A COMPARISON OF FAMILY-MEMBER AND NON-FAMILY-MEMBER MANAGERS IN AMERICAN FAMILY BUSINESSES

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ABSTRACT

This exploratory study contributes to the United States family businesses literature by investigating the relationships between the percentage of non-family-member managers in a family business and a variety of management activities, styles and characteristics of that business. The research design is survey data collection with a sample of 159 family businesses. The regression findings used to test nine hypotheses indicate that although the nine independent variable model is significant, only the percentage of women involved in the operation of the business and the use of sophisticated financial management methods are significantly related to the percentage of non-family managers. Implications for family firm owner/managers, for consultants to family business, and for researchers are presented.

INTRODUCTION

Family businesses often employ non-family-members as managers. The purpose of this study was to investigate this issue with regard to how the inclusion of non-family-member managers relates to various managerial activities, styles and practices in such firms. The terms "family business" and "family firm" will be used interchangeably throughout this article.

This study contributes to the literature on family business, as there has been limited research into the issue of family managers (FM's) versus non-family managers (NFM's) in family businesses. Chua, Chrisman and Sharma, who have conducted a number of empirical studies in the field of family business, concluded that "issues related to non-family managers [in family firms] have received very little attention by researchers" and "there is definitely a gap in our understanding of the role played by non-family managers in the family business" (2003, pp. 102, 103).

These researchers, and others in the field of family business, continue to recognize a significant gap in the literature with regard to the issue of family-member versus non-family-member managers in family firms. Chrisman, Chua, and Sharma (2005) stated that many questions remain unanswered and much interesting research remains to be done to determine how family

involvement affects firm performance. Similarly, Ensley and Pearson (2005) concluded that family business research needs to identify the nature of family involvement in top management teams, and Nordqvist (2005) agreed that this is a breach in the literature that has not received much attention. Chrisman, Chua, and Steier also concurred with the need to better understand top management teams in family businesses as "this is a topic of great importance since the decisions of top mangers may determine the extent to which a family business obtains distinctive familiness and superior economic performance" (2005, p. 241).

The importance of this study is that it brings new empirical research to these issues of FMs and NFMs in family business management, adding to the limited prior empirical studies. The results of this research should be of value not only to current and future researchers in this area, but should also be of value to consultants to family businesses and to family business owner/managers themselves, both of whom may gain insight into the possible impact of having non-family managers in family businesses.

MANAGEMENT ACTIVITIES, STYLES AND CHARACTERISTICS

Definitions of a "family business" generally include the criterion of the prevalence of family members in the management team (yet some definitions allow for the possibility of family ownership without any family-member-managers). Still, an extensive review of the family business literature revealed few academic papers or journal articles that investigated the impact of NFM's on the management activities, styles and practices of family firms. Those papers and articles that did touch on this topic usually did so in a tangential manner and/or in a conceptual or anecdotal method, rather than via empirical investigation. Still few in number, but somewhat more frequent were papers and articles that compared family businesses and non-family businesses, which is an issue quite different in nature. Another related but again a different issue is the use of non-family-members on the corporate or advisory *boards* (but not in the *management*) of family firms, a topic occasionally investigated and the (largely anecdotal and conceptual) focus of an entire issue in the first year of publication of the *Family Business Review* (1988 v.1 n.3).

Yet some prior studies did indeed investigate FM's and NFM's in family firms. Several analyses have focused on the issue of how a family firm CEO should adapt to working with non-family managers, and the difficulty of delegating managerial responsibilities to non-family-members (Firnstahl 1986; Goffe & Scasse 1985; Hofer & Charan 1984; Mathews 1984; Perrigo 1975). The reverse issue - how to facilitate the adaptation by the non-family-manager to the family firm's culture and goals-was considered by Dyer (1989) and by Mitchell, Morse and Sharma (2003), who pointed out that NFM's must adapt to the family firm and need assistance in doing so. Other investigations regarding FM's and NFM's focused on compensation for NFM's (McConaughy 2000; Poza, Alfred & Maheshawi 1997), and on retention of NFM's (Ward 1997). And Gallo and Vilaseca

(1996) investigated the possible performance benefits of family firms with NFM's versus those without.

