A conceptual model of family firm sustainability: The research agenda

Shankar Sundaram
EFPM, XLRI – Jamshedpur, India

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Abstract
The family firm is arguably the oldest form of governance. Family businesses make a sizeable portion among businesses worldwide, yet studies on them are fairly recent and findings are unequivocal about its performance and sustainability. This study explored the mainstream business literature and academia to develop a conceptual model delineating factors of family firms’ success and sustainability. Incorporating previous descriptive and conceptual work done on the unique capabilities of family firms, this paper conceptually accounts for four key factors - Governance, Renewal, Ownership and Wealth – as critical factors enabling family firms’ transgenerational success and longevity. These factors are likely to give family firms a measure of ambidexterity: effective at leveraging and exploiting inherent capability as well as achieving capability adaptation, renewal and exploration. This study also attempts to extend the family business sustainability research by empirically validating this conceptual model by undertaking a quantitative field survey among owner managers and non-family executives of family firms in the Tamil Nadu State of India.

Introduction
Family firms constitute the oldest and most dominant form of business organizations globally. Worldwide, family firms are a driving force for economic development and societal well-being, in addition to contributing to job creation, technological growth and innovation. Family firms account for about 90% of all firms worldwide (Aldrich & Cliff, 2003). To many, “family business” may connote to a small and medium sized company with a regional orientation and that suffers from succession problems. That’s not totally true. Family firms are highly heterogenous and are also found to be highly successful in the longer run. Some of the world-renowned companies, for instance, the Ford group, the Walton’s family (the second and third generation controls 39% of Wal-Mart) and Cargill, are family managed firms. In India, sixteen family groups put together make up about 65 percent of total private sector assets (Kenyon-Rouvinez & Ward, 2005). Reliance Industries, the erstwhile Tata Group and the Azim Premji-led Wipro are among the top 20 firms among Asian Family-owned businesses from India. The heterogeneity of family firms arises from its size, family stage and percentage of family ownership (GomezMejia, Cruz, Berrone & DeCastro, 2011; Phan & Butler, 2012; Nordqvist, Sharma, & Chirico, 2014).

As a distinctive entity, family firms can be defined as those business organizations where two or more members belonging to a single family significantly influence business direction by exercising ownership, control and management (Litz, 1995; Shanker & Astrachan, 1996; Astrachan, Klien & Smyrnios, 2002). A family business is one in which a family has enough ownership to determine the composition of the board, continually involve in the decision-making, leadership, and operational aspects of the business, and where the intent is to pass the firm to the next generation. The propensity of family firms to survive generations is also regarded as a central element for family firm performance (Yu, Lumpkin, Sorenson & Brigham, 2012). According to a recent BCG’s analysis, twenty percent of family businesses continue past the 50-year point, compared with the 15 percent of the S&P 500 that survives to the 40-year mark.
Studies report that family firms generate tremendous values for all its shareholders (Jaffe & Lane, 2004; Caspar, Dias, & Elstrod, 2010), invest for long-term (De Visscher, Aronoff & Ward, 1995), less vulnerable to economic uncertainties (Habbershon & Williams, 1999) and outperformed the S&P (Anderson & Reeb, 2004). Higher chances of survival are expected because of family-oriented goals, lower agency costs and survivability capital (Davis & Stern, 1980; Carlock & Ward, 2010; Jones, Ghobadian, O'Regan & Antcliff, 2013). Moreover, as failure is likely to result in loss to the socio-emotional wealth, owner-managers of family firms are more likely to make efficient investment and forgo inefficient diversifications than professional managers (Miller, Le Breton Miller, & Scholnick, 2008; Cruz, Justo, & De Castro, 2010).

