Family small businesses: definition, ‘essence’ and ‘true’ prevalence

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Abstract: The rapid growth of the family business field is based on the purported prevalence and economic contributions of the family firm. However, such estimations are highly dependent on the question of what in fact constitutes a ‘family business’. Unfortunately, a universally accepted definition remains an elusive outcome for the field. It has been suggested that any definition used should capture the ‘essence’ of the family business by focusing on the vision, intentions and behaviour of people who own, govern and/or manage the business. Since the majority of family businesses are small businesses, this paper applies the ‘essence’ criterion to empirically explore the ‘true’ prevalence of the family firm in a sample of small businesses. Findings and their implications for defining the family business are presented.

Keywords: family business; small business; succession; entrepreneurship; entrepreneurial families; business ventures; family business definition.


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1 Introduction

As a discipline, the growth of the family business field over the last 40 years has been rapid (Hoy and Sharma, 2006; Sharma, 2004; Sharma et al., 2007) and an important raison d’etre for this is the reported significance of the family firm in terms of prevalence and economic contributions. For example, between 67% to 90% of the world’s firms are said to be operated by families that collectively employ half the world’s workforce and generate half the world’s economic output (de Bruin and Lewis, 2004; Ibrahim et al., 2008).
Generally however, such estimations are highly dependent on the question of what in fact constitutes a ‘family business’. The answer to this question clearly has methodological implications in relation to sampling, analyses and comparisons (Astrachan et al., 2002) which directly affect how the family business universe is determined, and the prevalence and economic importance of family firms collectively (Shanker and Astrachan, 1996). Studies comparing the implications of specifying a strict/narrow versus broad/general criterion have shown that the estimated number of family firms in the same study can range from 15% to over 90% respectively of all firms on the basis of the definitions used (see e.g., Shanker and Astrachan, 1996; Westhead and Cowling, 1998). Given the consequences of this variability, and in spite of being the “first and most obvious” of challenges for the discipline, defining the family business remains an elusive outcome [Astrachan et al., (2002), p.45]. For example, in a recent study of national definitions used across Europe, 90 different current standards were identified for characterising the family firm (Mandl, 2008).

Chua et al. (1999) argued that any definition used should capture the ‘essence’ of the family business and to do so, it was vital to focus on the ‘vision, intentions and behaviour’ of people who own, govern and/or manage the business (p.40). The majority of family firms are typically ‘small’ (Poutziouris and Wang, 2004) and in looking at their ‘essential’ nature, this paper poses the following research question: ‘do most small businesses satisfy the ‘essence’ criteria for a family business?’ To answer this, results from a survey of Australian small businesses are presented that explore the nature of operators’ entry into business, the involvement of family members in the business, operator attitudes and intentions in relation to business exiting and succession, and factors inherent in the business that may pose a challenge to family handover or succession. Overall, the objective of this paper is to examine, by way of a definitional exercise, the ‘true’ prevalence of family businesses and to re-emphasise the difficulties in operationalising what is meant exactly by the term ‘family business’.

2 Background to the family business and definitional issues

Compared to non-family firms, family businesses are a distinct form of enterprise with the most notable difference being the unique overlap of family, ownership and management within the enterprise (Lansberg, 1988). This distinction creates a situation where the family operates not just as a social unit but also as an economic one (Basu, 2004) which provides a number of advantages. For example, family businesses generally enjoy lower agency costs as a result of ‘family altruism’ which creates a cooperative attitude whereby business resources are managed to maximise value for the family collective (as opposed to the individual) (Blanco-Mazagatos et al., 2007).

There are also efficiency gains from family involvement since monitoring and control costs are likely to be lower from higher levels of trust between family members (Miller et al., 2008; Schulze et al., 2001; Smith, 2008). These gains potentially translate into greater profitability for both the family and the business over the long-term.

