CONTRIBUTION ON FAMILY BUSINESS DEFINITION

Cinzia Vallone¹

Abstract:

Despite numerous researches and an ample literature, there is not a unanimously and approved family business definition which identify family businesses from nonfamily businesses. Which are the aspects to describe exactly a family business? Which are the aspects that help to recognise family business from nonfamily business? Answering to these questions means to circumscribe the field of investigation, and obtain a comparable sample for international researches; to individualize the presence and the specific characteristics of the family business in comparison to nonfamily business; in addition it means to be able to compare more easily the empirical studies. Based on a review of international literature on family business issue, three variables principals have emerged: the degree of ownership; the intention to the succession and the involvement of the family members in the business. This study attempts to analyze these variables in order to contribute to the Family business definition.

¹ University of Milan – Bicocca, Department of Business Administration, Management, Finance and Law; Address: Via Bicocca degli Arcimboldi 8, 20100, Milan, Italy; e-mail: cinzia.vallone@unimib.it
Keywords: family business definition, succession, family business involvement, ownership.

1. Introduction and theoretical background

One of the great challenges related to the family business’s theme is the definition, that today, despite numerous researches and an ample literature, a unanimously and approved solution is still a long way off. Assuming that the definitions are only a linguistic convention [Popper, 2000], a way to bridle and to photograph the reality, and they can be different and correct for a same object, defining a phenomenon can become a necessity to compare studies and researches on the object in discussion. Such demand emerges in deeper way when there is the necessity to analyze the phenomenon beyond the national boundary, influenced by the cultural and institutional heritages [Astrachan et al, 2002].

The definition should contain only meaningful elements; if relief is given to futile aspects or if a little meaningful distinctions are emphasized it risks to individualize a little functional definition and perhaps misleading. The family business should be defined with a general concept that refers the principal specificities, that allowing to distinguish it from those not family
controlled. The family business definition should not have objective elements, as, for instance, fix the degree of ownership control or the degree of family members involvement, otherwise it would risk to exclude some classes of family businesses. In fact family business, depending on dimensions, as explain the literature [Gallo 1999; Corbetta 1995], can have different form and it can hold a variable percentage of ownership, or it can have only a dominant influence.

Family businesses can assume forms and mutable aspects in the time and in the space, as whatever institute characterized by the intimate coordination of goods and people. Even more so if the involved people make part of a family unit, which can vary considerably for cultural and institutional reasons into different country.

Which are the aspects to describe exactly a family business? Which are the aspects that help to recognise family business from non family business?

Answering to these questions means to circumscribe the field of investigation, and obtain a comparable sample for international researches; to individualize the presence and the specific characteristics of the family business in comparison to non family business; in addition it means to be able to compare more easily the empirical studies.

Accepting a broad or a restrictive definition can change appreciably the sample observed and the investigated data. This is proved by a study predisposed by Villalonga and Amit [2006] on a sample of 508 firms classified on Fortunes 500, in which they try to verify the family business performance in comparison to the others. Greatest difficulty has been just circumscribe
and individualize the sample of the investigation. The authors have individualized a chart in which they classify some criteria related to the family business definition, showing that, adopting a broad definition rather than another more restrictive [Shanker and Astrachan, 1996], qualitatively changes the result of the investigation [Villalonga and Amit, 2006].

Gibb Dyer [2006] explains the contradictory evidence in the literature regarding the performance of family-owned firms. Of nine studies, four report that family firms perform better than non family firms [Anderson and Reeb, 2003; Beehr, Drexler and Faulkner, 1997; Daily and Dollinger, 1992; McConaughy, Matthews and Fialko, 2001]; three studies find that non family firms had superior performance [Gallo, Tapies and Cappuyns, 2000; Gomez-Mejia, Nunez-Nickel and Gutierrez, 2001; Villalonga and Amit, 2004]; two studies have mixed results [Chrisman, Chua and Litz, 2004; Tanewski, Prajogo and Sohal, 2003]. Upon closer inspection of these studies, he finds that the definitions of what constitutes a family firm varied widely across studies.

