is characterized by social practices that are low on humane orientation and institutional collectivism. Examples of societies in this cluster include France, Spain, and Italy. Many family businesses in these societies have their roots in the great banking and commercial families of the Renaissance, the biggest ones originated in the 19th century industrialization, several were founded during the post-World War II reconstruction period, and a majority have remained in their first generation only. Two types of representative family business models exist: Craft model and Renewal model.

The Craft Model has been the popular form of family business organization historically. Most family businesses of the region produce locally, and then export using various religious and regional networks. Their strategic decision-making and negotiations are often completed in closed quarters at the dining table, and they find it difficult to deal with the multinational complexity. They specialize in custom made products, tools and machines, and are quick to adapt, focusing first on the local market, and then on the export market. They may also invest in the smaller local family businesses that serve them, or are served by them. Banks and outside investors provide funds for financing technology and exports; they also play the role of a watchdog, discouraging incapable family successors, and encouraging leaders to patiently cultivate a passion for family business for developing competent successors. Overall, the family insiders are favored over the outsiders, and family interests are given pre-eminence over the economic considerations (see for instance, Tagliabue, 1995; Hale, 2004; Colli, Pérez, and Rose, 2003).

Increasingly, a Renewal Model has emerged, as the new generation is educated overseas, and as partnerships are forged with the foreign firms. But with international exposure, the next generation has typically chosen to dissolve or sell-off the older business, and go about pursuing the family business with a fresh perspective and resource base. The leaders of the family businesses focus on transferring the relevant skills and networks to the next generation, through marriage strategies and systems of apprenticeship in foreign companies known for their innovations, and membership in professional associations using friendship and extended family connections (see, for instance, Pérez and Puig, 2004).

The features of the two family business models are summarized below (See Table 2 also):

Craft model: "Banks/outside investors finance the needs for technology and international markets, discouraging incapable family successors, professional non-family members frequently hired but forced out if their views clash, passion for family business patiently developed not forced on children, family insiders and family interests are favored over the outsiders and the economic interests, family advantage captured by specializing in custom made products and by quick adaptability, serving and being served by local small family businesses"

Renewal model: "Younger members educated overseas to gain familiarity with new techniques and work overseas in firms known for some innovations, and partnerships sought with foreign firms, using memberships in religious networks, regional associations, and strategic marriages, frequently resulting in the dissolution of older business and launch of a new business in each generation."

5) Anglo model

The Anglo cluster has societal practices that are high on performance orientation, but low on in-group collectivism. Examples of societies in this cluster include the US, UK, and Australia. While a range of family business forms exists within this cluster, as in the other clusters, the prototypical ideal is one identified by the popular three-parameter definition. An ideal family business is one, where family has power over the ownership and the governance of the firm, where a family business has succeeded several generations and where a large percentage of family members from multiple generations are involved in the family business, and where the family shapes the culture closely through the control of leadership succession and vision setting for the business, and exhibits pride in and commitment to the family business.

The above ideal is feasible in the Anglo cultural context of low in-group collectivism, where the relevant family unit is defined to include only a selected group of members. The family unit may not include the siblings, to whom the family business was not willed. The family unit may also not include the in-laws, spouses, family friends, and long-time employees adopted as godchildren, who may not be the owners of the family business, and may not even be involved in the management and/or governance of the family business.

In many other cultures, the above Anglo ideal of family business actually fails to qualify to be an ideal family business, with a high degree of family influence. Even when a family business scores full points for family influence, this assessment will not be interpretable similarly across cultures. Specifically, in cultures where it is customary for a family business to involve family friends and long-time employees adopted as godchildren in the ownership, management and/or governance of the family business, and to consider family in terms of several inter-marrying family groups and extended family relationships, the three-parameter criteria would be biased towards assessing a lower immediate family

CONCLUSIONS

In this paper, we examined the cross-cultural issues associated with the popular three parameter definition of the family businesses. We constructed family business models in different cultural clusters of Europe. We evaluated these family business models using the three parameters approach, and found assessments ranging from a low of 2.0 to a high of 5.0 on a scale of 1 (low family influence) to 5 (high family influence).

Our findings suggest that overall, the three parameter approach captures a very selective type of family business operating under very specific cultural conditions.

A business founded and operated by a family with an open, transparent, and diverse culture; which has been able to capitalize on this culture to carve competitive positions; which has also been able to sustain itself and participation of the competent family members in itself over successive generations; under conditions where non competent and non committed family members are not even considered a part of the family, and where it is not relevant and appropriate to involve their competent and committed non-family employees in top management, governance, and ownership positions.

A major limitation of our work is the focus on cultural cluster as a level of analysis. In practice, one can't emphasize enough the uniqueness of each family business, and the diversity of family businesses within each sub-culture and region of the society. However, we are inspired by the GLOBE findings suggesting that the cultural clusters account for more than 25 percent of the variation in the individual organizational practices.