Contrary to these popular claims, several criticisms are also leveled against family firms. Sibling rivalry, lack of harmony between the couple and parent-child conflicts, nepotism, role ambiguity, dispersion of ownership among family members, low competence in management, divergences between family members and non-family employees and ownership succession are some of the more frequent criticisms about family businesses. No matter what their size, the unique—and often volatile—mix of personal family dynamics, business strategy and ownership criteria can create an emotionally charged environment that makes decision-making, not to mention day-to-day management, challenging. The degree to which the family firm is able to balance the contradictory demands of family and business and achieving unity and commitment between its members determines its performance and sustainability.

Given the contribution of family firms to economies worldwide, several academic and management journals of higher order have emerged over the years attempting to examine the unique capabilities/disadvantages of family firms. Despite considerable research on the competitiveness of family firms, we know little about why some family firms are successful in the longer run while many others fail to survive to second generation. Research points to several factors that family firms do better than professionally managed firms. While extant literature has primarily focused on succession and performance of family firms, to date, there exists no cohesive research framework that helps us to understand family firms ability to stay competitive in the longer run (Yu, Lumpkin, Sorenson, & Brigham, 2012; Stafford, Danes, & Haynes, 2013). The aim of this paper is to identify which factors may influence transgenerational success of family firms through critical analysis of literature and propose an agenda for future research.

**Sustainability of Family Firms**

The word ‘sustainability’ means different thing to different people. In family firm research traditions, sustainability is generally discussed within the context of business growth, business continuity, transgenerational entrepreneurship, socioemotional wealth, and sustainability (Beckhard & Dyer, Jr., 1983; Drozdow, 1998; Taguiri & Davis, 1996; Stafford, Duncan, Dane, & Winter, 1999; Walker & Brown, 2004; Chrisman, Chua & Steier, 2008; Nordqvist & Zellweger, 2010; Berrone, Cruz, & Gomez-Mejia, 2012). The family enterprise is so complex and a distinctive one as it pursues multiple objectives. Maintaining unity and harmony within the family, achieving prosperity of the family firm, keeping control of the business across generations, mitigating family conflict and preserving its liquid assets are some of many goals family firms strive to achieve across generations (Eddleston, Chrisman, Steier, & Chua, 2010; Benavides-Velasco, 2013). For the members of the family, the firm is always seen as a vehicle to nurture the family in the future – perhaps into the next generation where it may provide careers, security and a place in the community for several family members, and therefore owner managers consider transgenerational success as a primary goal of family firms (Habbershon, Williams & MacMillan, 2003).

Family firms are truly heterogeneous and that it is the idiosyncratic, immobile, inimitable and sometimes intangible bundle of resources that resides in the firm gives it the competitive advantage (Carney, 2005). As firms continue to succeed, they enjoy advantages of adaptability and continuity, and internal cohesiveness as well as external connection (Miller & Le Breton Miller, 2005; Zellweger,
Nason & Nordqvist, 2011; Gupta & Levenburg, 2012; Antheaume, Robic, & Barbelivien, 2013; Carney, Gedajlovic, & Strike, 2014). As family firms strive for transgenerational success, they accumulate tremendous social and human capital, provide for employment opportunity, longer job tenures and reputation (Anderson, Mansi & Reeb, 2002). Reputation, in turn, provide stronger incentives to boost firm performance, enhances relationship with financial institutions, which can result in lower costs of debt financing. In sum, as posited by Miller & Le Breton Miller (2005) in their book titled “Managing for the Long Run: Lessons in Competitive Advantage from Great Family Businesses”, family firms by its very nature strive for Continuity, Command, Community and Connections (Four C’s).

The G.R.O.W Model

Why do some family businesses out-compete? Sustaining firm success and continued ownership across generation continues to remain as a very important priority for family firms. Despite claimed disadvantages, many family firms thrive mightily for generations and centuries, besting their competitors and changing not only the competitive landscape but fundamental business practices. Incorporating previous descriptive and conceptual work done on the advantages of family firms, this paper proposes a model, which conceptually accounts for many key factors that enables family firms to remain successful for generations. However, factors of sustainability of family firms are so complex concept to measure and there is also no consensus in the literature on which criteria and which key indicators should be used to describe to measure sustainability itself, although the variety of different frameworks and key indicators also overlap and bear resemblance to each other. So, what are the dimensions and indicators of family firm sustainability? There are at least four important factors that provide family firms unique capabilities to remain successful and financially viable in the long run. The dimensions of this model are four main interrelated components: (a) Governance, (b) Renewal, (c) Ownership and (d) Wealth, are influential on firm’s strategies, behaviour, performance and sustainability (figure 1).