Therefore, although find common criteria on the family business definition is complex and difficult, we believe that it is very important for contributing to the international reflection on the theme. In addition we refusing the idea that the notion of family business must simply be functional to the survey that the researcher has decided to investigate [Sansone 2006].
Before analyzing the studies on the family business and the relative definitions, it is necessary to effect a brief mention to the greatness and diffusion of the family business phenomenon.

Family businesses in Italy represent 80% of total businesses belonging to all the economic sectors [CNEL 2002]; besides the 68% of the firms with more than 50 employees has a family business structure and 69 of the first 150 groups of enterprise are family businesses. This explains the complexity of the discussion in progress, since the researchers would like to individualize the distinctive characters of a phenomenon who corresponds to the 80% of the firms.

This means that inside the complex universe of the firms, just defined and stratified by authoritative doctrine [Amaduzzi, 1992; Onida, 1971], scholars try to extrapolate a further subset, that is family business, which will involve several categories of firm. This means that individualizing the proper characteristics of that wide and stratified universe of family businesses is hard and complex. So we can deduce that family businesses don't have principles and proper models [Viganò, 2005; Corbetta, 2008], different from the others firms, because it would mean that the principles elaborated from the business administration theory concern only a residual phenomenon.
Therefore, which are the distinctive characteristics of a family business? How do we differentiate them from the others? Which are the remarkable characteristics on which we determine its definition?

Hence we can underline, without to be tautological, that the most meaningful and qualifying aspect of a family business is the natural aspiration of the founder to transmit the firm to the family members. Because of that the critical moment of a family business is the succession that involves different aspects: the fragmentation of ownership, the succession, the relationships among family members, the relationship among ownership and management, the new stakeholder’s agreements, etc.

2. Discussion

With the purpose to effect a reflection on the concept of family business and try answering to the previous question, we are going to take in consideration the different definitions provided by the international literature on the theme. From such analysis, three variable principals have emerged: the degree of control of ownership; the intention to the succession and the involvement of the family members in the business.

Researchers who have proposed taxonomies and classifications on the family business, have a definition tied up only on some of these aspects or they have chosen a definition connect to multiple criterions [Sharma, 2004]. It is natural that the classification of the definitions is not
rigid, in fact in some cases a definition is broader respect to the position in which it has been situated, nevertheless, in all cases an aspect is privileged since it appeared predominant.

2.1. Definition connected to the ownership

The aspect related to the ownership concerns the percentage of capital possessed by the family (by shares or quota) or the dominant influence represented by the family members ability to effect the remarkable and strategic choices. In order to consider a firm as family business it seem unanimously accepted by the literature that a family must have the control of the business, but scholars are not concordant on degree of control that can make to emerge the most restrictive or broad aspect of the definition.

Following the definitions of scholars who believe that a firm to be defined “family” must totally have controlled from a family or this must have an influence dominated on the strategic decisions.

Bernand, (1975), A company controlled by members of a single family, who owns the complete stock.

Lansberg, Perrow, Rogolsky, (1988) “A business in which the members of a family have legal control over ownership”.

Ferrero (1987). He defines an enterprise family as a mixed enterprise, characterized by a "composite management" in whose aspired relationships of mutual conditioning are founded among the firm of production and the firm of consumption of the subjects that hold the ownership of the capital conferred with the tie of the full risk.
Donckels e Frohilch (1991) “We consider a business as being a family business if family members own at least 60% of equity”.

Carsrud, (1992), Family business is a firm where the ownership and the decision makers are dominated by the members of a group whose affinity is based on the affective relationships.

Corbetta e Demattè, (1993): The enterprises in which the stock and the fundamental decisions of management result controlled from an only family or from few connected families between them from ties of relative, of hold affinity, or from solid alliances.

Tagiuri e Davis (1996), [...] “organizations where two or more extended family members influence the direction of the business through the exercise of kinship ties, management roles, or ownership rights”.