Agency theory has been used to explain and understand the relationship between FM's and NFM's in family firms (Chua et al. 2003). These researchers empirically investigated the percentage of NFM's in the management team of a family firm and its relationship to the FM's concerns about their relationships with NFM's. Among their conclusions was that past assumptions of zero or low agency costs in family firms require further thinking, as these costs are more complex and asymmetric than previous supposed.

Other studies, most being anecdotal and conceptual, relate the advantages and disadvantages of family-members versus non-family-members as managers of family firms. Some of these studies see positive benefits of FM's, such as extra-ordinary commitment (Donnelly 1964; Horton 1986), more warm, friendly and intimate relationships within the management team (Horton 1986; Staff 1981), the potential for deep firm-specific tacit knowledge, often based on early involvement in the firm (Lane & Lubatkin 1998), governance advantages (Carney 2005), and the creation of a synergy in the top management team due to higher cohesion, potency, and positive task conflict (Ensley & Pearson 2005). Marcus & Hall (1992) found a preponderance of FM's as benefiting the firm's service providers, and Goody (1996) concludes that such preponderance facilitates firm growth as members of succeeding family generations are available to open new branches of the company.

Yet some studies see a negative aspect to a firm's managers being members of the same family. Restricting management positions primarily to family members may lead to hiring sub-optimal people who can not be easily dismissed (Dunn 1995; Whyte 1996), and can lead to greater conflict because of non-merit-based promotion criteria (Leyton 1970: Wong 1988). Furthermore, qualified non-family-member managers may avoid family firms where their potential for growth, promotion and remuneration is hampered (Covin 1994a; Coven 1994b; Donnelly 1964; Feigener, Brown, Prince and File 1996; Horton 1986; Stewart 2003). Dhaliwal (1998) and Song (1999) concluded that in many cultures, kinship criteria in choosing managers reduce the managerial opportunities and role for female members of the family.

Another group of studies investigate the negative impact of NFM's in family firms. Several researchers concluded that the presence of NFM's can result in "creative destruction" when NFM's create too much firm growth and thus weaken family managerial and/or financial control (Morck & Yeung 2003; Morck, Strangeland & Yeung 2000; Olson, 1963, 1982, 2000), and the fear of such "creative destruction" may in turn lead to FM's blocking or discouraging NFMs' creativity and innovation and thus stifle desirable company growth. Other studies have reported a mixture of FM's and NFM's in the same firm may lead to greater conflict within the managerial team (Schultz, Lubatkin & Dino 2003; Schultz, Lubatkin, Dino & Buchholtz 2001).

Responding to these various positive and negative conclusions about the inclusion of NFM's in family firms, several writers focus on the need to socialize new NFM's, clearly communicate to them existing family values and objectives, and tie the interests of the NFM's to the firm, for

example via stock ownership and board membership (Astrachan & Kolenko 1994; Berenbeim 1990; Dyer 1989; Gubitta & Gianecchino 2002; Sirmon & Hitt 2003). Also, some family business researchers have focused on developmental issues or the stages of evolution of family business growth. Gersick, Davis, Hampton, and Lansberg (1997) published a four-stage model of family firm development, and Peiser and Wooten (1983) focused on the life-cycle changes in family businesses. As family firms grow, these researchers found a likelihood of bringing greater numbers of non-family managers into the firm. Thus, the body of literature specifically relating to FM's and NFM's in family firms provides limited empirical evidence and little consensus or clear conclusions.