Figure 1: GROW – The Conceptual Model

Source: Author’s Source

The new GROW conceptual framework considers four critical dimensions which together allow for a comprehensive assessment of unique features of family firms enable them to achieve business success, performance and sustainability. This study define what governance, renewal, ownership, and wealth means for family firms and how family firms can evolve to thrive in an environment that demands constant change. The proposed model is compatible with a variety of theoretical perspectives, such as agency theory, stewardship theory, SEW view, transaction cost, equity, and organizational justice theories. Hence the hypothesis;
Hypothesis 1: The GROW model will be composed of four positively interrelated dimensions (Governance, Renewal, Ownership and Wealth).

Governance

Governance is uppermost in everybody’s mind today. But governance means different things in different organizations.). Given the intertwining between family, business and ownership, the success of family firms depends on good governance structures (Taguiri & Davis, 1996). There is a long and storied history of family-owned companies with highly-concentrated ownership, poor transparency and absence of accountability and fairness principles that led to abuse of minority shareholder rights (Villalonga, Amit, Trujillo, & Guzmán, 2015). The consequence of failed governance is huge. As family firms continue to have a strange hold of economies worldwide, corporate governance problems of such firms are of macroeconomic importance as it may like to affect several critical issues such as rates of innovation, economy wide resource allocation, and economic growth resulting in economic entrenchment effect (Morck et al, 2005). However, family firms are now ready to admit the importance of and the sense of urgency of governance, which safeguard firms against potential conflict and help prevent them from making the usual mistakes family firms make.

Good family and business governance go hand in hand with sustained benefits including greater access to financing, lower cost of capital, better performance, generating higher business value, public investors’ trust, and more favorable treatment of all stakeholders (Claessens & Yurtoglu, 2013). Long run family firms are good at establishing family, ownership and governance rules and stick to them (Zellweger, 2017). High level of family ownership, low levels of family board representation, and independent directors are effective ways of mitigating the separation of cash flow rights and control, thus decreasing the conflict of interest between majority and minority of shareholders (Mustakallio, Autio& Zahra, 2002; Anderson & Reeb, 2004; Giovannini, 2010; Bettinelli, 2011; Berent-Braun & Uhlamer, 2012). The distribution of power within the family, the family governance institutions (for example, family council, family meetings, etc.), and the quality of communication among family members and other stakeholders are likely to impact governance and performance of family firms (Villagonga & Amit, 2009). Well-written and established rules governing the family’s interactions with their company are likely to reduce the chances of inappropriate family behaviour and emotions being played out in the business. It is therefore asserted that good governance system in family firms brings a lot more structure to the next stage and therefore minimizes transitional issues as well. Hence, the hypothesis;

Hypothesis 2: Governance is significantly related to the performance and sustainability of family firms.