The focus on creating value for the family means also that family businesses have a commitment to investments that build long-term value (Miller et al., 2008; Ward, 1997). This aspect of ‘patient capital’ is further augmented by the lack of necessity to account to external or non-family stakeholders, removing much of the pressures commonly faced by non-family businesses to produce short-term results (Sirmon and Hitt, 2003).
The coincidence of both management leadership and ownership control also has implications on decision-making which is generally seen to be quicker; firstly, on account of “superior communication processes” [Smith, (2007), p.279]; secondly, on account of family businesses being significantly less bureaucratic; and thirdly, on decisional hierarchies, which are often based on family hierarchy, being very clear-cut (Allio, 2004).

Pride in the family name and the desire to protect the family reputation ensures that decisions, while quicker, nevertheless endeavour to maintain associations with tradition and quality (Lambrecht, 2005; Lansberg et al., 1988; Poutziouris et al., 2004).

Although there is a general consensus that family businesses necessarily involve ‘family’, there is significant divergence in opinions on how this should be operationalised into a definition useful in theory, research and practice. Common criteria include the extent of family ownership and control of the business (usually operationalised in terms of management and majority voting share ownership by the family); the involvement of family members (which may include close, extended and multiple generations of family in the business); ownership and control of the business that is inter-generational; and intentions of founders or incumbents for continuity of the business in family hands (Litz, 2008; Shanker and Astrachan, 1996; Westhead and Cowling, 1998).

To reiterate however, the number of different measures available and used, either separately or in combination, is extensive. How rigidly these criteria are applied is also a matter of debate. For example, a broad or general conceptualisation may classify as a family concern, businesses in which family members do not have formal roles but are involved “at the periphery” by providing often unpaid physical, financial, emotional and other support [Fletcher, (2006), p.211]. On the other hand, a more restrictive construct may include a combination of several criterion including a requirement for succession or inter-generational transfer of ownership and control (Cadieux et al., 2002; Westhead and Cowling, 1998). Clearly, taking a broad approach allows entry to a significantly greater number of businesses into the family business universe; conversely, a narrow or restrictive approach greatly reduces this count.

Rather than rely on an externally imposed conceptualisation, some researchers argue that business operators should be the ones most capable of judging whether they are family enterprises (e.g., Gallo et al., 2004; Westhead and Cowling, 1997, 1998). However, this in itself creates problems since business operators and their families who, prima facie, appear to be family enterprises may not always identify themselves nor behave as such (and vice versa) (Chua et al., 1999; Ibrahim et al., 2008). Finally, the definitional issue is further confounded by those who maintain that family businesses should be identified on a case-by-case basis but provide no clear measures for how such classification could be made (Astrachan et al., 2002).

The difficulty in establishing a universal definitional measure arises from the complexity of different combinations of ‘familiness’ within the sphere of family businesses. Therefore, the issue extends beyond a simple dichotomous problem of determining a criterion for separating family from non-family firms to one of also deciding the level or degree of familiness and family involvement that qualifies an enterprise as a family firm. For example, businesses that are owned and managed, owned but not managed, and managed but not owned by family may all be considered family concerns (albeit agreement among researchers may not be universal) (Chua et al., 1999). This is confounded by situations in which family businesses may be owned by individuals, individuals related by blood or marriage, members of a nuclear family,
members of different nuclear families, members of extended family/families and, in the case of listed companies, owned by the public (Chua et al., 1999).

In summary therefore, although “anyone can intuitively recognise a family business” [Shanker and Astrachan, (1996), p.108], it is much harder to establish a common or universal definition for theoretical and operational use.

3 The ‘essence’ of family businesses vs. the essential nature of small businesses

Although seemingly tautological, Chua et al (1999) argued that it is when people in a business think and behave like a family business that the distinction between family and non-family firms can be made. Broadly, family businesses are those that are generally seen to satisfy the essential nature of ‘familiness’ in relation to vision, intentions and behaviour. This occurs when businesses are used by families as vehicles to achieve a better future for the family, are operated with the intention to create an enterprise that is sustainable across future generations of the family, and are operated by a ‘dominant coalition’ of family members (Chua et al., 1999).

