

CHAPTER 9

FAMILY BUSINESS

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9.1 INTRODUCTION

FAMILY firms have been crucial features of the business landscape for centuries and remain important today. They can be small, medium, or large and have appeared in all sectors and in all three industrial revolutions. Throughout they have played an important role in employment, income generation, and wealth accumulation. This makes them remarkably hard to describe as they are multidimensional, and no single definition fully captures their intrinsic diversity. However, a broad general definition of the family firm is one where a family owns enough of the equity to be able to exert control over strategy *and* is involved in top management positions. This definition does transfer through time and space, is one of the most used today, and so can be considered a useful benchmark. However, the international range of institutional, cultural, and governance arrangements means that it must remain a starting point against which to explore variety, rather than an end point on which a rigid taxonomy can be built.

From the 1950s onwards, business historians wrote case studies of family firms (Erickson 1959; Kindleberger 1964). However, from the 1980s the focus was sharpened as a reaction to Chandler's emphasis on the superiority of professionally managed firms (Church 1969; Payne 1984; Morikawa 1992; Broehl 1992; Church 1993; Dritsas and Gourvish 1997; Rose 1999; Colli and Rose 1999, 2003; Colli *et al.* 2003; Colli 2003). Business history anticipated the interest in family business shown by management studies and research. There was a scattering of articles in *Harvard*

Business Review in the 1960s and 1970s, often by consultants, on conflict and inter-generational succession (Donnelley 1964; Levinson 1971). However, the academic study of family business by management, entrepreneurship, and organizational specialists was delayed until the 1980s and the launch of *Family Business Review*, the first scholarly journal devoted to the study of family business, which interestingly had a strong business history bias initially (Hall 1988). Since then the flow of articles has increased considerably leading to several special journal issues in management and entrepreneurship.

Business history is naturally multidisciplinary and this chapter tracks the relationships between history, organizational and network theory, entrepreneurship, and family dynamics which underpin current research on family business. It surveys and assesses the existing historiography and analyses the way understanding of family firms has developed since the 1960s. In this period, growing links with management and sociological research have led to the emergence of different questions and perspectives. By surveying the business history literature alongside management and sociological approaches to family firms, the chapter will highlight the shifting nature of family capitalism and the changes in the economic contribution and management of family firms through time and space. The chapter also identifies potential future developments for the field.

9.2 THE DEFINITION OF THE FAMILY FIRM AND PROBLEMS OF THE GENERIC FAMILY FIRM

A general definition of the family firm has been offered in the introduction and we use it as a starting point. However, historians and management specialists have found definitions remarkably hard to pin down and this is well reflected in the literature. The legal, governance, and financial frameworks of family firms are not universal as indicated by the preface of *Family Business Magazine's* 2004 list of the World's Largest Companies:

Compiling such a list is a stiff challenge by any measure. Between shifting disclosure regulations and varying currency exchange rates, pinning down precise numbers and owners is ... challenging. Many Asian and European companies operate behind intricate holding-company structures that make ownership and even management difficult to define.

It is no surprise, therefore, that there is no general consensus among scholars as to what constitutes a family business in quantitative, qualitative terms or historical terms (Handler 1989; Westhead and Cowling 2001; Colli 2003; Colli *et al.* 2003;

Sharma 2004). However, by taking the benchmark definition provided in the introduction, it becomes possible, using history, to explore the subtleties and differences in family business behavior and performance. It can be shown, for example, that although family firms may be efficient, they are not efficient *per se* as much depends on the specific national context and surrounding conditions (Whitley 2000; Church 1993; Poutziouris and Chittenden 1996; Colli and Rose 1999; James and Kobrak 2004).

In the nineteenth century, and indeed well into the twentieth, economic activity was so heavily dominated by family business (Harris 2000) that there was no need to give it a specific name to distinguish it from other legal and organizational forms. It is only since the interwar period (Berle and Means 1932), with growing interest in the divorce of ownership from control, that historians and management specialists have differentiated family firms from other business categories. Differences partly relate to variations in the proportion of family-owned shares and especially to those with voting rights. But they go beyond this, to embrace elements of intergenerational succession and aspects of management.

Definitions have all been developed for analyzing specific issues, i.e. intergenerational transition, financial commitment, strategic control and so on. It is abundantly clear, however, that ownership is only a part of the story (Gallo 1995). In Italy, for instance, the family ownership of large corporations has been maintained during almost all the industrial history of the country through to the present day. This has been achieved through the use of holding companies, agreements, cross-shareholdings, and the issuing of stocks carrying multiple voting powers. This has allowed the founders and their families to raise resources on financial markets, while also controlling the company through ownership of only a small fraction of the share capital. This example is not unique among the industrialized countries in Continental Europe. It shows that the crucial feature is the extent to which a family is able to mold company decisions, through personal influence on leadership succession, often unfettered by any formal institutional regulation of governance. Whilst financial leverage may be critical, power may also be linked to attitudes to family within society as much as to the precise level of a family's stake in a company.