Renewal

As family firms moves from the founding generation, the creative momentum and excitement are likely to be replaced from risk-averse mindset with preoccupations related to safeguarding what’s been achieved rather than continuing to explore new business opportunities and risk-taking. This is definitely not a healthy sign for family firm success and longevity. Renewal, the ability of firms to creatively disrupt it and remain resilient in times of change is very crucial and significantly shapes its growth and adaptation in today’s hypercompetitive landscape. Renewal entails how family firms interact within its environment/market and remain relevant and financially viable in today’s hypercompetitive business landscape. Renewal is understood as a collection of innovation, creativity, ability to be self-motivated, flexible and adaptable, opportunity driven, and focused on creating values while considering their people and team. As family firm matures over a period of time, ensuring the long-term future of the firm, improving its profitability and diversifying into different business sectors, services/products are its strategic priorities. To continue to creatively disrupt one’s business requires a mind shift from the focus of utilizing firm’s scarce resources towards exploiting new opportunities.
Entrepreneurially oriented family firms pursue innovation, and show tremendous willingness to undertake some risks and to proactively beat its competitors (Wiklund & Shepherd, 2005; Naldi, Nordqvist, Sjöberg, & Wiklund, 2007), and to grow and survive, they need to maintain and increase their original entrepreneurial orientation through generations (Salvato, Chirico, & Sharma, 2010; Casillas, Moreno & Barbero, 2010; Zellweger, Nason, & Nordqvist, 2011). Encouraging entrepreneurship, measured risk taking, and innovation are part of the corporate DNA of long-run family firms. However, keeping the entrepreneurial mindset across generations can be a huge challenge for family firms. An acceptance of the risk of failure, making difficult decisions based on the quality of the business without being clouded by business ties, and establishing a well-defined process that demands clearly developed business cases demonstrating the potential for substantial growth and profitability. Studies also attest R&D intensity to be higher in family firms (Schmid et al., 2014). It’s long-term orientation and strong local roots suggest positive effects on regional R&D cooperation and regional innovation output as well (Block & Spiegel, 2013).

Renewal also implies continuous monitoring and evaluation of all businesses on a timely manner and that the family must even consider liquidating those businesses that are not achieving success. The broad discretion of executives in family firms may also allow greater scope for the use of entrepreneurial heuristics and simplified decision rules that enable timely strategic decisions (Gedajlovic, Lubatkin, & Schulze, 2004). These kinds of systematic responses create a capacity of resilience in the face of disruptions helps family-owned businesses remain “healthy” in response to disruptions (Danes, Zuiker, Kean, & Arbuthnot, 1999; Danes et al., 2002). Stewardship motivation of owner managers ensures more emphasis on the R&D, attention to firm’s reputation and increasing market share. Truly, Renewal mechanisms influences business strategic decisions shapes firms growth and its ability to adapt to changing market conditions (Lee, Lee & Pennings, 2001; Keh, Nguyen, & Ng, 2007; Lumpkin, Brigham, & Moss, 2010). Renewal operationalized by entrepreneurial mindset, innovation (creative destruction), measured risk taking, and timely decisions add to the unique capabilities of family firm performance and sustainability. Hence the hypothesis:

**Hypothesis 3:** Renewal of businesses is significantly related to the performance and sustainability of family firms.

### III: Ownership Continuity: The Family Gravity

Families worldwide enjoy the pride, connection, strategic advantage and the financial reward of having a successful family business. How do you protect what your family has worked so hard to build? Ownership continuity, which can also be implied as the “family gravity,” is a critical factor in achieving long-term success. Ownership implies the distribution of power and control in a firm (Goel et al., 2012). Stable and concentrated ownership in the hand of the family is crucial for the development of non-tradable assets, enhancing social capital and reputational assets (Gedajlovic & Carney, 2010; Gupta & Kirwan, 2013). Family firm’s unique ownership structure gives not just a dream of shared wealth and opportunities for future generations, but also the long-term orientation towards business. Many long run family firms have at least one key family member (but up to three) leading the organization. The presence of members of the owning family personifies the corporate identity and aligns differing interests around clearly defined values and a common vision. For owner managers, a sense of stewardship and responsibility towards the future of the family, business, community and the society come naturally. Owner managers generally behave in their firm’s best interest and consider firm performance as their own well-being (Eddleston, 2008).