Gallucci, (1999): family business is a firm in which the capital of risk owned to one or more families, connected among them by relatives ties; members also control the management.

Montemerlo, (2000): family business is a firm where the families, owners, with or without direct involvement in the management, control the strategic decisions and intend to maintain the ownership and the control in the time.

Tanewski, Prajogo and Sohal, (2003), A firm is a family firm if 50% or more of ownership is held by a single family.

From a first reading of this group, that defines a firm as family business when the family is owner of the firm, emerges uncontested truth that a family business must have controlled from the family so that there is possible to recognize a decisional power on the same one. Nevertheless it is not so reasonable that a firm must be considered family business only if control is attributed by the total ownership of the capital of risk.

There are firms owned by one or more families from generations, that have less than the 60% of the capital of risk or, if it has big dimensions, family members influence the strategic
decisions with shareholder agreements (corporate agreements), owning only 30%\textsuperscript{2}. The family business being represented by small, average and big firm, it becomes unwise to connect the definition to a specific degree of ownership, as 50% or 100% of equity.

It would be better a definition that allows to include the different kinds of family business. In the light of the analysis of this first aspect we can sustain that possess a percentage of ownership that allows to guarantee the control and the definition of the strategic lines is the first element on which will stand the family business definition.

\section*{2.2. Definition connected to the succession}

Other authors, instead, connect to the first aspect (degree of ownership) a variable that they consider equally important, in order to define a family business: it is the expectation to

\begin{footnote}
\textsuperscript{2} It is about the "hard core" for instance the firm Fiat, which is controlled by the Giovanni Agnelli & C.S.a.p.A. indirectly through the company subsidiary “IFI Istituto Finanziario Industriale S.p.A. which controls IFIL Investments S.p.A. (society that has deliberated the fusion for incorporation in the controlling one which will change the denomination in Exor S.p.A.), which holds 30,45\% of the share ordinary Fiat and 30,09\% of the share privileged Fiat (altogether 30,42\% of the rights of vote).
\end{footnote}
transmit the firm to the future generation or to be at least at the second generation. For some scholars generational continuity appears even an essential element.

<table>
<thead>
<tr>
<th>Donneley, (1988), “A company is considered a family business when it has been closely identified with at least two generation of a family and this link has had a mutual influence on company policy and on the interests and objectives of the family”.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Upton e Sexton, (1987), a firm is defined family business when at least two generations are present and when at least two family members are daily employed in the management.</td>
</tr>
<tr>
<td>Churchill e Hatten, (1987), “What is usually meant by ‘Family business’… is either the occurrence or the anticipation that a younger family member has or will assume control of the business from an elder”.</td>
</tr>
<tr>
<td>Raymond, (1994), family business is a firm where a family can control the succession to C.E.O.</td>
</tr>
<tr>
<td>Ward, (1987), “[A business] that will be passed on for the family’s next generation to manage and control”.</td>
</tr>
</tbody>
</table>
Channon, (1971), a firm can be defined family business when it is controlled by a family at least two generation.

Hollander – Elman, (1988), “Family business is either the occurrence or the anticipation that a younger family member has or will assume control of the business from an elder”.

Gallo, (1992),: the characteristics of familiarity of a firm are connected to the permanent union among two institutes (family and firm). This tie must be building on premises and values that family members consider correct to manage the firm and the family, and transmit this to the next generations.

Heck e Scannell Trent, (1999), “Several research further specify that must be an intent to transfer or an actual generation movement of the business in addition to ownership and management control. Business that have not transferred or have no intent or potential to transfer may be entrepreneurial firms that have gone public or hired professional management.”

