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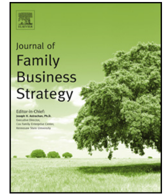

Setting new directions for the management discipline through family business research☆

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ABSTRACT

Family business researchers are well-positioned to build important new knowledge in, and even set new directions for, general management research. We show in this commentary how the family business context is especially rich in opportunities for contributing new knowledge concerning otherwise-intractable strategic issues. Such issues include: the need for temporal depth in strategic decision-making; the complexity of multiple sub-goals for strategic decision-makers; and the often-unseen variety and contingent effectiveness of corporate governance structures and processes. Carefully examining these issues in the family business context will likely give all organizational researchers new insights. This new knowledge from family business research may clarify the ongoing problem of managerial short-termism, may prod other researchers to move beyond single measures of firm performance, and may help move the corporate governance literature beyond the idea that one-size-fits-all "best practices" are desirable or even possible. Given the opportunities, now is the time for family business researchers to light the way forward.

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Our thesis in this commentary is that scholars who examine family business issues are especially well-positioned to build important new knowledge in, and even set new directions for, general management research. This potential for influence by family business researchers extends to the sub-disciplines of strategy, organization theory, managerial decision-making and cognitions, and entrepreneurship, among others.

There are three overarching reasons why we expect the influence of family business scholars on general management knowledge will increase. First, family businesses compose the majority of businesses around the world (IFERA, 2003). Therefore, much of the broader management research has already been influenced by family businesses, because so many of the businesses studied in management research have been (although unacknowledged) family businesses. Second, the number of family business scholars is growing, and concomitantly their research skills are increasing; articles taking a family business perspective are being seen more and more frequently in the top management journals (e.g., Cannella, Jones & Withers, 2015; Chang & Shim, 2014; Duran, Kammerlander, van Essen, & Zellweger, 2015). And third, some key characteristics of family firms make them especially useful for researchers wishing to uncover solutions to intractable problems in management.

Our commentary will focus on the third of these overarching reasons why the influence of family business scholars can be expected to increase going forward. The first two reasons – that most firms are family firms, and that family business scholarship is growing – are well known (Stewart & Miner, 2011). But the third reason could use some additional explication, and we take on that task during the remainder of this article. We next will discuss, in turn: temporal depth, long-termism, and complexity in family firms. Then, we will discuss how the special characteristics of family firms in these areas offer family business researchers unique opportunities for advancing the management field.

1. Temporal depth

Bluedorn (2002) recognizes the importance of time to human beings and their societies. He notes, for example, the use of "time capsules" that are intended to link our descendants, looking backward, to us, looking forward, by including present-day artifacts that we expect will be viewed with wonder by those in the future. Many cities in the U.S. leave such capsules, often encased in new public buildings, to be opened 50 or 100 years later.

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Similarly, time capsules are often buried at the sites of world's fairs. The 1970 Osaka World's Fair buried a capsule designed to last 5000 years, when it is scheduled to be opened. Bluedorn (2002) speculated that the 5000- year length of this time capsule was due to the long-term orientation of Japanese society. This speculation notwithstanding, we found that the 1939 New York World's Fair also buried a 5000-year time capsule. And more recently, a time capsule called "KEO" is planned to be launched into space in 2016, according to their website, although delays can be expected. This capsule is intended to circle the earth until returning 50,000 years after launch, with a simulated Aurora Borealis announcing its return home. Our speculation is that the grandiosity of the entity – city, world, or even outer space – may be what determines the planning horizons for time capsules.

Bluedorn (2002) used the idea of a time capsule, with its simultaneous forward-looking and backward-looking characteristics, to illustrate his concept of temporal depth in decision making. One aspect of the temporal depth of a firm is how far those in decision-making authority look forward when making decisions. Another, and equally important, aspect of temporal depth is how far those in decision-making authority look backward when making decisions. So for Bluedorn (2002), determining temporal depth involves adding the forward-looking "time horizon" to the backward-looking "history horizon" in order to determine the overall temporal depth exhibited by an organization and/or its decision-makers. Bluedorn (2002) reports on his development of scales that measure temporal depth in organizations, his validation of those scales, and on a series of experiments he conducted to evaluate the relationship between the forward-looking time horizon and the backward-looking history horizon. He found strong, positive correlations between time horizon and history horizon. Even more interesting, however, he found the causal direction to be primarily from history horizon to time horizon, rather than vice versa. That is, the longer one's history horizon is in decision-making, the longer one's time horizon is likely to be looking forward.