Continuity in family leadership also can perpetuate the focus and leveraging of core capabilities as one generation imparts particular traditions, values, and knowledge to the next (James, 2006). Furthermore, the sense of ownership reduces the two most troubling effects of modern capitalism: short-termism and the so-called agency problem. Family ownership reduces transaction costs through altruism and affecion. According to agency theory, who are not owners will not watch over the affairs of a firm as diligently as owner managers. Owner-managers are likely to be effective...
“monitors-in-place” (Anderson, Duru, & Reeb, 2009) and are well positioned to discipline managerial agents, including their own kin (Anderson & Reeb, 2003; Comb, Penney, Crook, & Short, 2010). With sufficient altruism and shared resource arrangements, families can provide the efficient level of family public goods (Jones, Ghobadian, O’Regan, & Antcliff, 2013). Family managers’ identification with the business, sense of kinship obligation, and sources of personal and social fulfilment, all contribute to an unusual incentive to exercise careful stewardship over the well-being and continuity of the enterprise (Arregle et al., 2007). Stewardship theory concerning family firms argues that family executives are particularly involved and dedicated to their firm. The desire to bequeath an economic legacy to family members and to ensure the continuity and enduring health of the firm constitute a powerful motivation for family firms (Miller, Le Breton-Miller, & Scholnick, 2008). As owner managers are motivated by firm survival and familial control, family members may be more likely to provide the firm with resources in times of need, thereby increasing its resilience (Villalonga & Amit, 2010).

Long-run family are very mindful of the truth that success needs competent and strong leadership and teams-again, either family or outsiders-to properly manage and grow the business. These firms take up leadership succession very seriously and devote tremendous resources to planning for succession early, provide opportunities for developing and grooming successors and finally take steps to transfer the leadership and authority to the following generation in a smooth and effective manner. This includes writing out an owner’s roles and responsibilities, choosing the proper people for the proper role, ensuring they are properly educated, and much more. These processes are all designed to ensure that owners understand what ownership means and what their role is all about. Truly, owner managers’ involvement and stewardship are likely to solve the free-rider problem, reduce agency costs and enhance company value and reputation. In light of this context, ownership operationalized by management, control rights and succession aids for family firm unique advantages over non-family firms. Hence the hypothesis;

Hypothesis 4: Ownership continuity and effective leadership succession is significantly related to family firm performance and sustainability.

IV: Wealth

Special care for the enterprise and its continuity can result in stewardship over the people who are its life blood (Arregle et al., 2007; Miller and Le Breton-Miller, 2005a). Business leaders need three kinds of capital; financial, human, and social. For family firms, the family provides for the financial capital and to a certain extent the human capital (Miller & Le Breton-Miller, 2006; Zellweger, Eddleston, & Kellermanns, 2010; Vallejo & Langa, 2010). While both are essential resources for your business, social capital — the connections and shared values that exist between people and enable cooperation — is the key to entrepreneurial success (Ward, 1988; Astrachan & Kolenko, 1994). Corporations that invest in social capital earn the trust of their stakeholders, thereby enhancing cooperation, potentially leading to better economic outcomes for the firm. What, specifically, can firms do to build their social capital? Family firms build social capital through continual commitment to its Corporate Social Responsibility (CSR).