On these bases however, this paper argues that most small businesses may not live up to the conceptualised family enterprise described. For example, it is widely recognised that the rate of business succession within families is generally low. The incidence of transfer beyond the first generation is typically less than 30% with this success diminishing after each consecutive transfer such that only 3% of businesses exist beyond the fourth generation (Allio, 2004; Poutziouris et al., 2004). In fact, the lifespan of an average small business ranges between five to ten years for smaller enterprises (Venter et al., 2005) and up to 24 years for larger ones (Lambrecht and Donckels, 2006), corresponding typically with the time span that most founders remain in the businesses they establish. Effectively, most small businesses are therefore “mono-generational” [Walker, (2001), p.3] and in ‘essence’, are unlikely to be ‘true’ family concerns in the sense of being enterprises that transcend generations.

The mono-generational nature of business does not necessarily imply poor management. For example, structural changes in most Western economies have reduced the dominance of manufacturing as an economic activity and most small business these days are engaged in the service industry. The nature of many service businesses relies on the personality and skills of business founders that are not easily passed on or learnt (CPA Australia, 2004). Moreover, most professional services require some form of accreditation or affiliation with professional bodies that usually impose strict conditions of entry (e.g., tertiary qualifications in approved courses, minimum years of experience in industry, etc.) (Walker, 2001). These factors make family involvement in any meaningful way difficult and create significant barriers especially in relation to the transfer of such businesses between generations of members within families (Walker, 2001).

In addition to structural forces, broad socio-cultural changes have also played a role in increasing the likelihood that businesses remain mono-generational. In particular, ‘traditional’ family values are much less relevant in modern Western society – for example, the sense of duty on the part of founders to leave a business legacy to children, the sense of obligation in children to take over the business from parents, and the expectation that inheritance entitlements over the family business would be granted to
children on the basis of gender and birth order. In the past, these may have provided the mechanisms by which the next-generation are socialised, encouraged and inducted into the family business, hence ensuring business continuity in the hands of successive generations of family (Goffee, 1996; Lambrecht and Donckels, 2006; Lansberg, 1988; Sharma, 2004; Walker, 2001).

However, such values are less important with the decline of the ‘traditional’ family household and a weakening of social bonds and interactions between parents and children, and within families generally (Aldrich and Cliff, 2003). Added to this, the increasing independence of young people and their desire to enhance their own economic welfare reduces the motivation for children to work in their parents’ businesses where, unlike with ‘outside’ employment, hours are variable and pay is not often guaranteed (Aldrich and Cliff, 2003).

Moreover, modern financial pressures have also made these traditions less feasible. In Australia for example, the sale of a business provides the primary source of retirement funding for half of all small operators (CPA Australia, 2004). Financial necessity hence dictates that businesses are sold off rather than handed down to the next generation. The lack of generational or family continuity may also be intentional on the part of business founders for whom creating a dynastic business may conflict with their initial reasons for starting a business. Common entrepreneurial drivers such as the need for autonomy, control or a flexible lifestyle are often “diametrically opposite” to the building of a family business ‘empire’ [Walker, (2001), p.4] which can mean the need for more formal business governance and greater managerial responsibility as the business develops (Lambrecht, 2005; Smith, 2007).

Where changes to the nature and characteristic of the enterprise run counter to the founder’s initial goals for being in business, founders are likely to focus on preserving their status quo and may lack genuine commitment to developing the business and allowing it to evolve naturally (Gallo et al., 2004; Shepherd and Wiklund, 2005; Stanworth and Curran, 1981). Overall, these factors suggest a low correspondence with the intentions, vision and behaviour criteria that captures the ‘essence’ of a family firm.