To capture the remaining up to 75 percent of the variation in the individual organizational practices of the family businesses, there is an additional need to develop case studies of family businesses, at corporate, local, national, as well as regional levels. In these case studies, due attention must be paid to the diversity of the family businesses set up by the minorities, smaller firms, women, and immigrants. The prototypical models tend to focus on the family businesses founded by the dominant culturally homogeneous group in each cultural cluster. As such they also tend to be the basis for formulating and implementing clinical intervention strategies at the practitioner level. A better appreciation of these prototypical models will help in understanding how specific cases depart from the model, and in recognition and celebration of the uniqueness of each case. In fact in a recent cross-cultural historical analysis on family businesses, the most notable finding was the "persistence of the political and economic power of family firms in Spain and Italy, in contrast to their relative impotence in Britain since 1945." (Colli, Pérez, and Rose, 2003: 58). Though the Spanish and Italian firms showed some common behaviors, indicative of Mediterranean influences, often they behaved in particular and contrasting ways, suggesting unique influences (Colli, Pérez, and Rose, 2003).

Moreover, the cultural cluster approach is no substitute for the development of rigorous cross-cultural constructs. There is a need for theoretical as well as empirical studies linking the family system with the cultural system, business system, market system, and the institutional system, and predicting the family business behavior, resilience, sustainability, competitive advantage, and growth. Such studies should be conducted both in culturally homogeneous samples within societies, as well as in culturally heterogeneous samples within and across societies. Only then, the practitioners will have a better sense of the dynamics of specific cultural cases, as well as of the universal issues guiding the family businesses.

Our research is only a step in the direction of developing cross-culturally relevant pedagogical resources for teaching about and training in family businesses. We believe it is a step in the right direction, and invite the scholars and practitioners to join us to support the cause of the family businesses in different parts of the world.

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Table 2a
Family Business Models in European Cultures

	Nordic Europe	*Germanic Europe*		*Latin Europe*		*Eastern Europe*		*Anglo*
	Heritage model	**Actualization model**	**Venture model**	**Craft model**	**Renewal model**	**Friendship model**	**Goodwill model**	**Ideal model**
Pre-dominance	Ownership and governance controlled by the family Non family members may be part of the management	Ownership controlled by the family Governance sometimes shared with the professional managers Professional managers sometimes appointed to accelerate growth	Ownership and governance controlled by the family Friends and colleagues share the ownership and the governance	Ownership and governance shared with banks and outside investors Non-family managers frequently hired Family maintains management control	Ownership and governance is more open Non-family managers frequently hired	Ownership and governan ce shared among multiple couples One couple may have the dominating power	Ownership and governance mostly within a single family Some ownership shared with the family friends	The family has the pre-dominant control
Rating	4	4	3	4	2	2	4	5

Rating on a Scale of 1 = low influence, and 5 = high influence

Table 2b
Family Business Models in European Cultures

	Nordic Europe	*Germanic Europe*		*Latin Europe*		*Eastern Europe*		*Anglo*
	Heritage model	**Actualization model**	**Venture model**	**Craft model**	**Renewal model**	**Friendship model**	**Goodwill model**	**Ideal model**
Engagement	Multiple and extended generations of a family given leadership positions in the business, based on their desire and competence.	Multiple generations of a family may be involved	Multiple generations of a family may be involved Only a few members of a family may be involved	Multiple generations may be involved Outside investors preclude the joining of incompetent family members Family members are favored over the outsiders	Multiple generations may be involved at any time The business does not usually succeed beyond one generation	Only one generation of family is usually involved, at least as of now	Multiple generations of the family are often involved Only one spouse is involved	The family is engaged in the business over multiple generations
Rating	5	5	3	4	2	2	4	5

Rating on a Scale of 1 = low influence, and 5 = high influence

Table 2c
Family Business Models in European Cultures

	Nordic	*Germanic Europe*		*Latin Europe*		*Eastern Europe*		*Anglo*
	Heritage model	**Actualization model**	**Venture model**	**Craft model**	**Renewal model**	**Friendship model**	**Goodwill model**	**Ideal model**
Identification	Strong cohesion between the family and the business	Strong cohesion between the family and the business	Limited cohesion between the family and the business Some cultural influence of the main family may exist	Family culture plays a dominant role, with checks and balances from the outside investors Non-family managers forced out if their views clash with that of the family Family interests are given pre-eminence	Family culture plays a formative role in passing the values and the knowledge to the succeeding generations Family culture plays a limited ongoing role in the business	Influence of a single family's culture on the business is limited	Family's culture has an important influence on the business Spouse's work contacts may also have an important influence	The family shows a strong sense of identification with the business.
Rating	**5**	**5**	**2**	**4**	**2**	**2**	**4**	**5**
Overall Evaluation	**14/3 = 4.67**	**14/3 = 4.67**	**8/3 = 2.67**	**12/3 = 4.00**	**6/3 = 2.00**	**6/3 = 2.00**	**12/3 = 4.00**	**15/3=5.00**

Rating on a Scale of 1 = low influence, and 5 = high influence