9.3 FAMILY BUSINESS AS A CULTURAL ARTIFACT

Family business is therefore a cultural as well as a purely "ownership-related" concept and understanding the family and its objectives is crucial to the understanding of the family firm (Aldrich and Cliff 2003). Families and firms become so intertwined that the failure of the firm, even where the founding family have

no continuing financial stake, can feel like a death in the family. However, the notion of family is as variable as that of the family business, shifting through time and having very specific and distinctive meanings in particular countries and even different regions. The extended family of early industrial Europe has much in common, in terms of both economic and social behavior, with those in India, Africa, and East Asia today and indeed with Italian families in industrial districts. But it has remarkably little in common with the contemporary Western nuclear family. In addition, in the West the breakdown of family stability, with a rising divorce rate, has vastly complicated family dynamics and succession strategies in family firms.

Given such forces and complexity, it is not surprising that defining the family firm is difficult and that a generic definition is unlikely and even undesirable. Very broadly, a family firm has three crucial elements of kin (defined in terms of culture), property (the ownership of a crucial element of capital), ownership, and succession (the ownership of and succession to control of the strategic management of the firm). The power to appoint the chief executive and other board members brings the opportunity to manage the firm according to the family's values and culture. Research has identified seven different types of family business form depending partly on ownership and control and partly on the extent to which family and business objectives coincide (Westhead and Howorth 2004). The definition of the family firm may also shift through the life cycle of the firm and also as the nature of economic activity changes. This discussion confirms that, whilst the definition we offered at the beginning of this chapter is perfectly valid, it could never be anything more than a reference point. Much of the richness of family business research is about refining, or even contesting, the definition in specific cultural, historical, and international contexts.

9.4 FAMILY BUSINESS AS A STAGE IN THE RISE OF MODERN BUSINESS

The importance of family business in early industrialization is relatively uncontroversial. During early industrialization, family business represented a predictable response to instability, uncertainty, and poor property rights and became the central pivot of a network of trust (Casson 1999). As a reaction to market failure, the family can be likened to the interface between market and firm (Ben-Porath 1980; Nafziger 1969). The family represented an internal market for managerial labor, a source of funds for the establishment and expansion of the business and a trusted source of information. As a reaction to uncertainty, family firms were a crucial dimension of industrialization worldwide. During the first industrial revolution business owners

derived their managerial knowledge from experience, which tended to evolve within families and communities, rather than from formal training (Pollard, 1965).

9.5 THE RISE OF THE MANAGERIAL CORPORATION

The family firm has sometimes been seen as a hindrance rather than an asset in modern economies. In 1959, the economist Edith Penrose argued that firms in capital- and research-intensive industries transformed themselves from entrepreneurial firms into giant complex corporations (Penrose 1959). Alfred Chandler, on the other hand, in *Visible Hand* (1977) argued that in the United States, the combined impact of technology and market growth transformed the strategy and structure of business.

In 1990, in *Scale and Scope*, Chandler attributed Britain's relative decline, compared to the United States and Germany, to "personal capitalism". The British, he argued, "viewed their businesses in personal rather than organizational terms, as family estates to be nurtured and passed on to their heirs". This dislike of losing personal control over their firms resulted in British entrepreneurs failing to make the required three-pronged investment in production, distribution, and management which was necessary to exploit fully the economies of scale and scope in the industries of the Second Industrial Revolution (Chandler 1990: 286).

Chandler's personal capitalism has been contentious and has stimulated a wide-ranging critique. At the heart of this debate has been the assumption that the resources of the family business are limited. He implied that they lack both the financial and human capital to pursue sustained business growth in capital and technologically intensive industries. It has been the assumption that family business lacks both the financial and human capital to pursue sustained business growth in capital and technologically intensive industries. Changing markets and technologies bring new processes and business demands. In the United States, during the interwar period, the combined pressure of high-income mass markets, new technology, and new, cheap, mass-produced products, like the Model T Ford, transformed capital-intensive business. New patterns of ownership and management seemed to leave little room for the family business. Business was no longer self-financing and the family ceased to be the principal source of human capital (Porter 1993). In addition, the notion that family control was based on nepotism not merit, and that the extended family diverted resources from investment to personal consumption, was applied especially to late nineteenth and twentieth century Britain. Indeed much of the debate initially centered on Anglo-American comparisons and

illustrated concern about the relative decline of British competitive performance compared with both the United States and Germany (Church 1993).