The occurrence of copreneurs adds further to the argument that most small businesses do not satisfy the conceptualised ‘essence’ of the family firm. Copreneurs are couples or spouses who operate a business together and, at least in the literature, are seen to jointly share ownership, commitment and responsibility (Smith, 2000). The personal nature of the relationship between couples – based on marriage or cohabitation – suggests a ‘familiness’ in such enterprises. Hence, studies on copreneurship are typically situated within the family business sphere and counts of copreneur enterprises are likewise included as part of the family firm tally (e.g., Cole and Johnson, 2007; de Bruin and Lewis, 2004; Fitzgerald and Muske, 2002).

In many instances however, operators of copreneur enterprises do not perceive themselves as family businesses (Walker, 2001). Contrary to the treatment of copreneur enterprises as family businesses, less than one-third of copreneur businesses operate as ‘true’ copreneur enterprises in the sense of equality in ownership, commitment and responsibility (Firkin, 2001; Hamilton, 2006). This is partly explained by the gendered roles of women within copreneur businesses which are defined or dictated primarily by their status as wives/life-partners and mothers (Smith, 2000). These roles give priority to managing family and household demands (over business demands) and relegate women to usually providing secondary or auxiliary clerical support to their male partners.
Consequently, male copreneurs often view themselves as primary operators, main decision-makers and principals of a sole operator (as opposed to a copreneur) business (Walker, 2001).

In summary, although much has been made of the dominance of the family firm, the ‘essential’ nature of most small businesses suggests that the family concept may be overstated when a multi-focal perspective is taken. This proposition is explored in the next section. Using data from a study of Australian small businesses, the following research question is investigated: ‘do most small businesses satisfy the ‘essence’ criteria for a family business’?

4 Method

A cross-sectional study involving a mail survey of small businesses [defined as enterprises with less than 20 employees (Australian Bureau of Statistics, 2004)] operating in metropolitan Perth, Western Australia was conducted. Potential respondents were identified through publicly available state and local government business listings, and industry business directories. Approximately 2,000 surveys were sent and these elicited a return of 175 usable questionnaires. A further 270 ‘return to senders’ were received as a result of wrong addresses and businesses that had moved or closed. The overall response rate was calculated as 175 ÷ (2000 – 270) = 10%.

The research intention was to explore the ‘essence’ of small businesses and a questionnaire was developed to collect data on the nature or characteristic of businesses, family involvement, operator exit intentions, and operator attitudes toward succession to provide insights into operators’ vision, intentions and behaviour. Analysis of results was made primarily using univariate and bivariate statistical t-tests and, where appropriate, focused on examining differences between businesses that were started ‘from scratch’ and those handed down from family, as well as self-identified family and non-family businesses. Overall however, the final determination of the ‘essence’ or essential nature of businesses was determined on the totality of results rather than on analysis of individual questions.

5 Results

5.1 Prevalence of family businesses

The prevalence of family businesses was investigated in relation to operators’ modes of entry into business (‘I started a business from scratch’, ‘I bought an existing business’, ‘I took over a business from family’) and their definition or perception of their businesses as family or non-family enterprises (‘is this a family business’: yes/no?). Results showed that almost 90% of all businesses were started either ‘from scratch’ by operators or through on-market purchase of established businesses. Only 10% of enterprises were existing family businesses taken over by current operators (primarily from fathers/parents/fathers-in-law). In these businesses, current operators represented the second generation of family owner-managers in almost all cases. Notwithstanding the method of entry into business, 56% of operators defined themselves as family businesses.
5.2 The nature of business

The nature of businesses was examined in relation to the types of firms (service vs. manufacturing) operated by respondents, and the importance of respondents in relation to key business stakeholders. For the former, results showed that the majority of businesses in this study were service related firms (78% service vs. 22% manufacturing). The prevalence of service businesses was similar in self-identified family (72% service vs. 28% manufacturing) and non-family (84% vs. 16% respectively) businesses. However, a marked difference was noted between businesses that were taken over from family; these showed a significantly higher percentage of manufacturing businesses (47% manufacturing) highlighting perhaps the relative difficulty of transferring service oriented firms.

