Editorial: Family enterprise: Significant and different

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Abstract

This special issue of Small Enterprise Research (SER) is dedicated to family business, a topic which, although sometimes mentioned in passing in the journal, has not previously been the subject of a special issue. A comparative lack of attention to the special nature of family firms is typical of business scholarship generally where the non-family (or widely-held) corporate form dominates both the business research literature and business education. Family business has also been slow to attract public policy attention, perhaps because family businesses are stereotyped as small, despite the international prominence of huge family-based enterprises such as Newscorp.

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Family Enterprise: Significant and Different

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This special issue of *Small Enterprise Research* is dedicated to family business, a topic which, although sometimes mentioned in passing in the journal, has not previously been the subject of a special issue. A comparative lack of attention to the special nature of family firms is typical of business scholarship generally where the non-family (or widely-held) corporate form dominates both the business research literature and business education. Family business has also been slow to attract public policy attention, perhaps because family businesses are stereotyped as small, despite the international prominence of huge family-based enterprises such as Newscorp.

These research and public policy gaps are odd in the light of the long-acknowledged contribution of family business to all national economies. It has been estimated that family businesses account for 70 per cent of all Australian businesses (KPMG and Family Business Australia, 2009), have an average turnover of turnover is $12 million per annum (MGI 2010) and employ, on average, 37 people (Smyrnios and Dana 2006). Similar statistics are regularly quoted for the economic contribution of family business in New Zealand, the United States, the European Union, and elsewhere (KMU Forschung 2008). Family business is also the original and most enduring means of structuring private sector economic activity: non-family corporate forms became prominent only following the Industrial Revolution. Now, instead of separating family and business, many non-family firms seek to emulate family-like qualities.

Family business is gradually receiving more academic attention, driven by increased awareness of the contributions family businesses make to economic and social/societal development, and increased attention to the issue of business transfer. Since 1986, when the Family Firm Institute was established in the US and the first academic journal devoted to family business, *Family Business Review*, was founded a year later, the unique and yet pervasive characteristics of family business have been attracting research interest around the world. Some landmark events in the Asia-Pacific region including the creation of the Australian Centre for Family Business (ACFB) at Bond University in 1994, and the establishment of dedicated family business courses in some Australian universities have marked the growing maturity of family business as an academic field. Some of the most prestigious academic journals in business are turning their attention to the topic, including *Entrepreneurship Theory and Practice*, the *Academy of Management*, and *California Management Review*, all of which have issued calls for papers on family business topics in the last two years. The multi-disciplinary body of family business research was recently reviewed and directions for further work discussed in the newly published *SAGE Handbook of Family Business* (Melin, Nordqvist and Sharma 2014). So with this special issue SER is part of a growing trend.

Public policy attention to family business is also slowly increasing. In 2008 the European Union reported on a study (KMU Forschung Austria) whose terms of reference included:

- reviewing the definitions of "family business" used in 33 countries and proposing a European definition;
- providing an overview of the characteristics and current situation of family businesses (particularly in comparison to SMEs);
- identifying existing national networks and institutional players as well as policy activities to support family businesses; and
- analysing the need for and the shape of possible future policy initiatives for family businesses.

Australia recently undertook a major review with a similar brief. Over a seven-month period in 2011-2012, a Parliamentary Joint Committee on Corporations and Financial Services gathered and analysed evidence on family business issues from around Australia and beyond, and taking written and oral submissions from business people, academics, and other government agencies. Its report, entitled *Family Businesses in Australia – different and significant: why they shouldn't be overlooked* (Commonwealth of Australia 2013) was published in March of this year.

Sadly, however, the report's 21 recommendations are still awaiting detailed consideration and implementation, in part because two of the prime movers of the inquiry, Ms Deborah O'Neill, who chaired the investigation, and Senator Sue Boyce, the deputy chair, lost their seats in the 2013 Australian Federal election. The editors of this special issue and all who contributed to the inquiry eagerly await further consideration of the work done by the Senate Committee and implementation of its recommendations.

In the meantime, it is instructive to note how the four papers in this special issue on family business reflect the central themes of the inquiry. The papers are:

- *Exploring Governance Issues in Family Firms*, by Brian Gibson, George Vozikis and Mark Weaver;
- *Social Identity Theory and the Family Business: A contribution to understanding family business dynamics*, by Torsten Schmidts and Deborah Shepherd;
- *Fathers and Daughters in Family Business*, by Jessica Smythe and Shruti R Sardeshmukh; and
- *The Succession Decision in Chinese-Australian Family Businesses: An Exploratory Study*, by Jing Ye, Melissa A. Parris and Dianne Waddell.