9.6 ALTERNATIVE VISIONS

In the last 20 years, there has been growing evidence that Chandler undervalued the resilience and capabilities of the family company, especially in Europe. Indeed, in the Netherlands the long-termism of families stimulated rather than restricted investment (Sluyterman and Winkelman 1993). In addition, family firms, large and small, remained a dynamic element of the Dutch economy in the twentieth century (Arnoldus 2002). Equally there is considerable evidence of the persistence of family capitalism in large firms in Europe generally (Cassis 1997). There are real difficulties in applying Chandler's ideas outside the United States and to sectors where competitive advantage is more reliant on the quality of information flow than simply on technology and capital intensity (Hamilton and Feenstra 1995; Granovetter 1996; Jones and Rose 1993; Scranton 1983). In this respect, part of the problem is that, although Chandler is extremely sensitive to differences in the economic underpinnings of business internationally, both he and Lazonick use the United States as the benchmark for the study of business behavior in other countries. Neither gives much attention to the forces, whether political or developmental, which may have made the culture of business in the United States unusual, rather than being an appropriate blueprint for business worldwide in the twentieth century. In addition, of course, family business remains an important dimension of the United States economy. As McCraw has argued, "American capitalism is extraordinarily significant, but it offers only one among many models of successful development" (McCraw 1997: 302). America's industrial corporations were the product of a specific set of economic, political, social, historical, institutional, and cultural circumstances, rather than necessarily being the model for international convergence (Fruin 1998). It would be foolish to underestimate the role of the American corporation in US political and economic dominance in the twentieth century. However, Chandler's focus on manufacturing industry and especially on capital-intensive sectors excludes vast tracts of business activity, including services and agriculture as well as many manufacturing sectors. These are the very sectors in which historically and contemporaneously family businesses have flourished (Supple 1991: 508). Interestingly, this applies as much to the United States as elsewhere for large family-owned and controlled corporations remain a significant dimension in the twenty-first century.

Networks of interrelated family businesses have proved especially resilient in those sectors where flexibility has been the main source of competitive advantage.

Philip Scranton's work on Philadelphia's specialty family firms in the nineteenth century has shown that the growth of big business and mass production in the United States was accompanied by the emergence of highly creative specialized producers before the First World War. These included furniture makers, hosiery makers, shipbuilders, jewellery, carpets, cutlery and machine-tool makers, and those which lay between specialized and mass production—iron and steel rolling mills, men's clothing, boots and shoes, auto parts, firearms and ammunition, and a wide range of other sectors (Scranton 1997). Like proprietary capitalism in Philadelphia's textile industry in the second half of the nineteenth century, this type of production was widely based upon family business. As in other industrial districts, family firms were embedded in the local community. These firms were reservoirs of skills and gave the entrepreneurs access to the information needed for flexibility in rapidly changing markets (Piore and Sabel 1984). As we will stress later, family firms fulfill the same role in northern Italian industrial districts. Research has shown that since 1945, the highly competitive German *Mittelstand*, with their artisan traditions, have relied heavily on family-based knowledge transfer of both products and processes (Colli 1998; James and Kobrak 2004). However, according to some research (Whitley 2000), the persistence of family ownership (as for instance in the German case) could be associated with a business strategy emphasizing product specialization rather than diversification, as is typical in the managerial enterprise. In this perspective families are more inclined to manage a single-business, specialized firm than a large diversifier.

9.7 THE FAMILY FIRM IN MODERN ECONOMIES

Family dynasties have continued to play a significant role in the United States and worldwide as Table 9.1 illustrates.

Although most family firms are small or medium sized and many are destined to be short-lived, a significant number are large, long-established international businesses, though inclusion in the list depends on the definition used. A third of the companies in the Fortune 500 listing of the largest American firms are family controlled and include Ford, Bechtel, Mars, Estée Lauder, Wal-Mart, W. L. Gore, and Levi Strauss. There is a similar array of prominent names in Europe such as Michelin, the Wallenberg group, IKEA, Lego, Fiat, Benetton, Armani, Ferrero Barilla, C&A, and Heineken. The spectacular importance of large family firms is found across a range of sectors, though it is especially noticeable in retailing and international finance. Half of the largest 20 Swedish multinational manufacturing

Table 9.1 Family business distribution in 1995–2000

Country	Family businesses as a percent of registered companies	percent of GDP
Italy	75–95	na
Spain	70–80	65
UK	75	na
Sweden	90–95	na
Switzerland	85	na
Netherlands	74	54
Belgium	70	55
Germany	60	55
Poland	50–80	35
Portugal	70	60
United States	95	40
Brazil	90	65
India	n/a	65

Source: Neubauer and Lank 1998; Colli 2003; and Colli *et al.* 2003; Anon. 2003.

firms belong to Sweden's biggest industrial group, which has been owned and managed by several generations of the Wallenberg family.

In South and East Asia, family and business remain culturally inseparable. Networks of often small family firms have been characterized as alternatives to Western hierarchical organizations. Examples of large family firms include Tata (India) and Kikkomann (Japan). Thus, whilst family-dominated groups such as the *zaibatsu* in Japan were swept away during the American Occupation, elsewhere family-based business groups remain an important characteristic in many economies. However, while the giant Korean *chaebols* were all family businesses until the 1990s, the Asian financial crisis undermined their position. It saw Daewoo go bankrupt, and Hyundai dismantled (Neubauer and Lank 1998; Kets de Vries 1996; Amsden 1986; Hamilton and Feenstra 1995; Morikawa 1992).

9.8 SYNTHESIS

Historical evidence does not support the notion that family business is a stage in the shift from traditional to corporate capitalism. In the first place, the case that the managerial corporation is more efficient than the family corporation is not proven one way or another. Secondly, it is clear that there is no clear divide between managerial and family firms. Thirdly, family businesses, large and small, are an

important dimension of modern economies. Certainly there are examples where family firms have struggled to transform and where the objectives of families to maintain control have conflicted with growth and organizational change.

In Germany, Siemens found competition with managerial AEG difficult until the family-backed modernization at the start of the twentieth century (Kocka 1999). It is clear though that family firms are not a stage en route to modern industrial enterprise nor associated with particular organizational forms. They are shaped by a range of forces which vary through time, by sector and internationally.

