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The family business map: Framework, selective survey, and evidence from Chinese family firm succession ☆

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ABSTRACT

This paper analyzes the causes and consequences of founding family engagement in firm ownership and management. We hypothesize that families manage their firms because they are able to make contributions that non-family managers cannot provide. However, roadblocks arising from within the family, from markets, and from surrounding institutions challenge family ownership. We propose a new framework for organizing these assets and roadblocks, called the family business map; this framework is useful for categorizing the papers presented in this Special Issue. We support the predictions of the framework with evidence from Chinese family firm succession, and conclude that family firm organization is an adaptation to environmental opportunities and constraints. We end the paper with suggestions for future research.

1. Introduction

Since Jensen and Meckling's (1976) seminal work on the separation of ownership and control of the firm, finance research has focused on companies owned by numerous anonymous shareholders but managed by a small group of unrelated professionals who own few shares in the companies. This focus is not surprising, as diffusely held corporations raise most of the capital in the U.S. equity markets and are a symbol of capitalism and modern finance. However, in reality, diffusely held and non-owner managed organizations are far from the norm.[1] Globally, many if not most businesses have concentrated ownership by founders or founding

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[1] In fact, Jensen and Meckling (1976) begin with an owner-managed firm, and analyze what governance problems can arise when the owner delegates decision rights to a hired manager. What they do not say, but imply in their analyses, is that when the cost of mitigating the conflicts is larger than the benefit of the decision right delegation, the firm may remain owner-managed.

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family members, and often the family owners are also the senior managers.[2] Even in the U.S., many large publicly traded companies are controlled, if not majority owned, by founding families: Du Pont, Ford Motors, New York Times, and Wal-Mart, to name just a few.[3]

Notwithstanding the prevalence of family firms, theories and empirical evidence on the causes and effects of this organizational form are only beginning to emerge.[4] The family firm organization has been modeled as a second-best solution in weak institutional environments (Bhattacharya and Ravikumar, 2002; Burkart et al., 2003). However, specific institutional constraints that increase or decrease the benefits of family ownership and management remain to be discovered.

Instead of studying the causes of family firm organization, finance research has focused on its performance effects.[5] Most of the studies use samples of large publicly traded U.S. firms whose ownership and management structures and institutional backgrounds are different from the rest of the world. The lack of theories and representative data makes it hard to interpret performance outcomes.

There are relatively more management studies of family firms. These studies collectively point out important cultural, psychological, and social factors that are typically ignored by finance researchers.[6]

Clearly, there is room for both theoretical and empirical research on this topic, which is the reason for publishing this Special Issue. In this introductory paper, we propose a conceptual framework for organizing strategic opportunities and key constraints that shape the management and ownership of a family firm. We call this framework the family business map. Strategic opportunities are closely related to the specialized intangible inputs delivered by the founding family, which we call family assets. Constraints can arise from within the family, from markets in which the family firm operates, or from the surrounding institutional environment. We focus on how changes in family assets and roadblocks can decisively predict whether a firm continues to be owned and/or managed by its founding family.

We use the framework to organize the papers included in this issue and to highlight their contributions to our understanding of family firms. Each of the papers provides an individual contribution to increasing our understanding of why family firms are different, and together they provide an interesting study of how family assets and roadblocks affect the organization and performance of family firms. The eight papers can be classified into two groups. The first group of five papers analyzes how the strategic use of family assets such as trust, religious and personal values, political connections, and reputation creates value in family firms. The second set of three papers analyzes the corporate consequences of specific roadblocks arising from the family and the legal environment.

As an exploratory test of our framework, we collect and analyze data from almost 217 Chinese firm successions and find that these firms' ownership and management choices indeed correlate with variables proxies for family assets and roadblock constraints. We also find that firm stock return performance in the succession process is related to institutional factors, not firm ownership or management choice per se. These findings are consistent with the view that the family ownership-management model is a rational adaptation to constraints in firms' environments.

The remainder of this paper is organized as follows. Section 2 discusses the basic theories and proposes the family business map as our conceptual framework. Section 3 summarizes the papers included in this issue and their positions within the framework. Section 4 examines the choice between family and non-family succession and the value effects of these choices in the context of Chinese family firms. Section 5 discusses the future research directions, and Section 6 presents our conclusions.

2. The family business map

2.1. Family firm defined

When starting a business, an entrepreneur is often the business's sole owner and manager. Over time, he may transfer part of the ownership and/or decision rights to more people — sometimes family members, sometimes not. The evolution of ownership and control (management) results in four possible types of firms (Fig. 1). In the first type of firms, closely held family firms, majority owners and managers are all family members. The second type of firms, delegated family firms, is majority owned by family members, but firm decision rights are delegated to non-family professionals. In the third type of firms, family-driven, diffusely held companies, ownership is diffusely held by the public; family members own minority stakes, but they continue to manage the firms. The fourth type of firms is professionally managed, diffusely held public companies whose founding families have exited the businesses they have created. Based on this classification scheme, Bennedsen et al. (2014b) report that all four types of firms exist among the firms publicly traded on the Tokyo Stock Exchange in Japan; even the family-driven but diffusely held group constitutes around 20% of public traded Japanese firms.

[2] The statement applies not only to closely held but also to many publicly traded firms in global stock markets that float either only a minority fraction shares or carve out majority shares that are effectively controlled by founding families. For example, 45% of publicly listed international firms are family owned (La Porta et al., 1999). Masulis et al. (2011) report that 19% of almost 28,000 public listed firms around the world belong to family-controlled business groups; this figure rises to over 40% in some emerging markets.

[3] In the U.S., almost one third of S&P 500 firms and 37% of the Fortune 500 are family firms (Anderson et al., 2003; Villalonga and Amit, 2006). Family firms comprise about 46% of the S&P's 1500 index firms (Chen et al., 2008).

[4] Bennedsen et al. (2010) provide a survey of the economic- and finance-based family firm literature.

[5] See, for example, Anderson and Reeb (2003); Maury (2006); Pérez-González (2006); Andres (2008) and Miller et al. (2007). Finance research is unable to determine whether family ownership of firms per se is superior or inferior. However, several studies find that family management matters: a firm's performance is superior when the firm is run by a founder CEO or an outside (hired) CEO, but worse if it is run by a descendant (Smith and Amoako-Adu, 1999; Morck et al., 2000; Anderson and Reeb, 2003; Pérez-González, 2006; Villalonga and Amit, 2006; Bennedsen et al., 2014c).

[6] See Gomez-Mejia et al. (2011) and Gedajlovic et al. (2012) for surveys of the management literature. In a rare finance study, Mehrotra et al. (2013) report that the adoption culture of Japanese families releases the human capital constraint of family firms that are typical in other cultures.

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