Introduction

This book focuses on family business in historical and comparative perspective. Its main aim is to examine through time the evolution of family businesses against varying political and institutional contexts, and to evaluate the performance of family firms in comparison with other forms of business organisations. The ultimate aim is to highlight the contribution of family firms to the evolution of contemporary industrial capitalism. Today, the concept of family business has partially lost its association with the negative notions of backwardness, paternalism, primitive technology, simple organisational structures, and commercial and distributional weakness. Despite the competitive advantages accruing to capital-intensive industries from technology, scale and scope economies, horizontal and vertical integration, and the enlistment of professional managers, since the early 1970s the evolution of knowledge-based industries has emphasised the role of small and medium-sized family businesses. Even if globalisation substantially reaffirmed the key role of the large corporation (Chandler and Hikino 1997: 50ff.; Chandler 1997: 83ff.), the family enterprise has persisted – dynamic, specialised, innovative, flexible, and adaptive to a rapidly changing environment, firmly rooted in regional, often local, entrepreneurial communities, and present in world-wide markets.

This renewal of interest in the virtues of family firms has been accompanied by a growing volume of theoretical and empirical research; the relevance of such firms to the wealth of the nation is illustrated by a growing number of MBA courses in European business schools that address the various aspects of family business management (Corbetta 2001). Likewise, consultants are increasingly specialising in the field. Since 1988, the *Family Business Review* has published quarterly issues on almost every aspect of the topic, both from a theoretic and an empirical perspective. In 1984 and 1990, respectively, two groups were founded: the Family Firm Institute (FFI) in the USA, and the Family Business Network (FBN), as its European counterpart. The FBN holds an annual conference summarising the results of academic research in the field.

The overlap between the firms and the family has encouraged analytical contributions from various other academic disciplines, principally sociology, psychology, and other behavioural sciences (2001).

From the historian's standpoint, the issue of family business is anything but new. While the changes in the perception and status of the subject suggest a number of issues (which this book will try also to summarise, by means of a critical discussion of the literature) for those who evaluate the past, the study of family enterprises offers significant contributions to the understanding of both national and international economic systems.

First of all, the contribution of family business must be analysed in the long run, i.e., across the three industrial revolutions, examining to what extent a relatively high presence of family firms in a capitalist industrialised country is an advantage – or a disadvantage – for a country's economic system. A second relevant issue concerns the relationship between a firm's size and its ownership and organisational structure; this topic involves as well the controversy regarding the (assumed) direct relationship between poor market performance and family-based ownership and organisational structure.

A further relevant point concerns the similarities and differences among various models of family firms, as well as the evolution of the family-controlled company following the radical changes in technology and markets since the first industrial revolution. The different roles and outcomes of family business enterprises must be evaluated by considering the nature of the production process and the overall sector. That is to say, the investigator must discriminate between commercialisation, finance, and manufacturing, and, inside the latter, between scale and capital-intensive industries on the one hand and traditional businesses, as well as innovative specialised suppliers, on the other.

These issues will run through the entire discussion of this book, which is divided into three chapters. In the first, 'Family business:

nature and structure', the definitions of 'family business' used by economists will be discussed in an attempt to offer a flexible conceptualisation of the family firm, stressing also its persistence in modern economies.

The following chapter, 'Geographical, sectoral, and dimensional distribution of family firms', will analyse the variations in the incidence of family firms inside the most advanced industrialised countries, including also the case of recently developed areas like East Asia and Latin America. The distribution of family firms by industry and by size is clearly influenced not only by technological forces, but also by national cultural patterns, which will be taken into account. The chapter also analyses the determinants of family businesses' vitality through time. Institutional factors are taken into consideration. These are both formal and informal and are influenced by a country's dominant culture which may be favourable or hostile to family firms. The structure of financial markets is another essential element in understanding the enduring success of family enterprises, especially where alternative sources of finance (banks and, above all, stock exchanges) are considered. Likewise, the legislative framework as well as a government's economic policies toward the economy have enormous impact on family firms. This is especially true in the presence of networks of interest involving the policymakers and the most important entrepreneurial families – the intensity of such networks varying considerably in different national cases.