9.9 THE FAMILY FIRM AS AN INSTITUTION

Decision making within family firms and their potential for growth is shaped partly by the market mechanism, but also by a formal and informal set of "rules of the game". The formal rules are the legal system—including property rights, company law, taxation, inheritance tax, and bankruptcy law. These are not formed in a legal vacuum and are also the product of interactions between governments and business and other interested parties. The development of laws is shaped by historical forces and is thus path dependent, so there can emerge considerable international differences in the privileges and restrictions faced by family businesses.

The legal status of particular types of company is a significant factor explaining differences in the form family businesses may take. One of the most distinctive features of British company law was the Bubble Act of 1720, which outlawed the joint stock company and also limited liability. The legacy of this legislation has been cited as a long-term explanation for the slowness of British family firms to shift to corporate enterprise in the nineteenth century (Rose 1994: 61–87). Yet this should not be exaggerated since there is ample evidence that in both Spain and Italy, where company law was different, corporate enterprise and limited liability also remained a rarity during the Second Industrial Revolution. The key lay in a combination of financial requirements and attitudes to risk. In the uncertain world of early industrialization, unlimited liability was attractive in all three countries because it could deter speculation (Colli *et al.* 2003). In Germany, corporate law encouraged sustained family involvement in the businesses they founded, even after they went public (James and Kobrak 2004).

Inheritance law is another formal 'rule of the game' which molds the behavior of family businesses. There were considerable variations in inheritance law and its interpretation in Europe in the nineteenth century and into the twentieth, and this undoubtedly influenced the way family firms were controlled. For instance in Italy, the Napoleonic legal code laid down a system of partible inheritance. In practice, however, the norm remained primogeniture, as the legal constraints were adapted

for business needs. The technique was to divide the whole assets of the family (adding the value of the shares to other assets and properties) among all their heirs, but to give one of them control over the business, including all the manufacturing or commercial activity (Romano 1985).

Inheritance law and company law change through time and this in turn influences family firm strategy. There is strong evidence, for instance, that a relative decline in family control of business in Britain, after the Second World War, stemmed from the sharp rise in death duties introduced by the Labour Government in 1949. By 1951, 17 percent of firms had taken anticipatory action, many going public (Colli and Rose 1999: 41). Tax law not only varies through time, but contemporary studies show that international discrepancies affect the survival and continued development of family firms today. In twentieth century Germany, where death duties tended to be high, the unquoted company (GmbH) was a way of protecting family wealth. This is because property was assessed significantly below securities and was thus an appropriate way of passing wealth to the next generation (James and Kobrak 2004). The increase in the threshold for inheritance tax in Britain, to £215,000 in 1996 and the availability of business property relief at 100 percent on ordinary shares in unlisted companies were designed to make intergenerational transition easier (Westhead and Cowling 1998).

Women play a crucial role in family business although their formal status, even today, is often hidden. In the nineteenth century in Britain, for instance, women existed only under the protection of their husbands and could not inherit until the second half of the nineteenth century. They were often *de facto* partners in a business, but lacked legal right to the capital of the firm or to other property. This pattern was also fairly common in Europe into the twentieth century. Yet interests of business and family were closely intertwined and women's 'hidden' role extended to finance. Where partible inheritance was being practiced, marriages between cousins could counteract dilution of family wealth. In addition, marriage outside the immediate family group could bring additional sources of finance and contacts (Davidoff and Hall 1987; Colli *et al.* 2003). Inter-marriage also played a crucial part in the Netherlands in the nineteenth and twentieth centuries. There, the most important family-owned food multinationals linked their business expansion closely to their marriage strategies (Arnoldus 2002).

9.10 CULTURE AND THE INFORMAL "RULES OF THE GAME"

The institutional and legal environment is the product of a complex historical process, underpinned by cultural forces at both the regional and national

level. Geert Hofstede has defined culture "as the interactive aggregate of common characteristics that influence a human group's response to its environment" (Hofstede 1980: 25). His more recent work takes the notion of culture further, describing it as a form of mental programming. Accordingly, he suggests that "culture is learned not inherited. It derives from one's social environment, not from one's genes." As a result of the differing mental programming of societies, there are, therefore, significant variations in behavior and social norms which impact on all forms of business, including family business (Hofstede 1994).

There are striking contrasts in values and attitudes between America and Europe which relate to enterprise, to firms, to innovation, and to technology (Whitley 2000). In US enterprise it has been argued that the company is viewed as a commodity which can be bought or sold, whereas in Europe it is associated with community (Albert 1991; Hau 1995). This approach, however, is rather at odds with the paternalist and community-based strategies which emerged in such American family corporations as Gillette in Boston.

Mary Rose demonstrated that differing histories and values led to sharp contrasts in the behavior of family firms in the British and American cotton industries in the nineteenth and twentieth centuries. The United States' position as a country of recent settlement influenced attitudes towards the family. Since the objectives of families and family firms are inseparable, this also affected business policies. For example, the British desire to found a family dynasty contrasted with the position in the United States. There, high geographical and social mobility are thought to have weakened family ties and certainly ties to specific localities (Rose 2000).