To see the focus of each paper and how they link together, we discuss them in terms of three of the major themes that emerged from the inquiry: *the contribution and mindset of family businesses*; *the challenges unique to family businesses*; and *the lack of a definition and official data on family business*.

The challenges unique to family businesses

The challenges unique to family business, as discussed in the inquiry's findings, include managing succession and internal conflict over the goals and direction of the business. These two issues are central concerns to all four papers in one way or another. This should not surprise us. Family firms need to be adequately productive and achieve economic success, just as non-family firms do. However non-family firms do not have to deal with the combination of family with business. The conjunction of these two means succession becomes much more complicated: it requires passing on the leadership of the firm so as to ensure the business's longevity *and* family happiness. It also means dealing with the differing ideas of people who not only work together but return home together and go to bed in the same house at night. These tasks go well beyond the requirements of non-family firms.

Other challenges identified in the inquiry concern the issues arising from the formal structures of firms, including family firms, specifically, the effects of the 50 non-employee shareholder rule, the 80-year trust rule, and the issue of family trusts (see Commonwealth of Australia, chapters 6 and 7). The papers in this special issue are less focused on these more technical issues, but Gibson, Vozikis and Weaver touch on them obliquely in their discussion of recommended governance practices for family firms.

Lack of a definition and official data on family business

A central concern of the Federal inquiry – and a 'sleeper' issue in our four papers – is the lack of an agreed definition of family business. This problem is acknowledged worldwide; the EU review of family business found more than 90 definitions of family firms in regular use across 33 countries. Inconsistent definitions make it difficult or impossible for researchers to compare their work across national or international boundaries. Moreover, in Australia and elsewhere it has made governments reluctant to collect data about family business at all.

The Federal inquiry considered many possible definitions, ranging from those based on pure 'intention-based' perspectives (that is, the intention on the part of family business owners to pass on the business to people within the same family), to 'component-based' definitions. Component-based definitions classify family firms in terms of whether they conform to specific and measurable criteria of family involvement, such as the degree of control of board decision-making by members of a single family, the proportion of a specific family's share ownership in the firm, the number of family members employed by the business, the number involved in its management, and so on. Intention-based definitions tend to define family firms the way we define pregnancy: a firm is either 'in the family way' or it isn't. Component-based definitions, in contrast, allow for family firms to be defined along a spectrum from 'high' to 'low'. A firm which meets many family management and control criteria is 'more' of a family firm than one which meets only a few of them.

The Federal inquiry did not recommend any specific definition of family firms for public policy or other purposes. However it recommended that developing an appropriate definition be a priority issue for a future family business task force. The definition arrived at should be capable of helping government make policy determinations which take account of the special nature of family business.

The authors of the papers in this issue for the most part do not explicitly concern themselves with trying to defend one definitional approach over another. This was perhaps wise in view of the unresolved nature of the problem. Smythe and Sardeshmukh implicitly adopt Family Business Australia's definition. Gibson, Vozikis and Weaver, however, in 'Exploring Governance Issues in Family Firms', point to the difficulties that arise from applying prescriptions for good governance practice in family firms if those practices are based on non-family firm assumptions, namely that the firm is large and widely held. Moreover, family firms often do not have a formal corporate structure, choosing to operate as sole traders or in partnerships or under more specialized structures such as trusts. These authors lay the groundwork to recommend governance approaches which suit small, closely held firms.

Despite these authors' awareness of these differences between family and non-family firms, they do not wholly avoid the definition dilemma, conceding that some large and widely held firms are run by a single family. In others, where few if any family members remain involved in running the firm and family ownership is minimal, management practices may still be heavily influenced by the firm's family origins. In the end, it is for owners and managers to think through how the 'family' nature of their firm should affect its governance philosophies and practices.

The contribution and mindset of family businesses

The four papers in this issue all show how combining 'family' with 'business' makes for both advantages and challenges in managing them. The literature has long been intrigued by family firms' typically long-term orientation, their embeddedness in their local communities, and their preference to seek 'socioemotional wealth' as well as – or even in preference to – purely economic benefits (Berrone et al. 2012, Gómez-Mejía et al. 2007, Le Breton-Miller and Miller 2013, Naldi et al. 2013). These non-financial aspects of family firms' values and mindsets have a strong influence on how they are managed. Indeed socioemotional wealth has been argued to be the likely dominant paradigm in future family business research (Naldi et al. 2013).

