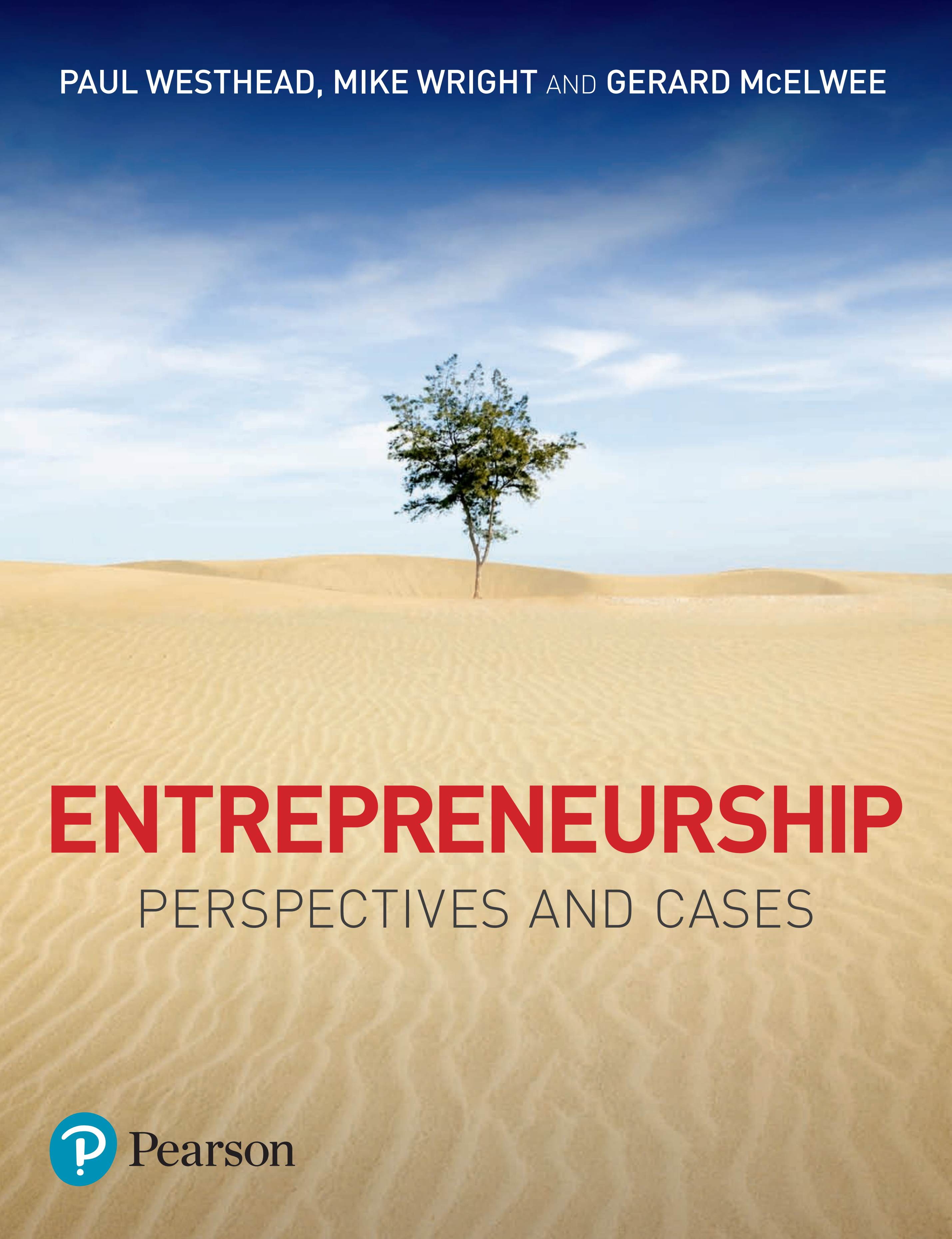

PAUL WESTHEAD, MIKE WRIGHT AND GERARD McELWEE

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Table 7.1 Numbers of surveyed family and non-family unquoted companies in the United Kingdom

Definition	Family company		Non-family company	
	No.	%	No.	%
(1)	335	78.5	92	21.5
(2)	345	80.8	82	19.2
(3)	272	63.7	155	36.3
(4)	265	62.1	162	37.9
(5)	139	32.6	288	67.4
(6)	122	28.6	305	71.4
(7)	62	15.0	365	85.0

Notes:

(1) The company was perceived by the Chief Executive/Managing Director/Chairman to be a family business.