Family firms are most likely to make genuine efforts to improve relationships with employees and the local communities where the firm operates, and efforts to protect the environment and the human rights of people who live in areas where the firm has facilities (Tagiuri& Davis, 1996; Sharma & Manikutty, 2005; Duh, Belak & Milfelner, 2010; Salvato, Chirico, & Sharma, 2010). Improving the quality of life in its neighborhood community, fighting poverty, and promoting key social cause such as literacy, among others are some of the noneconomic responsibilities of family firms to the society. Family firms thus can create long-term, stable, and flexible partnerships—ones that can grow with emerging opportunities and endure for decades. These relationships also allow the sharing of risk and knowledge among partners that make long-term venturesome projects more feasible.
Another concern of family firm is its reputation in the market, as that too is a resource that enhances the very long-term robustness of a business (Barney, 1991; Eddleston et al., 2008). Family owned businesses often have a reputational advantage over non-family owned businesses. It is only natural, therefore, that a family’s stewardship would translate into a more concerted effort to build reputation. According to Koiranen (2002), family firms are known being honest, credible, obey the law of the land, quality and industriousness and therefore the owning families were reportedly committed, responsible, fair, hardworking, successful and long run. Such a reputation is good for family firms as its helps them reduce cost, complexity and confusion, brands that actually keep their promises and deliver on what they say they’re going to stand for, are more effective (Zellweger, Kellermanns, Eddleston, & Memili, 2012). Reputation improves customer loyalty and attracts new clients; it also sustains market share during industry downturns and enhances the stability of the business (Fombrun, 1996). In emerging markets characterized by extensive institutional voids, social capital reputation facilitates access to and screening of new business opportunities. In these contexts, social capital offers access to strategic information that enhances bargaining power and locates entrepreneurs in positions to directly lobby for personal interests (Blyler & Coff, 2003). The goodwill and resources companies gain from their relationships with other companies, enables family firms to assemble the resources (especially knowledge) necessary for successful adaptation, which is a priority for family firms seeking to achieve survival, profitability and growth (Zahra, 2010). In times of constant change and competitiveness, wealth of family firms characterized by the commitment of both family and non-family members, its social capital and its reputation/image adds to the sustainability conundrum of family firms. Hence the hypothesis;

Hypothesis 5: Wealth of family identified in terms of involvement & emotional attachment of family and non-family members and social capital reputation is significantly related to family firm performance and sustainability.

The Research Agenda

It’s no secret that family businesses can struggle with governance, leadership transitions, and even survival. Hence, sustaining family firms for generations continue to be without a doubt a keen interest and an everlasting pursuit of owner managers of such firms. Success and longevity of family firms are quite beneficial not just for the family, but also to economies. Family businesses are inherently complex: in addition to dealing with business issues, they must also deal with ownership and family issues. This complexity confers tremendous strength – families have values and look towards future generations and sustainability; ownership is independent and long-term; and the company can adopt unconventional business models. Because of this, family businesses can, and often do, outperform publicly held corporations. There has been a tremendous growth in family business literature in the recent years, and an influential stream of this research concerning about the unique advantages, performance and its sustainability over generations. Although they vary in scope, these frameworks show a significant degree of convergence in the main dimensions delineating not just the differences between family and professionally managed firms; they have been continually expanding family business research traditions. The development of theories and models of family business presents a unique challenge to scholars. Not only is it necessary to deal with explanations of behavior, family business scholars must also be concerned with how and why behaviors might vary across different types of family businesses and between family businesses and nonfamily businesses.

The notion of studying family business sustainability is complex and requires development. Researchers might wish to operationalize the concept in detail, isolate its components, and determine whether these forms an integrated construct. Thus, any useful theory of family business must include relative statements of how family firms will behave, the conditions that lead to that behavior, and the outcomes of behavior of both family and non-family businesses that possess different sets of fundamental characteristics. This paper acknowledges that the conflicting results in the family firm
literature may be attributable to contradictory theoretical predictions, methodological inconsistencies, and the lack of attention to organizational factors that may moderate the relationship between factors that contribute to the performance and longevity of family firms.

In conclusion, this paper identifies four critical factors that the researcher consider may not be as definitive but rather suggestive of a set of relationships that are complex and potentially contingent on a number of factors, some of which may have not yet been identified, let alone measured. Family firms must G.R.O.W to not just survive but also to improve its reputation among all key stakeholders and prosper during changing times. This is because, it is impossible to achieve long-term objectives without embracing policies that continually nurture the resources—human, reputational, and financial—built up from the past, sustaining of the present, and instrumental in carrying an organization toward a healthy future. Employing both qualitative and quantitative methods, this paper proposes a research agenda to empirically validate the GROW model for family business sustainability, measuring its validity and reliability. Unravelling and delineating the causal relationships among these diverse factors remains a significant challenge for research. In doing so, the envisaged study thus attempts to increase current understanding about important determinants transgenerational family firm success, while opening up numerous ways of future research.

References