Klein, (2000), “A Family business is a company that is influenced by one or more families in substantial way. A family is defined as a group of people who are descendants of one couple and their in-laws as well as the couple itself. Influence in a substantial way is considered if the family either owns the complete stock or, if not, the lack of influence in ownership is balanced through either influence through corporate governance or influence through management. For a business to be a family business, some shares must be held within the family”

Rouvinez e Ward, (2005), “a family business is controlled by a family and has at least one of the following three characteristics: 1) three or more family members all active in the business; or 2) two or more generations of family control; or 3) current family owners intend to pass on control to another generation of family.

Schillaci, (1990) The family business is a business activity that can be intimately identify with a family (in one or more families), for one or more generations. The influence of the family on the firm is legitimated by the ownership of all or part of the stock and also through the involvement of family members in the management.

Astrachan e Kolenko, (1994), a firm is a family business when the family controls the stock, one or more family member is involved in the business and there is the forecast to transfer the ownership to the next generation.

Bork, (1986), a family business is a firm founded by a family member and it has been transferred or it is going to be transferred to the descendants. The descendants of the founder will have the ownership and they will control the firm. Besides they will work and they will participate to the business activity and they will make a profit.
This variable is not to underestimate and to neglect; there are a lot of firms defined family business despite are managed by husband and wife, which are at the same time owners and they are involved full time in the business, but they do not have the intention to transfer the business to the next generation, for different reasons: because they do not have children; because the heirs do not want to continue the family activity.

For this kind of firms, although controlled by a family who owns all stock, the characteristic of familiarity is weak if there is not the intention to transfer the family and business culture to the next generation.

An entrepreneurial activity is closely related to the individualistic element, to the entrepreneurial idea. Only when entrepreneurial activity acquires the combinatorial business form and it is transferred to the second generation it could be defined "family business". In fact Chandler wrote that the entrepreneurial is a firm at the first generation. [Chandler, 1990].

For this purpose, there are scholars of family business that affirm the substantial difference among entrepreneurial activity and family business. Litz remembers that an investigation on the entrepreneurship shows that its elements of definition are something of rather different from the concept of family firm [Litz, 1995]. Also Covin and Slevin [1991] describe the entrepreneurship as a behaviour defined by organizational actions described by specific individualistic lines; or Rumelt [1987] describes the entrepreneurship with the identification of new opportunities that culminate in the creation of isolated mechanisms; finally Miller [1983] defines entrepreneurship
as the desire to undertake a risky and innovative action. The family business, on the contrary, are not synonymous of individualistic initiative, but as Litz writes: “family business, and hence family business research, is concerned, not with organizational initiative per se, but with a first variable, the management and continuity of intraorganizational family-based relatedness”.

A definition that considers as discriminating elements the ownership of all stock and the predominant operational activity of the family, can induce to consider, as family business, embryonic activities and professional studies [Zocchi, 2004].

So that whatever entrepreneurial firm managed with a relative can be considered a family business, even if activity is occasional and there is not the intention to the dimensional growth or to the transmission of the ownership to the descendants. For this purpose Giannessi [1960] underlines that "business life" is absent in the artisan activities, isolated and unsystematic, because the employment of the economic factors has embryonic character and doesn't assume a combinatorial aspect, besides in such activities the individualistic element and personalistic is predominant, verifiable in the role of the professional, of the owner, of the relatives and of few other people, while the job and the capital is minimal. The activities unsystematic is described by Giannessi as economic activity developed by family, social, or religious organizations, or other like that, which also in presence of fundamental elements of the business life, they cannot be considered business activities because of lack of the necessary spirit of cohesion to the formation of the order combinatorial, systematic and of composition.
Concordant with this authoritative approach, it is fundamental a further element of detail in the family business definition that allows do not confuse the family activity, both it professional activity or entrepreneurial activity, with a real family business [Viganò, 2000]. The family business should concern only the firms managed by a family, where the second generation is present or where there is a precise wish to transfer the business and family culture and the management to the heirs, so that, it is possible exclude occasional business initiatives managed by two brothers, or by an individual with the aid of the partner. Without entering in social discussion, we believe, that for family we intend a couple with children, that expresses the inter-generational wish, the family continuity and business values and not the simple business administration by individuals apparently united from affective ties.