The last chapter, 'Family firms in the era of managerial enterprise', discusses the impact of the changes in technology and market structures characterising the second and third industrial revolutions on family firms, focusing especially on the different versions of the Chandlerian model of evolution of the large modern managerial corporation. In this section the problem of the introduction of managerial hierarchies into family-controlled enterprises will be examined, highlighting the different experiences in various national contexts. A persistent identity of ownership and control in modern industries inevitably raises a problem of corporate governance and efficient allocation of resources that will be discussed as well. In the same chapter, the persistence of family firms inside modern economic systems will be analysed in the light of the transaction cost theory, looking at family firms as intermediate organisational structures between bureaucracy and the market. In this perspective, family business can be seen as the optimal solution, even in scale-intensive industries, when the managerial enterprise faces high transaction and agency costs in a hostile environment. Conversely, the persistence of family business can have a negative outcome: the absence of a corporate governance system inhibits the potential for strategic, technological, and organisational innovation; and the problem of leadership succession is chronic. Finally, the extensive use of family-based business networks in the emerging economies of East Asia and Latin America, in both production and distribution, will be examined as a possible confirmation of the essential role played by family firms in sustaining the take-off and the first phase of industrialisation.

Given the relevance of family business in both a political and economic perspective, a large amount of data is now available on the diffusion and the relevance of family business in different economies throughout the world. However, it is difficult to assemble comparable data, given the diverging definitions of family business adopted, reflecting a single country's history and culture. In this volume I will not draw an up-to-date quantitative picture of the presence of the family business in the developed economies: the data will be only partially used to highlight single aspects of more general issues.

This book is not a defence of the family business as the best way possible to organise an economic activity, where the 'human' and the 'rational' are mixed in a protective environment and the individual can best develop his/her talents and aptitudes (Schumacher 1973). It is not necessary to stress the evidence showing that family firms are the scenes of labour exploitation, of paternalistic and conservative labour relations, and where the individual can be subject to abusive discipline and control that can seldom be found elsewhere. Family firms are sometimes the opposite of a creative and innovative environment: largely path dependent, they avoid innovation and change as well as growth exceeding the family's resources and management capacity. It is not easy to maintain that family firms are superior to other forms of economic organisation, for instance in capital-intensive or research-intensive industries, where large managerial public companies dominate (Casson 2000: 198, 216). Equally, it is impossible to maintain the overall inferiority and inefficiency of the family firm – especially where, for instance, specialised or artisanal products are considered, or when the economic activity takes place in a turbulent environment with scarce information or without the guarantees present in a market-oriented society that safeguards private property.

The aim of this book is simply to review, even if only partially, the growing and often disparate homogeneous research on family business. A further goal is to give an idea of the historical evolution of this particular form of business organisation, its contributions to the economic growth of single economies, the reasons for its decline and also for its persistence, and the different forms that it takes over time depending on various business cultures and institutional environments. The outcome of this review should help those who are, for different purposes and from different perspectives, interested in this subject to identify the action, the strategies, the contribution as well as the failure and decline of family firms. The analysis is presented within a particular, historically defined economic, social, political, and above all institutional context. It is not sufficient to consider the family firm as a subject of study in abstract terms, as recently suggested: 'The impact of [entrepreneurial] behaviour upon the performance of the enterprise is mediated by the institutional environment in which the firm operates. In some environments the family firm is favoured, and in others it is not. Changes in the environment across industries and countries, and over time, explain the varying fortunes of the family firm' (2000: 204). Whilst it is a useful exercise to evaluate the contribution of family firms to economic growth and welfare, it is also important to contextualise the experience of family firms. This will at least prevent us from thinking of family business as a form of productive organisation suitable only for small and medium-sized firms, and as the same 'at every time and in every place' (2000: 201), two mistakes quite common among both economists and historians.