HYPOTHESES

As previously explained, the purpose of this study was to investigate family businesses with regard to the degree to which such firms employ non-family member managers. How does the percentage of non-family-member managers to family-member managers in a family firm relate to the managerial activities, styles and practices of that firm? The hypotheses used for this current study are based on the hypotheses used in previous studies, conducted by the authors, of family firm management activities, styles and practices, which in turn derived from findings and propositions developed by earlier researchers who investigated family firms. Due to the limited prior empirical research with this specific FM vs. NFM focus, and the exploratory nature of this current research, hypotheses involving nine basic family business issues have been chosen for testing, rather than focusing on only a few specific managerial issues. The significance of the various hypothesis test results may indicate that some factors are more worthy of further research and analysis than are others.

Furthermore, because there are minimal and mixed prior findings with regard to FM's and NFM's in family firms, the null hypothesis is used throughout. As explained above, there has been minimal prior empirical research focusing specifically on FMs versus NFMs, and thus little resulting consensus on their impact upon family firms. Therefore the following hypotheses were developed because they each refer to an aspect of family business that has received significant attention in the overall area of family business research. For each hypothesis, some important citations and summaries of prior research in the specific area are presented, although most of these earlier researchers did not focus specifically on the FM versus NFM issue.

Studying gender issues in family firms, Nelton (1998) stated that daughters and wives are raising to leadership positions in family firms more frequently than in the past, and that the occurrence of daughters taking over businesses in traditionally male-dominated industries is increasing rapidly. Focusing on societal trends rather than family firm generational issues, Cole (1997) reported the number of women in family businesses increasing. More generally, U.S. Census Bureau data showed women-owned firms growing more rapidly than those owned by men (Office

of Advocacy 2001). Thus we find an increasing research focus on women family members in the ownership and management of family firms. This leads to:

H1: The percentage of women family members involved in the operations of the firm will not be significantly related to the percentage of non-family-member managers.

Another aspect of family business behavior frequently addressed in the literature is the distribution of decision-making authority in the firm. This issue was investigated by Dyer (1988) and Aronoff (1998), revealing that some family firms are more likely to engage in team management, with parents, children and siblings in the firm all having equality and participative involvement in important decision-making, even if one family member is still the nominal leader of the business. This research focus leads to:

H2: The use of a "team-management" style in a family firm will not be significantly related to the percentage of non-family-member managers.

Interpersonal dynamics, including conflict and disagreement among family members, has been a major focus of family firm research. Conflict can exist when siblings, spouses or other relatives participate in management and/or ownership, and conflict can also arise between members of different generations. Researchers who have focused on this issue have included Beckhard and Dyer (1983) and Davis and Harveston (1999, 2001). This leads to:

H3 Conflict and disagreement among family members will not be significantly related to the percentage of non-family-member managers.

Another major focus of the literature on family firms has been succession. The primary issues here involve the difficulties founders have in "letting go" and passing on the reins of control and authority, the lack of preparation for leadership next-generation family members often receive, and thus the need for, and importance of, succession planning (Davis 1983; Handler 1994; Upton & Heck 1997). Dyer (1988) investigated "culture and continuity" in family firms, and the need for firm founders to understand the effects of a firm's culture and that culture can either constrain or facilitate successful family succession. Fiegener and Prince (1994) compared successor planning and development in family and non-family firms, and found that family firms favor more personal relationship-oriented forms of successor development, while non-family firms utilize more formal and task-oriented methods. Building upon these and other studies of succession in family firms, Stavrou (1998) developed a conceptual model to explain how next-generation family members are

chosen for successor management positions. This model involves four factors which define the context for succession: *family*, *business*, *personal* and *market*. This leads to:

H4: The formulation of specific succession plans will not be significantly related to the percentage of non-family-member managers

A number of researchers have focused on the management styles and practices in family firms, noting that they can range from "informal, subjective and paternalistic" styles of management to "formal, objective and professional" in nature (Aronoff 1998; Cole & Wolken 1995; Coleman & Carsky 1999; Dyer 1988; Filbeck & Lee 2000; McConaughy & Phillips, 1999; Miller, McLeod & Oh 2001; Schein 1983). "Professional" management may involve the following: (a) the use of outside consultants, advisors and professional services, (b) more time engaged in *strategic* management activities, and (c) the use of more sophisticated financial management tools. These research issues lead to three hypotheses:

H5: The use of outside consultants, advisors and professional services will not be significantly related to the percentage of non-family-member managers.