(2) More than 50% of ordinary voting shares were owned by members of the largest single family group related by blood or marriage.

(3) More than 50% of ordinary voting shares were owned by members of the largest single family group related by blood or marriage and the company was perceived by the Chief Executive/Managing Director/Chairman to be a family business.

(4) More than 50% of ordinary voting shares were owned by members of the largest single family group related by blood or marriage, the company was perceived by the Chief Executive/Managing Director/Chairman to be a family business and one or more of the management team was drawn from the largest family group who owned the company.

(5) More than 50% of ordinary voting shares were owned by members of the largest single family group related by blood or marriage, the company was perceived by the Chief Executive/Managing Director/Chairman to be a family business and 51% or more of the management team were drawn from the largest family group who owned the company.

(6) More than 50% of ordinary voting shares were owned by members of the largest single family group related by blood or marriage, the company was perceived by the Chief Executive/Managing Director/Chairman to be a family business, one or more of the management team were drawn from the largest family group who owned the company and the company was owned by second generation or more family members.

(7) More than 50% of ordinary voting shares were owned by members of the largest single family group related by blood or marriage, the company was perceived by the Chief Executive/Managing Director/Chairman to be a family business, 51% or more of the management team were drawn from the largest family group who owned the company and the company was owned by second generation or more family members.

Source: Westhead and Cowling (1998).

7.3 Evidence base

7.3.1 Firm demographic characteristics

The demographic differences between family and non-family firms are discussed, in turn, with regard to business age and size, principal industrial activity of the business, and the location of the business. Issues relating to firm objectives, management structure, strategy, performance and business transfer are then discussed.

7.3.1.1 *Age*

Only 30 per cent of family firms are transferred to second generation family owners and only 13 per cent of family firms survive to third generation family owners (Ward, 1987). Westhead and Cowling (1998) found independent unquoted family companies in the United Kingdom were more likely to be older than non-family companies.

7.3.1.2 *Size*

Daily and Dollinger (1993) found professionally-managed independent manufacturing firms with fewer than 500 employees in the United States were larger in terms of number of employees than family-owned and managed firms. Outside the United States private family firms have been found to be generally smaller than non-family firms (Donckels and Fröhlich, 1991).

7.3.1.3 *Principal industrial activity*

Reynolds (1995) found that new family firms in the United States were less likely to be engaged in manufacturing and business services associated with higher capital requirements. Evidence from the United Kingdom shows that family firms were more likely to be overrepresented in agriculture, forestry and fishing as well as in the distribution, hotels and catering industrial sectors (Westhead and Cowling, 1998). However, family firms were underrepresented in the banking, financing, insurance and business services sectors.

7.3.1.4 *Location*

Saturated urban areas (at their business stock carrying capacity level) associated with high levels of new firm entry and exit may not be conducive environments for long-term family firm survival. Family firms in the United Kingdom have been found to be overrepresented in rural locations (i.e., in areas with fewer than 10,000 people), and slightly overrepresented in the East Midlands of England (Westhead and Cowling, 1998). They are markedly underrepresented in the south-east of England (associated with the Greater London agglomeration). Reynolds (1995), however, found family firms in the United States were overrepresented in urban areas.

7.3.2 Firm objectives

Managers of family and non-family firms may have many *common objectives*. Smyrnios and Romano (1994) explored the main objectives of family firms in Australia. They found that over 40 per cent of respondents reported the following main objectives: to increase the value of the business, to increase profitability, to accumulate family wealth, to pass the business on to the next generation, to provide family members with business careers, and to employ family members.

Family firm owners may focus on the following priorities:

- More emphasis upon ensuring the survival of the firm as a going concern.
- Seek to ensure continued independent ownership of their firms. Owners that avoid selling all or part of the firm to any 'outsider' could enable ownership transfer of the firm (i.e., succession) to the next generation of family members.
- Only grow the firm to provide employment positions for family members.
- Allocate key managerial positions to family members based on kinship ties rather than expertise and knowledge.

Objectives reported by family and non-family firms, in part, might reflect firm age differences rather than ownership form differences. Westhead and Cowling (1997) compared the company objectives reported by family and non-family companies in the United Kingdom using *Definition (3)* in Table 7.1. *Family and non-family companies were paired/matched on four criteria*: age of the company since receiving its first order; location of the company in a rural (or urban) area; location of the company by standard region type; and the main industrial activity of the company. Family and non-family firms sought to 'ensure the survival of the business'; 'to ensure that our employees have secure jobs in the business'; and to 'ensure independent ownership of the business'. To a lesser extent family and non-family firms sought 'to enhance the reputation and status of the business in the local community'. However, family firms were more likely to have reported the following non-financial objectives 'to maintain/enhance the lifestyle of the owners', and 'to provide employment for family members of the management team'.