Nor are the long-term ties between family and enterprise confined to Britain, for they are typically European. The enterprise is established for future generations and the result is a type of familism, where the allocation of power, resources, and responsibilities is strictly on a kinship basis (Colli 2003). This of course amounts to the foundation of dynasties and, whilst attitudes and sources of social prestige vary between America and Europe, there are strong dynastic tendencies in the United States. Examples like the Boston Associates in the eighteenth and nineteenth centuries or the Ford Motor Company or Wal-Mart in the twentieth century illustrate this.

In drawing such distinctions it should be remembered that attitudes and cultures shift through time, as a result of economic and institutional changes. This was especially the case in the UK after 1945 when a range of legal and financial changes, combined with a sharp decline in the role of locality, reduced the position of large family firms in Britain. The 1948 Companies Act made the disclosure of financial information compulsory and provided a springboard for takeovers and especially hostile takeovers in the 1950s and 1960s (Colli and Rose 1999).

Dynastic entrepreneurship has been common in Europe, especially in Italy and Greece with their strong family-based cultures. In Greece, for example, family businesses were both culturally and institutionally embedded (Dritsas 1997). Such familism has sometimes been particularly associated with Mediterranean societies. However, Colli *et al.* showed that when Spanish and Italian family business behavior was compared there was no conclusive evidence of a Mediterranean style of business. Instead, national cultural and institutional forces created distinct variations in behavior (Colli *et al.* 2003).

In India, the family lies at the very core of culture: "The centre of the Indian social identity is the family. Family businesses are not merely an economic structure, for most... individuals, they are the source of social identity. There is a strong social obligation to continue one's father's work" (Dutta 1997: 91). Japanese and Chinese family firms provide a clear contrast, illustrating the danger of assuming common culture is simply based upon geography. In China, the family is the basic survival unit and people exist only in terms of their immediate family network and exhibit a high level of distrust of outsiders (Redding 1990). Intricate stem-networks of families have emerged, especially where Chinese communities have migrated overseas for example in the ASEAN countries such as Hong Kong, Singapore, Indonesia, Malaysia, the Philippines, and Thailand (Brown 1995). Family ownership and low trust of outsiders leads to an autocratic management style and close family control of diversification. In large East Asian firms, from Indonesian conglomerates to Korean *chaebols*, top and key management positions were and still are reserved for relatives and family members (Lee 1997). In Japan, social values and attitude to the family are different from China and are not defined in biological terms. Instead there is a far stronger influence of Confucian philosophy where family is defined as those who contribute to the economic welfare of the group or "ie". This allowed the *zaibatsu* family groups to expand but employ salaried managers who were seen as "adopted family" (Morikawa 1992). In Japan, therefore, the concept of the family is based on consanguinity and adoption:

The Japanese hardly distinguish between the two meanings. But succession of the property in Japan is often based on the concept of the *ie* according to which the heir of the property is not necessarily a family member by blood. A successor in *ie* can be described as a successor of the role. The main objective of the *ie*, succession, is to protect and expand the wealth of the family led by a capable individual, rather than to bequeath the wealth only to blood-related family members. (Chen 1995: 167)

The divorce of ownership from control in the *zaibatsu* groups meant that the salaried managers were a crucial element of their success and eased the transformation of the old *zaibatsu* into the *keiretsu* after the Second World War. The loss of family power did not mean that the organizational and managerial capabilities were lost. Instead, the pre-war holding company structure was replaced

by cross-ownership clustered around a central core or main bank (Morikawa 2001).

Firms are then shaped by the families who own them and by the values and attitudes of the societies of which they are a part. In risky environments the family has provided 'protection against the economic consequences of uncertain adverse events', especially relating to management and choice of successors (Pollak 1985; Granovetter and Swedberg 1992). But cultural forces not only reduce uncertainty. In the Asian case, the interplay between cultural and institutional frameworks helps to explain the evolution of large business groups in Asia and Latin America (Lansberg and Perrow 1991).

For the successful family firm, its boundaries lie beyond the immediate family, within a larger group with a shared culture and values (Casson 1982, 1991, 1993). External family firm networks are frequently associated with the early stages of industrialization, but have remained common to the present day, sometimes dramatically enhancing the power of individual families. In declining markets these arrangements are often horizontal and anti-competitive. However, in rapidly changing markets, loose vertical networks of family firms hold the key to flexibility, innovation, and competitive advantage (Langlois and Robertson 1995).

Networking activity by family businesses typically extends to include relationships with banks and with the state. In most societies economic elites often enjoyed considerable political bargaining power, which in turn benefited and reinforced their businesses. In nineteenth century Britain, for example, City of London financial and commercial families enjoyed unmatched social and economic cohesion (compared say with industrial groups) which brought them strong leverage on government policy, extending, some would argue, into the interwar period (Cain and Hopkins 1993). Similar advantages gave the Boston Associates in nineteenth century Massachusetts sufficient bargaining power to manipulate tariffs to their advantage until the final third of the nineteenth century (Rose 2000).