It is natural that if the management of a family business is photographed in a specific moment, it can be reasonable that it is managed only by one family member (in regard to the dimension), nevertheless it must result the inter-generational presence that emerges from the family business story and from the adviser role of the previous generation, or from the role of president or from the ownership.

In the light of this reflections we believes that the presence of the second generation is a decisive element to individualize a family business, so it is a crucial criteria for a family business definition.
2.3. Definition connected to the involvement of family members

Finally, some authors associate another variable: the involvement of family members to the business activity. This element seems important for a family business definition. It is justified by the fact that the most part of family businesses are small, and the founder, often with a relative, works in continuous way. The personalistic aspect, in this case, becomes, for a small firm, qualifying and decisive.

In a small firm, as same researches show [Mezzadri, 2005], 100% are controlled from an individual, founder, who owns all stock and works in stable way with the strong conviction to transfer the firm to the descendants. Nevertheless, a business with significant growth has same structural needs and requests some managerial skills that often are not present in the family members skills and therefore family business is forced to hire more qualified and specialized external manager [Montemerlo, 2000; Levinson, 1971].

So, if it is reasonable thinking that the significant growth can increase the business complexity which requests management skills, at the same time, others researches show that small family businesses can have a different degree of ownership and different degree of family member involvement into the business as well.
In fact, a research carried out in 1998, on 252 businesses with more than 10 employees and with a turnover of 150 million Euros, highlights the variety of family business both in terms of degree of family members involvement and in terms of the degree of family ownership. "In the 69% of the cases, families own all stock, in the 17% of the cases, families own between 52% and 99% of the capital and in the 15% of the cases, families control less than 51\%" [Montemerlo, 2000].

The study highlights the big variety of ownership and governance which are independent from the business dimension. So this proves the difficulty to insert the specific degree of family member involvement in the definition.

Two models, mentioned by the literature, prove this thesis, because analyze the family business evolution. The Greiner model [1972] and the more specific Flamholtz [1991] model that faces the evolution from a family business to a managerial firm. In addition, this thesis is proved by different family business typologies supplied by Corbetta or by Gallo, who classify the family business in four categories. One of these is the “business of family job” in which the family owns all stock, and it is at the same time involved in the working activity; another is the “family business of investment” in which the family maintains the ownership, family members are not involved in the business, but they influence the strategic decisions [Corbeta – Demattè, 1993].
It is evident that if a family business is characterized by the intimate relationship between enterprise and family, it means that is natural that family members are involved in strategic position and also in operational roles, nevertheless, seen the substantial differences that identify
the family business both in terms of dimension, and in organizational terms, we believe that is superfluous to insert such variable in the definition.

As mentioned, the definition should contain only elements connaturalizing which not exclude more specific forms of family business, but useful to distinguish them from the nonfamily businesses.

In a small family business, in which family members hold all stock and they have overcome the second generational passage, it is evident the intention to maintain family culture, and it is reasonable that there is also the desire to assume some management responsibilities. If all the descendants took different roads from the family business activity it would be difficult to maintain the survival of the firm, this would stop being family, it would be sold to others or simply close for stopped activity.

Insofar the involvement is inherent in the identity of the family business, nevertheless superfluous to specify it or better, the involvement should not be specified in the degree. As it shows a study of Litz [1995], which classifies the firms according to two approaches: the degree of control of the ownership and the degree of control of the management, building a matrix, following brought.
Table 1. Defining Family Business: A Structure-Based Approach

<table>
<thead>
<tr>
<th></th>
<th>Widely held</th>
<th>Family</th>
<th>Individual</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Unit with</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>effective</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>managerial</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>control</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


Through such grate, the author considers, for every analyzed (ownership and management) dimension, three different levels of organization: family, individual and diffused, (characterized by different groups of individuals). From such grate nine types of governance
source, among which, four are not identifiable with the family firms (cells of yellow colour). For instance the cell 1, is characterized by a diffused ownership as a Public company, in which the management is in the hands of an alone charismatic subject, therefore there is no characteristic typical of the family business. The other five typologies represent the different degree of ownership and family members involvement. Just for instance, the cell 2 is characterized by an ownership assembled in the hands of the family, but with an external leader.$^3$

This study illustrates the different possible interactions between ownership and management and it suggests that a definition of family business should not specify the degree of control and the degree of involvement of the family members, since the family businesses vary a lot both in terms of presence and in terms of roles assumed in firm by the family members [Litz, 1995].