7.3.3 Management structure

Given the objectives of family firms' owners may be prioritised differently from those of non-family firms, in many instances, family firms are managed differently than non-family firms. Family firms have been found to exhibit the following characteristics:

- Owners may be prepared to take a long-term view on the length of time they are willing to wait for an economic return on an investment.
- A greater willingness to target long-term investments towards workforce training and/or research and development.
- Long-term investments may ensure that high quality employees are retained in family businesses and a strong relationship develops and/or is maintained between employees and the owners/managers of the family firms.
- Family firm owners whose prime objective is to maximise income to family members may ensure and guarantee employment for family members. Senior managerial positions may be allocated based upon family membership rather than managerial ability or experience.
- Managerial talent could be eroded if able non-family members decided to seek employment positions outside the family firm.
- Non-family managers retained may be less ambitious and have insufficient skills to focus on competitive advantage that ensures firm development.

Using a *'matched paired'* comparison, Westhead et al. (1997) found differences in management practices between family and non-family companies but also noted numerous *similarities*. The key findings of the study were as follows:

- On average, the tenure periods of Chief Executive Officers (CEOs) in their companies before being appointed to the CEO position were very similar for CEOs in family and non-family companies (on average 2.0 and 3.5 years for CEOs in family and non-family companies, respectively). Both groups of companies had managerial stability at the top of their organisations, with CEOs having been employed in this position, on average, for 15 years.
- Directors in family companies held more ordinary shares in their companies than directors in non-family companies (on average, 93 per cent compared with 82 per cent).
- CEOs from the kinship group owning the family company generally served shorter apprenticeships in their respective companies than 'outside' CEOs (on average, 1.8 years for CEOs from the family owning the company compared with 3.9 years for CEOs not from the family owning the business), although the difference between the two groups was not significant.

- CEOs had been in situ in their respective companies for 15 years (on average, 15.0 years for CEOs from family companies compared with 14.6 years for CEOs employed in non-family companies).
- In family firms, CEOs from the kinship group owning the family business had been employed in that senior position for markedly longer than 'outside' CEOs employed in family firms (on average, 16 years compared with 8 years).
- The majority of respondents in family and non-family companies (58 per cent compared with 65 per cent) reported that they did not hold directorships in other companies.
- Family firms were less likely to have utilised the services of 'outsiders'. They were markedly less likely than family firms to have employed a NED (9 per cent of family compared with 19 per cent of non-family firms). Reluctance to use 'outside' expertise may cause some family firms to become introverted, inflexible and uncompetitive (Cromie et al., 1995), and to grow only if family members need employment positions.
- Both groups were reluctant to consider and select a successor for the CEO position.

The influence of family seems to persist and shape decision-making even in contexts where it may be expected that its influence would be very limited. Fiegener (2010) noted that most firms retained at least a little '*familiness*' even after substantial ownership had been transferred to '*outsiders*'.

7.3.4 Strategy

Business development can be ensured if a firm develops an appropriate strategic orientation with its '*internal*' (i.e., human resources of owners, managers and employees and resources and capabilities of the firm) and '*external*' *environments* (i.e., consumer demand, strength of competition, fiscal policies, sectoral trends and social, legal and political conditions) (see Chapter 11). Westhead (1997b) found that the number of *similarities* between the competitive strategies of family and non-family companies vastly outnumbered the differences between the two groups of firms. *Family and non-family companies had adopted very similar competitive strategies in terms of the following:*

- family firms were more likely to explore new sources of funds but they were no more or less likely to have actually used them;
- few family or non-family firms pursued a premium pricing strategy;
- family and non-family firms operating in well-defined and established market niches had generally focused upon the needs of their customers; and
- both family and non-family firms generally differentiated their products/services from lower quality competitors by offering products/services of superior quality.

Table 7.2 summarises the statistically significant strategic orientation contrasts between family and non-family companies. Non-family firms were less insular and were more willing to use external technology. They were more aware of emerging industry and market opportunities, driven by short-term financial considerations, and had developed technologically sophisticated products (either purchased or developed in-house) to increase their market share. Non-family firms were found to be more aware of the implications of a risky dependency on a single supplier or a single customer. More non-family firms had reduced their dependence on a single supplier or customer. Family firm development, however, may be at risk because of a reluctance to terminate long-established relationships with dominant suppliers and customers.