Not surprisingly, words like 'family firm aspirations' and 'values' occur frequently in all four papers. The contribution by Ye, Parris and Waddell explores how an ethnic Chinese family's attempts to integrate into their host country, Australia, create problems for succession in the family firm. The individualistic values of the generation which grew up in Australia present a challenge to the collectivistic values of the business's founders. Of course, all potential family business successors need to assess whether their career and other goals will be met by taking over leadership of the family firm. Many wrestle for a long time with questions about whether they are prepared to adopt the previous generations' norms of hard work, long hours, and thrift. Ye et al.'s paper shows how the overlay of differing cultural values between members of different generations adds a special twist to this classic family business problem.

Smythe and Sardeshmukh, writing about fathers and daughters in family business, also discuss values and aspirations. In their study of father-daughter succession in seven family businesses, they consider the vital need for a healthy relationship between the incumbent CEO and the next-generation successor if the succession is to work. A problem for daughters in family firms is that sons have traditionally succeeded fathers, and even now fathers are often slow to consider daughters for the role of future CEO and, possibly, owner. As Smythe and Sardeshmukh point out, sons are often trained for family firm leadership practically from birth. In contrast, daughters in family firms often do not receive any particular training for business leadership until something has happened to rule out father-son succession, and in any case not until a firm decision about the succession has been made. Smythe and Sardeshmukh's seven cases serve to encourage the vital learning that takes place during in early 'family in business' socialisation to prepare daughters – no less than sons – for business leadership. They also show how fathers and daughters can successfully deal with the 'generational shadow' – the need to learn from the legacy of the past and then move beyond it.

Again, these findings build on earlier research (e.g. Moores and Barrett 2002, Barrett and Moores 2009).

Interestingly, and supporting some earlier research findings (e.g. Dumas 1998), Smythe and Sardeshmukh's cases suggest that father-daughter successions may be less problematic than those between father and son. For example, daughters in their cases were more understanding than many sons of their fathers' need to remain involved in the firm after formally stepping away from its leadership. They were also happier than male successors were likely to have been to seek their fathers' advice about strategic issues and to learn from the previous generation's experience.

Torsten and Shepherd's paper on the development of social identity in family business takes up similar concerns, but directs attention to how a developing a dual family-business identity can help manage role conflict in family firms. Of course, anyone who has a demanding job may experience work-family role conflict. Being a parent who is also a business leader can create role conflict when work meetings clash with taking one's daughter to basketball practice. However, as Torsten and Shepherd's case analysis reveals, these objectives which are usually thought of as being in conflict with each other present potential synergies in family businesses. Common values – especially those which arise from family members' pride in the history of a firm to which all of them have contributed – are key to finding solutions to role conflict.

The paper by Gibson, Vozikis and Weaver shows that best practice in business governance has been influenced by the values of fairness, responsibility, transparency, accountability, discipline, independence, and social responsibility. Practices which reflect the newer values of sustainability and corporate citizenship are also gaining influence. Family firms are as concerned with these values as non-family firms. However, as Gibson et al. argue, given the different contextual settings and tight linkages between governance practices and family commitments, the governance practices needed to achieve them are likely to differ. Gibson et al. use agency theory and stewardship theory to uncover assumptions in common governance practices which are problematic for family firms. They also suggest what practices family firms might adopt to suit their collaborative culture and their wider set of goals and purposes. Well adapted governance practices can only enhance the resilience of family firms which has already been demonstrated empirically (Aldamen et al. 2011).

The family business community, always practical, is increasingly recognising the need for careful research and scholarship of the kind presented by our four papers. Research is made easier when researchers have money to work and share their findings. So we are delighted and grateful that Bond University's Australian Centre for Family Business (ACFB) supported contributions to this special issue in a very practical way: sponsoring a prize for the best paper published in the special issue. The prize, AUS$1500 to be spent at the discretion of the winning author/s on research resources or research-related travel, has been awarded to Torsten Schmidts and Deborah Shepherd, both of Auckland University. The reviewers and editors appreciate the way these authors brought together an established area of theory, social identity theory, and applied it in the family business context. The result is a better understanding of both the value of the theory and the nature of family business. We congratulate both authors.

In all, the papers in this special issue present a varied, interesting and useful set of ideas and arguments which build on old and new debates in family business. While the empirical work in the papers is drawn primarily from the Australasian context, their findings are relevant to family businesses worldwide. My co-editor, Dr Keith Duncan of Bond University, and I commend them to academics and practitioners alike.

Finally, and as always, we are indebted to the reviewers of all the papers submitted for this special issue for their expertise and generosity. Our sincere thanks to all of you.

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