H6: The time spent engaged in strategic management activities will not be significantly related to the percentage of non-family-member managers.

H7: The use of sophisticated methods of financial management will not be significantly related to the percentage of non-family-member managers.

Another issue of interest in the investigation of family business is "generational shadow" (Davis & Harveston 1999). In a family firm a generational shadow, shed by the founder, may be cast over the organization and the critical processes within it. In such a situation, "succession" is considered incomplete, may constrain successors, and may have dysfunctional effects on the performance of the firm. Yet this "shadow" may also have positive impact, by providing a clear set of values, direction and standards for current and subsequent firm managers. Kelly, Athanassiou and Crittenden (2000) similarly proposed that a family firm founder's "legacy centrality" will influence the strategic behavior of family member managers, with both positive and negative impact. Davis and Harveston (1999) also investigated generational shadow, but reached mixed conclusions regarding its impacts. If "generational shadow" and "legacy centrality" are valid and important components of the family business *system*, then this is an area worthy of investigation in this current study. Thus:

H8: The degree of influence by the original business objectives and methods of the founder will not be significantly related to the percentage of non-family-member managers

Family firms need not always be privately owned. Opportunities and needs for "going public" may arise. The family may not be able, or may not choose, to provide sufficient management or financial resources for growth, and outsider ownership can resolve this situation. And even publicly owned companies can continue as "family businesses," if management or financial control is maintained by the family. McConaughy (1994) found that 20% of the *Business Week 1000* firms are family-controlled, while Weber and Lavelle (2003) report that one-third of *S&P 500* companies have founding families involved in management. This leads to:

H9: Management's consideration of "going public" will not be significantly related to the percentage of non-family-member managers

METHODOLOGY

The research design was exploratory, cross-sectional, survey data collection. Questionnaires were randomly mailed or hand-delivered to family businesses in New York and Massachusetts that were identified by listings of "family businesses" in local business newspapers. Developing samples from various listings is consistent with other family business research studies (Chua, Chrisman & Sharma 1999; Teal, Upton & Seaman 2003). Also, most empirical studies of family businesses have used convenience samples (Chua et al. 2003), making this study more robust. Letters were addressed to the presidents or CEOs of the identified family firms with instructions that only the "owner-manager" complete the questionnaire, and only if they viewed their firm as a "family business." The questionnaire included: "Do you consider your company to be a family business?" and the cover letter defined "family members" as parents, children, siblings, spouses, and other close relatives.

Of the 822 surveys distributed, 272 were no longer at the address or responded that they were not family businesses. There were 149 usable returned questionnaires. After a few months a follow-up request for surveys was made to increase the sample size and to test for nonresponse bias. Twelve more questionnaires were returned for a total of 159, providing a response rate of 28.6 percent. This is a good size sample and response rate for family firm research, as 62 percent of prior family business studies included no sample at all or a sample with less than 100 family firms, and 66 percent of these were convenience samples (Bird, Welsch, Astrachan & Pistrui 2002). Also, around one-third of the articles in highly-rated small business and entrepreneurship-oriented journals had a response rate of less than 25 percent (Dennis 2003).

Nonresponse bias occurs when the answers of nonrespondents are significantly different from that of respondents. As in prior studies (Lussier 1995), nonresponse bias was minimized in this

study by comparing the 12 late participant responses to the initial respondents for difference. T-testing found no statistical significant differences at the .05 level of significance. Thus, nonresponse bias should not be problematic.

For regression testing purposes, the dependent variable is the ratio measure percentage of non-family-member managers. Participants were asked to identify their total number of managers and the number of non-family member managers. Three control variables that could potentially influence the dependent variable were included in the regression model: the number of years in business, number of employees, and industry (Lussier & Pfeifer 2000).