The picture is every bit as striking in Italy. In the nineteenth century, entrepreneurial families in the so-called 'industrial triangle' around Genoa, Milan, and Turin were closely linked to one another, sharing similar values and culture. During the twentieth century, during the industrial modernization of the country, this cohesion remained the rule, and was underpinned by mutual share exchanges and financial networking among major private groups working as a significant defense against hostile takeovers. This was reinforced by the behavior of financial institutions—namely the universal banks up to the early 1930s, then a powerful merchant bank, Mediobanca, after the Second World War—which acted as 'clearing houses' to maintain family control (Baccini and Vasta 1995; Amatori and Brioschi 1997).

9.11 INDUSTRIAL DISTRICTS, NETWORKS, AND FAMILY FIRMS

Another perspective on the relationship between a locally determined system of values and culture and the persistent efficiency of the family firm is provided by the economics and sociology of the industrial district (ID). This particular form of flexible business organization—*based upon the geographical clustering of small specialized production units enjoying external economies*—diffused in Britain during the First Industrial Revolution as well as on the Continent during the nineteenth century (Sabel and Zeitlin 1985; Zeitlin, this volume).

The relationship between the family firm and the ID can be seen from a number of perspectives. First, in purely demographic terms the family-based production unit has traditionally been the basic building block of the ID. A firm would be managed by the founder, who would depend upon the entire family for skilled and cheap labor. Family members would be employed on the shop floor as well as in managerial positions, depending on the size and the age of the enterprise. As indicated, the family acted as a source of finance, of labor ethics, of skill, and of commitment. Inside the ID itself, the relationships of the members of the family with the surrounding community are important. They meant an increase in the density of the business relationship of the firm itself. This is crucial when the firm is specialized in intermediate production or in a single or a few phases of the production process.

The emphasis on the family dimension is, in this case, confirmed in a number of ways. First, the ID firms have historically been, and are in general, reluctant to grow, given the unwillingness of the founders to abandon control of the firm and to accept the presence of external management. Second, examining the structure of the relationships among the firms in the district, as well as the members of the often informal networks of producers, certain characteristics emerge. It is noteworthy that a single family is able to generate various entrepreneurial initiatives, proportional to the number of its members, which can be connected with the original initiative as well as with the others in the district.

Again, both historians and sociologists interested in the IDs have pointed out the relevance of the family in shaping the entrepreneurial behavior inside the IDs. For instance, early studies of the Italian industrial districts showed a close relationship between the small family firms, the IDs scattered in the northeastern and central regions of the peninsula, and the historical presence of peasant families in the same areas (the Veneto, the Marche, Emilia Romagna, and Tuscany). The most diffused contractual arrangement was sharecropping, stimulating "entrepreneurial" behavior in peasant activities. With the decline of the secondary sector in the Italian economy this attitude easily translated into manufacturing initiatives. This

interpretation can appear as too deterministic (because IDs flourish also in regions in which sharecropping was not the main contractual arrangement); however, the idea has some empirical basis. For instance, the “pluriactivity” characteristic of the sharecroppers’ families, the idea of labor division and specialization among the extended family’s members is undoubtedly a feature of behavior in IDs. Similarly the attitude toward risk and investment does help to explain entrepreneurial effervescence typical of the local systems of production. These were based upon small family firms whose members remained, very often, involved in peasant activities well after the start-up of a new venture in manufacturing (Becattini *et al.* 2001).

What is clear is that this particular form of production organization, based upon the small family firm, was able to show an outstanding level of performance in some economies, for instance in the Italian one. This was thanks to the interaction of positive values at a micro level (i.e. inside the single family firm). This also stemmed from conditions at the macro level. At the macro level the local system of shared values, formal and informal rules of the game, and concrete initiatives sustained local entrepreneurship. The basic features of the relationship between the family firm and a local system of production have, however, also been studied in an international, comparative perspective, showing the similarities occurring in different continental regional cases (Herrigel 1996).

Silicon Valley, with its growing cluster of entrepreneurial ventures in the electronics sector from the 1970s, offers an interesting alternative example. Industrial specialization apart, the situation is not very different from that typical of the European IDs. The ingredients are the same: a geographical cluster of entrepreneurial, specialized firms, the presence of relevant external economies in terms of transport, communications, but, above all, training institutions—universities and colleges. In some cases, it is possible to talk of family business, given that there are often families involved in start-up and early development.

However, this model has some fundamental differences from the discussion of family capitalism provided in this chapter. The two most important are durability and strategic control. In hi-tech clusters such as Silicon Valley, ventures are set up to exploit a temporary competitive advantage based upon technological creativity, rather than as long-term ventures. The rapid entry and exit of firms is confirmed by the birth-death ratio, which has been very high among the Valley’s ventures, and by the level of acquisitions by the major companies in the areas of the smaller ones. As far as strategic control is concerned, it is interesting to note that the role of financial institutions in this model is different from the role played by local banks in the ID. Venture capitalists are actors who are highly involved in the management of the initiative. In this context, potential commitment to family control is an obstacle more than an advantage, as it is for a local bank operating on the basis of trust and personal relationships inside an industrial district (Kenney 2000).