So the reference to the direct involvement of one or more relatives to the business activity it is not essential, since restrictive and it can induce to exclude some big firms managed by an external management and in which the familistic element is recovered only in the detention of the ownership.

__________________________

$^3$ It is an example Ford Motor Company. See (Taylor, 1989).
3. Conclusion

The definition of family business should point out connaturalizing elements and intimately tied up to its nature that is explained by the expectation of the founder to transmit the family and business culture to the future generations. The interdependence and the evolution of the two institutes - the family and the business - make emerge the principal differences in relation to: ownership, governance, strategic decisions, organizational system etc. In addition, they make emerge the presence of a balancing between the objectives and the values of the two different institutes.

Assuming that these entities can change, evolving or stopping, it is superfluous insert objective limits in the definition, that (as e.g. specify the percentage of ownership or the number of relatives involved in the management) cannot be preserved given the substantial differences between small and big family businesses.

The definition should contain only the necessary condition to consider a firm as “family business”. Otherwise the family business definition could contain superfluous indications that can produce distortions or exclude a part of family businesses. Such further specifications can subsequently be useful to get a great detail and homogeneity in a future researches. For instance sharing the firms for dimensions, or for mechanisms of governance, or in base to the strategies of growth or for number of family members involved, etc. These elements of clarification do not
seem essential to the definition of family business, but they can be remarkable to the specific purpose of the research.

In order to this study it is useful accept some definition aspects, providing a personal interpretation: a firm is defined family business when one or more families own a percentage of the capital to guarantee the ownership and the control of the business from at least two generations.

This definition should refer the presence of the business characteristics as Giannessi suggests and therefore reduce the involvement of professional activity. Besides the quantitative clarification of the degree of family ownership missies and this allows to include small family businesses in which the family is owner of the whole capital and the big family businesses in which the family holds only a percentage of ownership, but however to be able to influence the business strategic decisions.

There is not the specification of the degree of involvement, which nevertheless emerges from the degree of control on the management, which can be produced by the real presence of the family members or through the dominant influence on the strategic decisions.

In addition, a business is a family business when it is present at least the second generation. In such case the distinctive characters of a family business can be recognized when shows the intention to transfer the family and business culture in the time to the succeeding generation.
References

AMADUZZI Aldo, 1992, *L'azienda nel suo sistema e nell'ordine dei suoi principi*, edizione aggiornata ed ampliata, Utet, Torino;


CHANNON D., 1971, The strategy and Structure of British Enterprise, Macmillan, Londra;


CORBETTA G. 1995, Le imprese familiari. Caratteri originali varietà e condizioni di sviluppo, Egea, Milano;


CORBETTA G. e DEMATTÈ C., 1993,I processi di transizione delle imprese familiari, Medio Credito Lombardo, Studi e Ricerche, Milano;


GALLO M. A., 1992, *Cultura en empresa familiar*, Barcellona;


GALLUCCI C., 1999, *Crisi aziendale e governo della transizione imprenditoriale nelle imprese familiari*, quaderno n. 9 del Dipartimento “Impresa e Lavoro”, Università degli Studi di Cassino, p. 34;

GENNARO P., 1985, *Le imprese familiari di grandi dimensioni in Italia*, in *Sviluppo e Organizzazione*, n. 87, gennaio-febbraio;


VIGANÒ E., 2000, (a cura di), *L’azienda; contributi per un rinnovato concetto generale*, Cedam, Padova, p. 641;