This is supported by results showing the ratings of personal relationships between operators and key stakeholders (customers, suppliers and employees) and the potential effects of these relationships on the business (e.g., would/would not lose customer if I left the business; would/would not lose supplier if I left the business; would/would not lose employee if I left the business). With the exception of suppliers, the relationships between all operators and key stakeholders were strong, significantly higher above mid-point or expected averages, and tended towards materially affecting the business if operators left. This result was significantly greater for service than manufacturing oriented businesses as shown in Table 1.

Table 1 Operator relationship with key stakeholders

<table>
<thead>
<tr>
<th>Relationship with...</th>
<th>All operators</th>
<th>Service operators</th>
<th>Manufacturing operators</th>
<th>t-test</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Means²</td>
<td></td>
<td></td>
<td>t-test</td>
</tr>
<tr>
<td>Customers</td>
<td>4.62</td>
<td>4.84</td>
<td>3.79</td>
<td>t = 3.32</td>
</tr>
<tr>
<td></td>
<td>df = 174</td>
<td></td>
<td>df = 172</td>
<td></td>
</tr>
<tr>
<td></td>
<td>p &lt; .01</td>
<td></td>
<td>p &lt; .01</td>
<td></td>
</tr>
<tr>
<td>Employees</td>
<td>4.42</td>
<td>4.62</td>
<td>3.72</td>
<td>t = 2.41</td>
</tr>
<tr>
<td></td>
<td>df = 171</td>
<td></td>
<td>df = 169</td>
<td></td>
</tr>
<tr>
<td></td>
<td>p &lt; .01</td>
<td></td>
<td>p &lt; .05</td>
<td></td>
</tr>
<tr>
<td>Suppliers</td>
<td>3.19</td>
<td>3.29</td>
<td>2.79</td>
<td>t = 1.48</td>
</tr>
<tr>
<td></td>
<td>df = 170</td>
<td></td>
<td>df = 168</td>
<td></td>
</tr>
<tr>
<td></td>
<td>p &lt; .01</td>
<td></td>
<td>p &gt; .05</td>
<td></td>
</tr>
</tbody>
</table>

Notes: ²Seven-point scale: 1 = no personal relationship, no negative effect on business if I left; 7 = very personal relationship, very negative effect on business if I left.

5.3 Family involvement

Almost 60% of businesses that self-nominated as family businesses employed family members on a formal or full-time basis. A further 20% had family members who ‘helped out when needed’; of these, the majority of family helpers (75%) were typically not paid for their assistance. The employment or use of family members was not a feature unique to just family businesses. Over 20% of operators who did not nominate themselves as operating a family concern also employed family members on a formal basis. A further
20% also had family members who helped out in the business when required; of these, the majority of helpers (60%) were typically paid.

5.4 Importance of business continuity within the family

For all operators, results showed that both management and ownership continuity had relatively low importance overall. Mean scores were $\mu = 2.3$ for both items which univariate testing showed were significantly below the mid-point or expected averages ($t = 15.574$, $df = 173$, $p < .001$ and $t = 15.038$, $df = 174$, $p < .001$ respectively). Below average importance for both items was similarly found for: family businesses, non-family businesses, businesses handed-down from family, and businesses started from scratch or purchased (Table 2).