See Table 1 for a listing of nine independent variables in hypotheses testing with a brief explanation of operationalization and measure for each variable. In the table, all hypotheses are denoted by summary phrases; the survey questions had more detailed descriptives of each variable. The nine independent variables are Likert interval scales: "Describes our firm" 7-1 "Does Not Describe Our Firm."

Regression was used for statistical analysis. Model 1 was developed by running regression with the nine independent variables. Model 2 was developed by running regression with both the independent and control variables to determine if the control variables did in fact influence the model results.

Table 1: Regression Analysis

Model Summary *(N = 159)*

Model	R	R Square	Adjusted R^2	Std. Error of Estimate
1	.406	.165	.114	.3207
2	.444	.197	.131	.3176

Table 1: ANOVA(Continued)

Model	Sum of Squares	df	Mean Square	F	Sig
1 Regression	3.023	9	.336	3.267	
Residual	15.323	149	.103		**.001**
Total	18.347	158			
2 Regression	3.617	12	.301	2.988	
Residual	14.729	146	.101		**.001**
Total	18.347	158			

Table 1: Coefficients (Continued)							
Variables (H1-H9 independent)	*Mean*	*Model 1B*	*t*	*Sig*	*Model 2B*	*t*	*Sig*
% of non-family managers—Dependent Variable	31						
(Constant)		.272	2.46	.015	.029	.177	.859
H1. % of women involved in operation of business	30	-.259	-2.63	**.009**	-.214	-2.13	**.035**
H2. Use of team-management decision style (7-1)	3.93	-.014	-1.22	.222	-.017	-1.41	.159
H3. Occurrence of conflict and disagreements (7-1)	2.44	-.008	- .566	.572	-.007	- .503	.616
H4. Formulation of specific succession plans (7-1)	3.03	-.008	- .684	.495	-.007	- .583	.561
H5. Use outside advisor/professional services (7-1)	4.16	.008	.702	.484	.001	.088	.930
H6. Time spent in strategic planning (7-1)	3.17	.013	.741	.460	.015	.859	.392
H7. Use sophisticated financial mgt methods (7-1)	3.36	.043	3.30	**.001**	.043	3.08	**.003**
H8. Influence of original founder (7-1)-	5.04	-.011	- .808	.420	-.004	- .271	.786
H9. Consider going public (7-1)	1.37	.037	1.28	.201	.039	1.33	.185
Control Variables							
Years in business	38				.002	1.73	.086
Number of employees	194				2.70	.632	.529
Industry (n / %) Product or Service	26/74				.087	1.45	.149
(7-1) Likert interval scales of "Describes our firm" 7 6 5 4 3 2 1 "Does not describe our firm."							

RESULTS

Table 1 includes descriptive statistic means for each variable with the coefficients. The regression analysis ANOVA supports the nine independent variable model (p = .001) relationship to the percentage of non-family member managers. When including the control variables with the independent variables, the model significance is unchanged. Thus, the control variables (years in business, number of employees, and industry) do not influence the independent variable model in relation to the percentage of non-family managers.

Through further analysis of the model, stepwise regression was run, and the only two variables retained in the model were the percentage of women and financial methods. Regression was also run with just the percentage of women and financial methods and results were the same as stepwise regression (adjusted R square .117, F 11.43, p = .000), and results were not significantly different from the results of Model 1 and 2 (Table 1). Thus, the two independent variable model is as relevant as the nine and twelve variable models.

The analysis of the variable coefficients supports seven of the nine null hypotheses. Only the two factors of the percentage of women involved in the operation of the business (p = .009), and the use of sophisticated financial management methods (p = .001) have a significant relationship to the percentage of non-family managers. Thus, hypotheses 1 and 7 are rejected because for each there is a significant relationship between them and the dependent variable, while the other null hypotheses are accepted.