1
Family business: nature and structure

Despite its relevance, a useful definition of the family firm is elusive. By contrast, the large, managerial enterprise shows very well-defined features. It first appeared in manufacturing in the United States between the 1870s and the 1890s and was stimulated by pervasive waves of technological innovation in transportation and production, which are usually labelled 'the second industrial revolution'. It spread into capital-intensive industries – mostly chemicals, electrical products, transportation systems, petroleum refining, primary metals, some branches of the food and beverages industry, cigarette making, and several others (Chandler and Hikino 1997). The dimensional growth and the complex activity linking production and distribution triggered an organisational revolution as well; the relatively simple structures employed during the first industrial revolution evolved into the much more sophisticated U- and M-forms of organisation. These management structures were crowded by salaried low, middle, and top managers, more and more autonomous from the property and from the founder's family, according to the growing specialisation of their roles. Alfred Chandler put it best:

> Salaried managers' specialised knowledge and their firms' ability to generate the funds necessary for continued expansion meant that they soon controlled the destiny of the enterprises by which they were employed . . . In the large, multiunit enterprise . . . salaried middle managers, who have little or no share in its ownership, have come to be responsible for co-ordinating the flow of goods and supervising the operating units.
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> (Chandler 1980: 12–13)

Displaced from middle management, the owners soon also lost their role at the top of the firm. As the growth of the corporation demanded more investment and financial resources, the shift from personal, family capitalism to financial capitalism, where bankers and other financiers shared top management decisions, occurred (1980: 13). In the end, however, given the growing complexity of the activities undertaken by the new, modern enterprises, the managers themselves were ultimately responsible for resource allocation and the most relevant strategic decisions. Quoting Chandler again:

> No family or financial institution was large enough to staff the managerial hierarchies required to administer modern multiunit enterprises. Because the salaried managers developed specialised knowledge and because their enterprises were able to generate the funds necessary for expansion, *they ultimately took over the top-level decision making from the owners or financiers or their representatives* [who] rarely had the time, the information or the depth of experience to propose alternatives; they could veto proposals, but they could do little else . . . Family members, as a result, soon came to view their enterprise, as did other stockholders, from the point of view of renters; that is, *their interest in the enterprise was no longer in its management but rather in the income derived from its profits*. Firms in which representatives of the founding families or of financial interests no longer make top-level management decisions . . . can be labelled *managerial enterprises*.
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> (1980: 13–14; emphasis added)

These changes in the ownership structure of the large corporations are documented in the well-known research presented at the beginning of the 1930s by Berle and Means (1932). They presented clear (if partially criticised – see Burch 1972: ch. 1) evidence of the growing separation between ownership and control, as well as of the fragmentation of stock ownership which determined the birth of the so-called ‘public company’. The radical transformation brought about by this new actor in social and political life does not need to be emphasised. Neither does its impact on the intimate structure of nations, and the revolution that occurred in the field of economic science subsequent to the emergence of oligopolistic and multinational corporations (see Galbraith 1967).

With the rise of the managerial corporation, the transformation of the industrial enterprise spread all over the world, bringing about a revolution in nations' competitive advantage (in a few decades the USA and Germany surpassed the world leader, Great Britain, in both GNP and international trading) (Elbaum and Lazonick 1986:9ff.). It also triggered the birth of some *first movers* able to establish enduring success in their fields and to gain long-standing leadership in national and international markets (Chandler 1990a). In this way, the modern business enterprise can be defined as 'an economic institution that owns and operates a multiunit system and that relies on a multilevel managerial hierarchy to administer it' (Daems 1980: 203–4). Implicitly, this kind of organisation cannot be owned and controlled by a family (Dobkin Hall 1988). Much more relevant is the fact that 'when this definition is accepted, the study of the modern firm becomes a study of when, where, and why business hierarchies were established to manage functional and vertical integration, with a resulting increase in aggregate concentration of assets' (Daems 1980: 204).

