

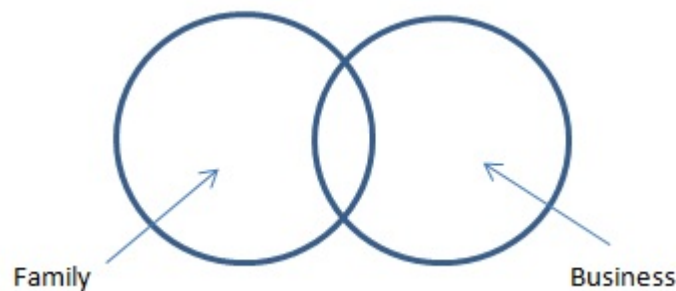
## Theories to Define and Understand Family Firms

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My earlier chapter in this volume on the four phases of learning in family firms relies on some important theories about the nature of family firms and how they differ from non-family firms. This chapter explains them briefly.

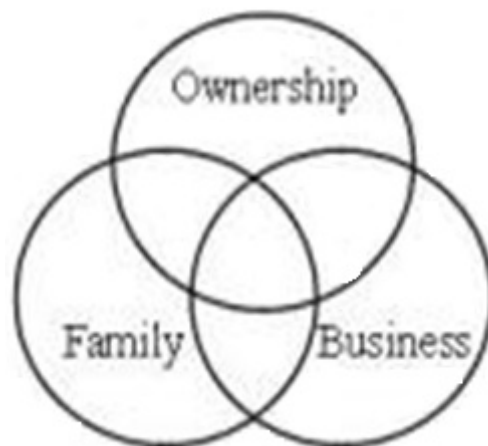
### **Systems Theory and the family firm**

Much research on family firms is underpinned by systems theory, which, at the broadest level, focuses on viewing the world in terms of the interrelationships of objects with one another. We are accustomed to the idea of a business acting as a system, which may be seen as open or closed. The family, equally, is a system in its own right. Indeed, family systems theory looks at the family as a whole, usually envisaging it as a relatively closed set of interactions between individual members (Jennings, Breitkreuz & James 2012). When a family owns and runs a business, however, an open systems view of family and business tends to predominate, emphasising the interaction of the family with the business. This interaction is represented by the overlap between two circles:



Applications of the two-circle model in family business research have traditionally focused on how the family system positively or negatively – but more often, negatively – affects the business system. For example, Lansberg (1983) discussed how family norms create human resource problems in family firms. But, the negative view of family influence has been challenged by other authors who show how the shared goals of members of a family who work in – and for – their own firm provide a high level of tacit coordination and control that many non-family firms lack.

This 'dual system' (family + business) approach to family enterprise research has been criticised on several grounds, including its neglect of other influential subsystems. These criticisms led to the development of multi-system models where ownership was added to 'family' and 'business' (Tagiuri & Davis 1982). The revised model incorporates three overlapping circles. One circle represents the family as before, but the second circle has become two: the first representing owners of shares in the firm, the other representing firm management.



### **Agency Theory**

The introduction of the ownership circle raises the issue of agency theory, derived from Berle and Means' (1932) work on issues arising from the separation of firm ownership and management. Agency theory points to inbuilt conflicts of interest between the owners and the managers of a firm. In a family firm, owners and managers are members of the same family, so it is sometimes argued that there are no agency problems in family firms, and that a stewardship model, which stresses the way firm owners see themselves as holding the firm in trust for future generations, is more appropriate. More recently, however, researchers have pointed to a special form of the agency problem in family firms. For example, a spirit of misplaced altruism may lead the owners to appoint family members to positions for which they are less qualified than an available outsider. Such actions, while helping a family member, reduce firm performance.

The three overlapping circles model allows researchers to focus on the positive and negative consequences of the overlap between family, ownership and management in family firms. It has become a staple of the family business research literature, feeding the development of new theories of how family firms operate. The idea of 'familiness' (Habbershon & Williams 1999; Sirmon & Hitt 2003), for example, has been seen as a resource through which a special form of competitive advantage ('distinctive familiness' or f+) is created by the long-term perspective, shared goals, speedy decision-making and embeddedness in the community that successful family firms often exhibit. On the other hand, negative familiness ('constrictive familiness' or f-) may be associated with reluctance to embrace necessary change, family conflict, refusal to admit ideas from the outside, and nepotism.

### **Other theories using systems and/or agency perspectives**

My other chapter in this volume used a systems perspective to examine how understanding the interaction between family and business allowed an appreciation of how people learned the skills to lead and manage a family firm. Other recent systems-based research on family firms also examined this interaction. A few examples:

- Dyer (2006) argued that we can better understand why some family firms enjoy comparative advantage (f+) by examining the effects of family systems judged to be closed, random, open or synchronous based on characteristic interaction patterns and values.

- Björnberg and Nicholson (2007) introduced the Family Climate Scales questionnaire, describing it as ‘a self-report measure of whole-family functioning formulated for the field of family business’.
- Lumpkin, Martin and Vaughn (2008) proposed a multidimensional means of determining an individual’s family orientation; that is, how much an individual sees and values family involvement as a potential determinant of processes and outcomes in family firms.
- Distelberg and Blow (2011) showed that family business systems with either extremely rigid or extremely diffuse boundaries are non-optimal; those with permeable boundaries offer the fewest problems.

For other systems approaches to understanding family business issues, I recommend to the reader the comprehensive reviews by Pieper and Klein (2007) and Sharma and Nordqvist (2008).

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