Table 2 Importance of ownership and management continuity in the family

<table>
<thead>
<tr>
<th>Type of business</th>
<th>Continuity in family</th>
<th>$\mu$</th>
<th>$t$</th>
<th>$df$</th>
<th>$p$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Family businesses</td>
<td>Ownership</td>
<td>2.9</td>
<td>12.823</td>
<td>94</td>
<td>&lt;.001</td>
</tr>
<tr>
<td></td>
<td>Management</td>
<td>2.8</td>
<td>12.439</td>
<td>94</td>
<td>&lt;.001</td>
</tr>
<tr>
<td>Non-family businesses</td>
<td>Ownership</td>
<td>1.7</td>
<td>10.097</td>
<td>76</td>
<td>&lt;.001</td>
</tr>
<tr>
<td></td>
<td>Management</td>
<td>1.7</td>
<td>9.690</td>
<td>76</td>
<td>&lt;.001</td>
</tr>
<tr>
<td>Businesses handed-down from family</td>
<td>Ownership</td>
<td>2.2</td>
<td>5.466</td>
<td>15</td>
<td>&lt;.001</td>
</tr>
<tr>
<td></td>
<td>Management</td>
<td>2.2</td>
<td>5.053</td>
<td>16</td>
<td>&lt;.001</td>
</tr>
<tr>
<td>Businesses started from scratch or purchased</td>
<td>Ownership</td>
<td>2.2</td>
<td>14.205</td>
<td>144</td>
<td>&lt;.001</td>
</tr>
<tr>
<td></td>
<td>Management</td>
<td>2.3</td>
<td>13.595</td>
<td>144</td>
<td>&lt;.001</td>
</tr>
</tbody>
</table>

Notes: 'Seven-point scale: 1 = not at all important; 7 = highly important

Notwithstanding the low importance for both items generally, operators of family businesses nevertheless rated business continuity within the family more highly than did operators of non-family businesses for both ownership ($t = 4.154$, $df = 165.3$, $p < .001$) and management ($t = 4.191$, $df = 165.8$, $p < .001$). No statistically significant differences were found for operators whose businesses were handed down or operators who purchased or started their businesses from scratch (ownership: $t = .082$, $df = 159$, $p > .05$; management: $t = .142$, $df = 160$, $p > .05$).

5.5 Operator exit intentions/plans

Of all operators, just under half (48%) had seriously thought about how they would exit the business while a further one-third had thought about exiting ‘but not seriously’. No consideration was given to exiting by the remaining operators (20%).

Of those who had seriously thought about exiting, the preferred method for the vast majority (77%) was to sell the business; only 13% had intentions to hand the business over to their children. Plans cited by the rest of operators (10%) included simply closing down or continuing to run the business under management. Comparisons of family and non-family businesses showed that family enterprises were more likely to cite intentions to leave the business to children (26% vs. 0%); even so, this incidence within family enterprises was not overwhelming. Similarly, intentions to leave the business to children
were higher for operators who took over their businesses from family than for those who bought or started their businesses from scratch (20% vs. 12%); however, the overall incidence of this was still relatively low.

5.6 Attitudes towards succession

Operator and family values influence inheritance/succession entitlements generally. A number were explored in this study; specifically, the importance that successors must be males; the importance that successors must to be close family members related by blood or marriage; and the importance that birth-order determines successor entitlement. Results are presented in Table 3.

Table 3 Importance of selected attitudes in succession

<table>
<thead>
<tr>
<th>Attitudes towards</th>
<th>All Operators</th>
<th>Family Businesses</th>
<th>Non-family Businesses</th>
<th>Took over family business</th>
<th>Bought/started from scratch</th>
</tr>
</thead>
<tbody>
<tr>
<td>Successor must be</td>
<td>2.3</td>
<td>2.9*</td>
<td>1.6*</td>
<td>2.2</td>
<td>2.3</td>
</tr>
<tr>
<td>family member/</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>blood relation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Successor must be</td>
<td>1.9</td>
<td>2.1</td>
<td>1.8</td>
<td>1.7</td>
<td>1.9</td>
</tr>
<tr>
<td>male</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Importance</td>
<td>1.5</td>
<td>1.5</td>
<td>1.5</td>
<td>1.2</td>
<td>1.5</td>
</tr>
<tr>
<td>of birth-order</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>for determining</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>entitlement</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Notes: * Seven-point scale: 1 = not at all important; 7 = highly important

Overall, each of the items rated significantly lower than average or expected values indicating that operators were not generally influenced in their attitudes to succession by ‘traditional’ values. Low importance to all the three items was also accorded by family and non-family enterprises, and similarly by operators who took over family businesses and those who bought or started their businesses.