Table 7.2 Strategic orientation differences between matched-paired family (n = 73) and non-family (n = 73) unquoted companies

Strategic factor	Family companies were more likely to:[a]	Non-family companies were more likely to:
1 *Approach to management*		• Promote managers based on their specific skills, knowledge and competence[b]
2 *External financing*	• Frequently explore for new sources of funds[c]	
3 *Long-term financial orientation*		• Emphasise immediate profitability[d] • Emphasise long-term capital investments[b]
4 *Industry awareness*		• Actively attempt to predict competitors moves[b] • Actively attempt to predict industry trends[b]
5 *Planning-related issues*	• Use formalised management information systems to support decision-making[b]	
6 *Advertising*	• Use frequent advertising [c]	• Use advertising that differentiates our products/services from those of our competitors[d]
7 *Technology concerns*	• Actively further refine a technology developed by others[d]	• Actively use technology developed by others[d] • Actively improve our existing technology[b]
8 *External independence*	• Actively attempt to minimise our dependence on any single supplier[d]	• Actively attempt to minimise our dependence on any single customer[b]
9 *Quality concerns*	• Offer products/services of superior quality[c]	• Emphasise the building of company image and reputation within our industry[d]
10 *Product/service-related issues*	• Use product or process patents and/or copyrights to provide a competitive advantage[d] • Offer a wide range of products/services[c]	

Notes:
(a) More than 50% of the ordinary voting shares were owned by members of the largest family group and the company was perceived by the Chief Executive/Managing Director/Chairman to be a family business.
(b) Statistically significant univariate analysis difference between matched family and non-family companies.
(c) Statistically significant multivariate analysis difference between matched family and non-family companies.
(d) Statistically significant univariate as well as multivariate difference between matched family and non-family companies.

Source: Westhead (1997b).

Respondents in non-family companies were markedly more likely:

- to have been promoted based on their specific skills, knowledge and competence rather than kinship;
- to have placed more emphasis on immediate profitability;
- to have directed resources towards increasing their industry awareness;
- to have attempted to predict industry trends and competitors moves;
- to have used advertising which differentiated their products/services from those provided by competitors;
- to have used technology developed by others and improved internal existing technology;
- to have reduced risk exposure due to dependence on any single customer; and
- to have promoted company image and reputation to increase firm credibility and legitimacy.

Respondents in family companies were markedly more likely:

- to have reported that they frequently explored opportunities for new sources of funds (these sources may not have been used by family firm owners who were reluctant to lose ownership and control to 'outsiders');
- to have used formalised management information systems to support their decision-making;
- to have engaged in frequent advertising campaigns to secure (or increase) their market share;
- to further refine a technology developed by others rather than support in-house creativity and innovation;
- to have reduced risk exposure by reducing dependence on any single supplier;
- to ensure business development, to have generally provided a wide portfolio of products/services;
- to have focused upon product/service-related issues (i.e., taking out product or process patents and/or copyrights); and
- to have perceived that they had provided products/services of superior quality to ensure customer loyalty and satisfaction.

The following two strategic factor differences were unexpected:

1. Despite a greater focus on immediate profitability, non-family companies had focused more upon long-term capital investments.
2. Reflecting a catching up process, non-family companies seem to have invested more resources in building up their company image and reputation within their respective industries.

Family control can strongly influence diversification decisions. Family-controlled firms may engage in riskier strategies in order to preserve *socio-emotional wealth* (SEW) (i.e., family agendas). Gomez-Mejia et al. (2007) found that family-owned firms in Spain were willing to exchange greater financial risks by remaining independent and not joining a co-operative in order to preserve family SEW.

7.3.5 Performance

7.3.5.1 *Context*

Family firms might be expected to *perform better* than non-family firms because of:

- avoidance of strategies focusing only on short-term gains;
- an ethos of mutual trust between workers and family managers; and
- more investment in employee and management training and/or research.

However, family firms might be expected to *underperform* compared with non-family firms because of the following:

- lack of commitment in some family firms to profit maximisation;
- family issues take priority over short-term financial performance objectives;
- to ensure family ownership and control, the owners of family businesses may be unwilling to finance firm growth utilising resources gained by the partial sale of equity in the firm to 'outsiders';
- the allocation of key managerial positions to family members may reduce the quality of the management pool; and
- family firms may be more difficult to manage due to the need to satisfy both business as well as 'family agendas'.