9.12 STRENGTH AND WEAKNESSES OF THE FAMILY FIRM IN HISTORICAL PERSPECTIVE

Where the objectives of family and firm are united, close networks of trust have the advantage of providing a combination of incentives, including effective monitoring and loyalty, to protect family wealth (Pollak 1985). Loyalty and commitment to family members is assumed to lead to altruism by parents towards their offspring. But if family firms are based on networks of trust, families and their businesses are notoriously conflict-ridden, stretching the bonds of trust to the limit. Family businesses are molded by their external environment, but family members themselves build the culture of their firms. Business culture is closely linked to its leaders and nowhere more so than in a family firm. “For the entrepreneur, the business is essentially an extension of himself... And if he is concerned about what happens to his business after he passes on, that concern usually takes the form of thinking of the kind of monument he will leave behind” (Neubauer and Lank 1997: 145). The founder of a business is a major source of knowledge and expertise and his or her social networks represent important intangible assets for the company. The future prosperity of both family and business depend upon how well understanding and contacts are passed on and how far these are trusted and valued by the next generation (Lee *et al.* 2003).

The relationship between a founder and his family business is often intensely emotional and can be a major source of conflict, especially in Western societies (Corbetta 2001). The intensity and regularity of this conflict and its impact on intergenerational succession has been a major cause of the growing volume of consultancy work on family business since the 1960s. In some companies this encouraged one-time family firms to ‘go public’. However, research has shown that management buyouts and buy-ins can be a satisfactory solution to succession failure (Howorth *et al.* 2004).

Social networks are an important dimension of leadership succession in the family business. Both attitudes towards intergenerational succession and its solution are shaped by a combination of the prevailing legal framework and social values. These, of course, vary considerably across the world. In India, for example, the elderly are revered as part of the extended family, making intergenerational succession less problematic. There is certainly rivalry in Indian business families, but apparently lower levels of hostility than in the West. The tendency towards extended, as opposed to nuclear, families is part of the reason, with as many as five generations living under one roof leading to greater conformity (Dutta 1997). The nature of disputes and conflicts is not fixed through time—they have shifted and changed historically, with changing social norms and educational opportunities. In addition, they shift as individual family businesses evolve (Gersick *et al.* 1997).

Conflict surrounding leadership succession in family business is intense, because it involves delicate interpersonal relationships. These include power disputes between parents and children and sibling rivalry, which occur alongside the challenge of managing change (Rose 1993; Cromie *et al.* 1995; Kets de Vries 1996). In some cases generational conflicts, which long predate succession, have had serious repercussions for the future prosperity of the firms and their owners (Donnelly 1964). There is ample evidence of the founders of family firms clinging to power for too long, to the detriment of their successors. Workaholics, suffering from a touch of megalomania, are one type of business leader who can, by undermining their successors or failing to give due credit or responsibility, bequeath a negative legacy to their family. Often, therefore, the very character traits which brought an entrepreneur success, as founder of the business, prevented him from retiring and this was the case for both John Brown the shipbuilder and Lord Lever (Boswell 1973; Jeremy and Shaw 1984–6, vol. 3).

One of the advantages of family firms is their stability. Family owners are far more likely to pursue long-term financial and human capital strategies than those in public companies, constrained as they are by the stock market's obsession from at least the 1960s with quarterly results (Church 1993: 28; Detouze *et al.* 1989). Yet for long-termism to be associated with sustained prosperity there must be a balanced attitude to outsiders. Otherwise the firm will become moribund and inward looking (Wiersema 1992).

In Italy, 'outsiders' may be undermined for failing to give family interests pre-eminence over economic considerations. In addition, family insiders have been preferred to outsiders as a matter of course in several leading Italian businesses. Indeed the concept of family business in Italy should be used in a relatively strict way. Usually—and especially among the largest private groups in the country—families retain a significant proportion (often the majority) of the capital and have their members among the top executives (Colli and Rose 1999). Consequently, in the Italian context, family firms really do mean just that.

Even within Italy, the solution of intergenerational succession problems has typically varied between large and small firms. Part of the dynamism in Italy's industrial districts is because, rather than directly joining their parent's firm, stem firms are spun off for children. These complement existing businesses in the region, facilitating flows of information and skills within vertical networks. If succession is not a problem in Italian industrial districts, it remains an issue both for Italy's 'pocket multinationals' (medium-sized, specialized, and internationalized family businesses) and for large family firms. Partible inheritance is a perennial problem with disputes frequently settled by the employment of consultants (Guerci 1998; Amatori and Colli 1999; Colli and Rose 2003). In Germany, five stages in the evolution of family control can be traced and may take many generations to achieve, but they demonstrate the importance of family in German capitalism. These phases track the family role from financial and managerial dominance in phase 1, through to the symbolic role of the family in the

business culture and the brand in phase 5 (July 2003, quoted James and Kobrack 2004).

The tension between nepotism and meritocracy surrounds discussion of succession. Yet the division is far less clear-cut than it appears. Leadership by inheritance appears as the antithesis of professional management based on merit. Yet, especially in sectors like merchant banking in the nineteenth century, which relied so heavily on public confidence, a meritocratic approach was the norm—any other approach would have threatened the prosperity of both family and firm (Daunton 1988). A good example of a family business where stable ownership has provided a high level of security and where, until relatively recently, the company has avoided becoming unduly inward looking is the Wallenberg investment group in Sweden. With its origins in the 1850s, the family group has long used the stock market to evaluate its business activities and avoid complacency. This strategy was linked to consistent and growing dominance of the group in corporate Sweden (Lindgren 1979).