In addition to the above attitudes, expectations of operators for younger family members to join the business were also explored; results are presented in Table 4. Overall, the vast majority of operators did not hold specific expectations for younger family members to automatically be a part of the business. More than 90% of all operators believed that the choice to join was not theirs to decide.

To summarise, this section explored a series of characteristics notionally associated with what makes a business a family concern. Collectively, results suggested that most businesses were not ‘true’ family businesses in the sense of the relative lack of importance placed on maintaining continuity of the business in family hands, the overwhelming intention to sell rather than leave the business to children, the low importance placed on traditional values related to succession, and the low expectation for younger family members to involve themselves in the business. These findings were similar for operators who self-nominated as family businesses and those who took over businesses from their families.
Table 4  Expectation of younger family members joining the business

<table>
<thead>
<tr>
<th>Expectations</th>
<th>Percent %</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>All Operators</td>
</tr>
<tr>
<td>Younger family members are expected to join the business</td>
<td>3</td>
</tr>
<tr>
<td>Younger family members are strongly expected to join the business</td>
<td>2</td>
</tr>
<tr>
<td>Younger family members can choose whether or not to join the business</td>
<td>95</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
</tr>
</tbody>
</table>

6 Discussion

This paper posed the question of whether most small businesses are ‘in essence’ family businesses, the argument being that the nature of many businesses would in fact fall short of satisfying the essential conditions of vision, intentions and behaviour that are deemed to characterise the quintessential family business. To the extent that the essence of the family business was appropriately and satisfactorily captured and analysed in this study, then the answer to the question is ‘no’. This may seem contrary particularly to results which showed that over half of all operators defined themselves as family concerns, and that many of the businesses in fact had formal and informal family member involvement. Both these satisfy the broad criteria accepted in the literature for classification as ‘family business’ and it would be reasonable therefore to expect a ‘yes’ answer in the present study. However, Chua et al (1999, p.25) argued that an “enumeration of the parts seldom gives us the essence of the whole” and therefore, relying on either or both of these results may not necessarily provide an accurate assessment overall.

For example, notwithstanding the percentage of self-nominated family businesses, 90% of the businesses in this study were ‘new’ enterprises (rather than existing ones taken over from family), and 85% would be sold or closed (rather than handed down to children) when current operators exited the business. The growth and development of a business is influenced by “the aspirations, strategies and values of [its] founder-operator” [Basu, (2004), p.15] and for a family business to exist, these critical factors must reflect a vision that is shaped and pursued by the family potentially across generations (Chua et al., 2004). However, such a family vision appears to be lacking in the majority of businesses surveyed given the low rates of actual and intended business transfers within families. In broad terms, this fails to satisfy the first of the three ‘essence’ criteria (i.e., vision) for defining a family enterprise.

Most businesses in this study would not also satisfy the second criterion of intentions. This is based specifically on results showing the low importance placed by operators on: maintaining business control (management and ownership) in family hands, business
involvement by next generation family members, and traditional succession values. The fact that none of these factors were highly valued implies that there is little to encourage involvement or concentration of the business within the family unit which, according to Tsang (2002), are important indicators of intentions to establishing a family enterprise. Such intentions are vital since the longevity and success of family businesses are based on families acting in concert to “institutionalise… resources, capabilities and visions” that are unique to the family and then utilising this to create ‘trans-generational’ value [Chrisman et al., 2005, p.238]. Clearly, deliberate intentions precede the initiation of this process which should imply a high (rather than low) value placed on business continuity within the family, high (not low) expectations that younger family members would join the business and likewise, high importance placed on family succession and how this may be decided.

Finally, it is vision and intention that drive a family business to behave as a family business (Chua et al., 1999). On this basis, the lack of both implies that businesses would also fail to satisfy the third essential condition (i.e., behaviour) that defines a family business (Chrisman et al., 2003). In some respects, the ability to ‘behave’ as a family business may be influenced by contextual factors which can enhance or impede the involvement of next generation and other family members in the business (Sharma, 2004). In the present study for example, the service nature of the majority of businesses and the material relationships established between operators and key business stakeholders would create considerable impediments for involvement of other family members in any significant way. Rather than a “dominant coalition” of family operating in a “manner that is potentially sustainable across generations” [Chua et al., (1999), p.26], there is likely to be domination by a single operator with family members effectively relegated to operating only at the ‘periphery’ of the business.