Temporal depth would appear to be an excellent construct for potential use in strategic management studies of organizational decision-making, but it has yet to be used in strategy studies. This is surprising, because strategic management scholars have long argued that strategic decisions must be long-term, with a decision window of at least 3–5 years (Andrews, 1972; Ansoff, 1970). Plus, one of the longest running discussions in strategic management scholarship has involved the long-term versus short-term trade-off in decision making. This trade-off has been characterized as: effectiveness versus efficiency (Drucker, 1967); exploration versus exploitation (March, 1991); dynamic versus static strategy (Ghemawat & Ricart i Costa, 1993); strategic positioning versus operating efficiency (Porter, 1996); and flexibility versus efficiency (Eisenhardt, Furr & Bingham, 2010).

Given that strategic decisions are expected to be long-term, and that at the very least some sort of trade-off – or balance – must be maintained between the short-term and the long-term, one might expect that strategy research focuses intensely on long-term decision-making. This has not yet been the case. For the most part, the long term is represented by a one-year "lag" in our studies. Moreover, some argue that *short*-termism is rampant in strategic decision-making practice (e.g., Martin, 2011). We turn to this short-termism issue next.

2. Managerial Short-termism

Economic "short-termism" is said to occur when a CEO pursues actions that enhance the firm's short-term results but simultaneously diminish its long-term prospects for success (e.g., Dallas, 2012; Laverty, 1996; Hagger, Chatzisarantis, Wood, & Stiff, 2010; Marginson & McAulay, 2008). Real-world examples of such short-termism are commonplace. "Chainsaw" Al Dunlap was a well-known turnaround artist in the late 1990s. As CEO of Sunbeam he slashed employees and R&D, taking Sunbeam's stock from $12 in 1996 to $53 in 1998, but then to $7, still in 1998. After a financial restatement, the firm entered bankruptcy in 2001 (Stanwick & Stanwick, 2003). In another example, customer service drove rapid growth for decades at the electronics retailer Circuit City, and the firm was highlighted in *Good to Great* (Collins, 2001). After sales declined in 2007, Circuit City replaced 3900 highly skilled, commissioned sales people with 2100 hourly workers. The CEO received a million-dollar bonus for cost savings, but this move earned him the *Wall Street Journal's* designation as "Worst CEO of the Year" (Bertolucci, 2009). Circuit City was liquidated in 2009.

Such economic short-termism has been quite common in recent decades and, arguably, is increasing. The US subprime mortgage crisis provides an example of especially widespread short-termism (Burhouse & Osaki, 2011; Purnanandam, 2011). And short-termism can persist even when a CEO's own experience has shown the value destruction that can result. Curt Culver of Mortgage Guarantee Insurance Corporation (MGIC) said of insuring subprime mortgages: "We should have done more. It was a money-making machine for the company" (Spivak, 2008). And this was after the firm had lost $6 billion in market value from 2004 to 2009, falling from $6.6 billion to $465 million.

Why does this sort of short-termism occur? There are at least three contributing factors. First, the "half-life" for survival of U.S. public firms is only 10 years (Daepp, Hamilton, West, & Bettencourt, 2015), and has remained so over the past fifty years. This could contribute to CEOs' tendency toward short-term thinking. Second, CEOs' average tenures now are at record lows since tenures began to be measured in the 1970s (Kaplan, 2008; Kaplan & Minton, 2012). Vancil (1987) reported average CEO tenures of 14 years for U.S. CEOs, but more recently LeBreton-Miller and Miller in 2006 pegged average CEO tenures at just 4 years. And third, stock-based, contingent compensation makes up the great majority of CEO pay, and the exercisable portion of this pay can be quite large after even a relatively few years. Given the combination of near-term, market-based incentives and short expected CEO tenures, one might ask the question: "Why would any rational, utility-maximizing CEO consider the long term in her decision making at all?" Our speculative answer is: some do not. Short tenures, incentives and pressure from the Wall Street "expectations game" (Martin, 2011) have led some CEOs to pursue short-term shareholder value maximization as the singular goal of their decision making.

Yet despite these examples of short-termism, one also can point to instances where prudent managers or visionary leaders gave up short-term gains in order to invest in the future of their firms. Steve Jobs, for example, limited the initial iPod introduction to Mac computers, leaving the Windows market to competitors for two years until iTunes was ready and a more complete and attractive product and service offering could produce stronger future returns. Amazon's Jeff Bezos similarly was a late mover in the e-reader market with the Kindle, eschewing potential short-term returns until his entire service bundle was ready (see Adner, 2012, for these and other examples).

3. Complexity

One more factor must be considered when it comes to decision making in organizations—complexity. Overarching goals such as individual fulfillment or happiness or organizational effectiveness are complex and contain multiple "sub" goals (Kay, 2011; Simon, 1964). Many have argued that these 'big" goals cannot be achieved directly, but instead must be pursued obliquely, through the

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