Problems do appear to be greatest in older family businesses and may be linked to the life cycle of these firms as illustrated in Italy by Fiat, Pirelli, and Olivetti—which are among the countries most prominent family corporations. At Olivetti, the death of Adriano in the late twentieth century led to considerable conflict, since his son Roberto could not unite the family or persuade them to shift from typewriters, where the market was falling, into computers. The company was finally rescued by a group of investors headed by Mediobanca and sold its computing activities to General Electric (Colli *et al.* 2003).

Portrayed as oases of trust, family businesses are clearly potentially turbulent and some of the major difficulties relate to governance in larger family groups. Corporate governance can be defined as: "the need for boards of directors to balance the interests of shareholders with those of other stakeholders in order to achieve long-term sustained value" (World Bank 1999: 4). This can be especially difficult in large family groups, where managers may be more active on behalf of the owning family than other stakeholders (Morck and Yeung 2003).

The reform of corporate governance in the UK began with the Cadbury Report in 1992. This was followed by reforms elsewhere in Europe and the United States, following the ENRON scandal. But there are many vested interests, often involving powerful family business groups. They oppose greater transparency and disclosure worldwide and have sometimes blocked reform (Colli 2003; Colli *et al.* 2003).

9.13 CONCLUSIONS

This chapter has highlighted that firms are not anachronistic hangovers from a bygone age, but remain a vital part of the business landscape in the twenty-first century. Even a decade ago, those who wrote about family business were assumed

to be defending traditional and outdated business methods. Certainly, family firms can, in some circumstances, be inward looking and nepotistic and this may restrict innovation and growth. Family values do not always place business expansion as a primary aim. But being different from publicly owned companies is no longer necessarily taken to imply inferiority. The growing volume of work on contemporary family firms has highlighted how important they are in developed and developing economies. Many prominent large companies can be classed as family firms, while for many others—including the giant DuPont corporation—the family name remained a major symbol of trust, long after the end of any direct family involvement.

One important route forward for family business research involves a continued emphasis on international comparisons. This requires the collection of evidence on family business in different countries through time to allow a thorough analysis of the variations in the institutional and cultural context of family business, its performance, and impact on competitive advantage. Historical research is the ideal framework for exploring the impact of changes in the institutional, financial, and economic environment in differing industries and countries.

The image of the family in brand building is an important area which has received remarkably little attention from business historians. Certainly research into brands and advertising has increased considerably over recent years, but the consideration of the notion of the family brand has often been implicit rather than explicit. Exceptionally Nancy Koehn's *Brand New* does demonstrate how entrepreneurs and their families built consumer trust and how this changed through time. She captures the way in which, in a shifting economic and technological landscape, different entrepreneurs built their brands. She demonstrates that the appreciation of products, processes, and customers, rather than a large advertising budget, were at the heart of successful brand building (Koehn 1999).

This chapter has shown that families and their firms are hard to separate, implying that a family's values, knowledge, and reputation can be counted as the intangible assets of the business. They are, therefore, inseparable from the brand. More research is needed to trace through time the shifting nature of family brands and the realities and myths which lie behind them. A search of family business websites provides fascinating insight into the ways in which families use and abuse their history to build their brand. The Ford Motor Company, for instance, built an interactive family heritage section of its main site to celebrate its centenary (<<http://www.ford.com>>). On the other hand, some family companies, such as Motorola, downplay the role of family (<<http://www.motorola.com>>). Far more research is needed, linking visual, cultural, and family images with consumer perceptions, to establish the changing impact of family branding.

New themes and areas of research only emerge when scholars cross boundaries, explore alternative areas of knowledge, and start asking new questions. Gender has

become an important issue in business history as a result of interdisciplinary work combining feminist theory, cultural, business, and social history (Kwolek-Folland 2001).

However, even allowing for the exception of books like Davidoff and Hall's *Family Fortunes*, the role of women in family business remains at best supporting, and often invisible. Ongoing work by Eleanor Hamilton, using narrative techniques, places women at the heart of both the family and the business (Hamilton 2006). This chapter has shown that business historians have a proud tradition of recognizing that families and firms are inseparable. Yet this analysis can be taken further by combining historical and postmodern social science methodologies to explore the pivotal and changing role of women in different firms, sectors, and societies.

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And their family and friends are in for one high-flying ride. Watch trailers & learn more.Â Family Business. 2019TV-MA 1 SeasonTV Comedies. After learning France is about to legalize pot, a down-on-his-luck entrepreneur and his family race to turn their butcher shop into a marijuana cafÃ©. Starring:Jonathan Cohen, GÃ©rard Darmon, Julia Piaton. Creators:Igor Gotesman. A family-owned business may be defined as any business in which two or more family members are involved and the majority of ownership or control lies within a family. Family-owned businesses may be the oldest form of business organization. Farms were an early form of family business in which what we think of today as the private life and work life were intertwined.