Notwithstanding, the ‘no’ answer arrived at in this paper as to whether most small businesses are family concerns is meaningful only in the absence of a precise and common definition for classifying the family business. Rather than diminish the significance of this paper’s results, this qualification offers an opportunity to reflect on the key issue of how the family business can or should be defined. Given that family business researchers are “confronted with definitional confusion” [Tsang, (2002), p.23], a ‘no’ answer re-emphasises the need and reiterates the call (e.g. by Chua et al., 1999; Sharma, 2004) to resolve the “very basic and foundational problem” of what is meant exactly by the term ‘family business’ [Litz, (1995), p.71].

There are a number of reasons why this is important. First, a recurring and central theme in the literature is that family businesses are distinctly different from non-family businesses. To understand these differences properly requires the ability to separate the family business from all others (Chua et al., 1999). As argued by Lansberg (1988, p.2), until there is agreement as to what a family business is, scholars will find it challenging to “build on each other’s work and to develop a useable knowledge base”. In spite of its significant growth, the family business discipline is still “scratching the surface” of what is a complex area of study, and only limited progress can be made without concord in defining what it is that we are trying to better understand [Westhead and Cowling, (1998), p.45]. Additionally, it makes it difficult for the discipline to progress beyond a largely descriptive focus to one that is more prescriptive and expansive in terms of the research agendas that can be pursued (Sharma et al., 1997).
A number of researchers (e.g., Gallo et al., 2004; Jorissen et al., 2005; Smith, 2005; Smith, 2007, 2008; Westhead and Cowling, 1997, 1998) have argued that many of the distinctions highlighted between family and non-family firms merely reflect sampling and methodological rather than ‘real’ differences. When these effects are controlled or removed, the distinctiveness and performance advantages of family businesses are less significant than previously observed or commonly believed. This has important ramifications for the growth of the discipline established on the basis that family businesses have “unique systemic conditions and constituencies” [Habbershon et al., (2003), p.451] on account of the “deep connections” that exist between family and business [Miller et al., (2008), p.51]. Although the presence of family in business cannot be denied, without definitional clarity and a common foundation, it is clearly difficult to reconcile contradictory studies to determine the true significance of ‘family’ in business. Without such clarification, ‘street lore’ (Shanker and Astrachan, 1996) and ‘myths’ (Westhead and Cowling, 1998) are likely to perpetuate rather than an accurate understanding of family businesses.

7 Conclusions

This study explored the proposition that prevalence of the family business may be less significant than commonly supposed. In examining the ‘essence’ of small businesses in relation to vision, intention and behaviour, the conclusion was that most firms did not satisfy the essential characteristics for a family business. However, this result was dependent upon the measures used in determining the ‘essence of familiness’ which were arguably subjective and, as a broader issue, highlights the difficulty in operationalising a definitional construct that satisfactorily identifies family from non-family firms.

A number of limitations are acknowledged in this paper. First, the results provide only a snapshot of the characteristics of participating businesses. As such, findings may not be representative of the broader small business population on account of both the study location as well as the survey response rate which, although not uncommon in postal studies involving the small business sector (e.g., Mazzarol and Reboud, 2006; Morrison et al., 2003; O’Regan and Ghobadian, 2004), was generally low. Also, the ‘essence’ of businesses investigated in this study recorded the viewpoint of a single individual within each business (i.e., primary operators). In firms with family member involvement, the perspectives of these other members may provide a more complete and interesting comparison with respect to the essential nature of the enterprise. Therefore, attention to other family member ‘voices’ may be useful. Notwithstanding, these limitations provide further opportunities for future research to better understand the impact of family on and in business.

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