DISCUSSION

As previously noted, the existing literature on family managers versus non-family managers in family firms is limited, with the majority of the suppositions and conclusions presented being based on conceptual or anecdotal analyses; and as Chua et al. (2003) concluded, there is a strong need for empirical research to increase and strengthen the body of literature and reduce the gap in our understanding of this issue. This exploratory research study is an early step in that direction. This study's statistically-derived data indicate that the inclusion of non-family-members in the management of family firms has a significant *positive* relationship with the use of sophisticated financial management methods, and a significant *negative* relationship with an increase in the percentage of women involved in the operations of the firm. In any research, these quantitative results should be complemented by qualitative analysis (Guillén 1994). And these two significant relationships as measured through quantitative statistical testing do indeed make some sense if evaluated in light of prior qualitative family business literature.

The qualitative family business literature describes how "familiness" and "family systems" impact the practice of management in family businesses and make it different from non-family "professional" management. Thus the addition of non-family-member managers in family businesses can be expected to reduce "familiness" and dilute the "family system" and thus move management practices toward the "professional" management model. Yet only one of the three null hypotheses (H5, H6 and H7) which focus on "professional" management activities was rejected. While a greater percentage of non-family-member managers correlates with the use of sophisticated financial management methods (H7), this study indicated no significant correlations with the use of outside advisors, consultants or professional services (H5), or with time spent in strategic management activities (H6).

Also, this analysis found a significant *negative* relationship between the inclusion of non-family-members in the management of family firms and the percentage of women involved in the operations of the firm. This relationship can perhaps be explained by the fact that there are far fewer women than men among upper-level managers in the private sector (U.S. EEOC 2004). A sizable body of literature exists to explain this phenomenon, generally focusing on the "glass ceiling" (Chernesky 2003; Gaumer 2005; Whitehead 2001). Thus, as family firms bring in non-family-member managers from the outside, the majority of these new managers may be men.

Clearly, with seven of the nine null hypotheses supported, the findings of this research study question the impact of "familiness" and the "family system" and indicate a need for further research in this area. Family business research in general is a relatively young field, and the focus on family-member managers and non-family-member managers has been minimal.

As with all research, this study has limitations. The sample is from two northeast states (Massachusetts and New York), and thus further research with a broader geographic focus is needed to support this study. Also, as discussed earlier, this study was broad in nature with hypotheses based on a variety of areas in the field of family business that have received prior research attention. If more prior research specifically regarding FMs versus NFMs had existed, then this study could have concentrated in greater depth on a smaller number of variables previously identified as worthy of continued and more intense study.

IMPLICATIONS

This research should be of both interest and value to practitioners, consultants and researchers. This exploratory study can be considered an early stage in a research process that may eventually enable family business owner/managers to better understand the possible impacts of bringing non-family managers into a family business. What would be the likely changes in management activities, styles and characteristics, and would they be desirable and beneficial or dysfunctional for the family firm? This is also a question that consultants to family businesses must consider as they analyze such family firms and make recommendations regarding alternative strategies for growth.

For researchers in the field of family business, these findings build upon earlier and generally non-empirical studies, provide some preliminary findings that future research can focus on, replicate, and build upon, and may indicate some specific factors especially worthy of further investigation into this limited area of family business research.

Furthermore, this research raises many ideas for future research which, for example, might focus on factors not considered in this study, such gender issues, the varying levels of profit motivation among family firm owners, or the influence of different national cultures upon family business management practice. The potential scope for future research relating to family-member and non-family-member managers in family business, which is currently in its early stages, is indeed extensive.

Thus, this study begins to fill a gap in the family business literature identified by prior researchers. This investigation indicates that the inclusion of non-family-members in the management of family businesses may be associated with some "professional" management activities, styles and characteristics. The forces of "familiness" and the *system* of the family firm, central to the family business literature, may be weakened by the inclusion of non-family managers.

These non-family managers bring both strengths and weaknesses to the family firm, and the nature of family firm management may be transformed by their presence.

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