In search of a definition: quality and quantity

Contrary to the relatively easy definition of big business and of the modern managerial corporation, it is not as simple to delineate the boundaries and features of the family business, even from a 'residual' perspective. To begin with, the family firm is a form of productive organisation whose origin is impossible to locate precisely in place or time. Family firms were in the absolute majority during the first industrial revolution, as well as in the pre-industrial period, going from the urban artisan's workshop to the famous Medici Bank, investigated by Raymond De Roover (De Roover 1963), to the sophisticated commercial and trading company of Andrea Barbarigo, 'Merchant of Venice', and the sibling partnerships common in the same period among the merchants of the Adriatic Sea Republic (Lane 1944a and 1944b). The family firm is now the backbone of a significant number of recently industrialised economies, and still a lively presence in the 'old industrialisers', as well as in a large number of sectors, from the labour-intensive and craft-based to specialised suppliers.

The presence of the family firm inside a certain economic system is largely – if not completely – due to asymmetric information, a turbulent environment, and a legal system unable to secure and enforce property rights. Today, at least in advanced Western economies, the firm operates in a much less hostile environment than in the past (Cassis 1997: 123; Casson 2000: 205). However, the 'classic' family firm – in which property and control are firmly entwined, where family members are involved in both strategic and day by day decision-making, and the firm is shaped by a dynastic motive – is still a reality in almost all of the advanced economies, even those, such as the USA, that have been called the 'seedbed of managerial capitalism'.

From the perspective of managerial capitalism, it is theoretically possible to suggest a definition of the family firm based upon its size, whatever its measure. In this manner, the family firm should be considered as only one of the initial stages in the life of the enterprise, following the start-up period and preceding the public company phase (for a synthesis, see Dyer 1986: 4–5). Family firms in this model are generally small and medium-sized; slow growing; characterised by 'flat' organisational structures and internal succession patterns; relying upon self-financing or on local, often informal credit sources and avoiding stock-market finance; implicitly backward from the perspectives of production technology and labour relations; and less profitable than managerial ones. This is the usual perspective suggested by traditional economics (for a summary, see Casson 2000: 205–6). A considerable amount of evidence demonstrates, however, that, on the contrary, it is possible to find many examples of dynamic, large, and profitable family firms. In these examples, the traditional characteristics of proprietary capitalism – paternalism, dynastic motives, internal succession patterns, high dependence on local production systems – successfully mix with relatively 'modern' features of capital markets – internationalisation, technology utilisation, and so on. This is, for instance, the case with a large number of medium-sized and relatively large Italian family firms, well-known corporations in traditional as well as specialised industries such as Benetton, Luxottica, Ferrero, Natuzzi. They are active world-wide and rely on international financial institutions attracted to their high profit ratio. Incidentally, this had also been the experience of a number of *first movers* in almost all the European countries during the first half of the twentieth century, when the second industrial revolution spread all over the continent (see Dritsas and Gourvish 1997 and Cassis 1997). In his contribution to

Managerial Hierarchies, Leslie Hannah points out that it is very difficult to demonstrate that British family firms, also in capital-intensive industries, were less efficient than managerial ones, stressing the need for a less deterministic perspective in evaluating the relationship between the ownership structure and the general performance of the enterprise (Hannah 1980: 52ff.). While exploring the issue of organisational innovation, Terry Gourvish points out that the conservatism of British entrepreneurship before the 1960s is only partially connected to family persistence. Equally significant was a more general 'clubby, gentlemanly approach to such elements as management recruitment, staff development, and the application of organisational science to business' (Gourvish 1988: 41). In the well-known case of the glassmaking firm of Pilkington, for instance – cited by Alfred Chandler in *Scale and Scope* as a powerful example of the 'familialism' characterising British business (Chandler 1990a: 592) – it is true that in 1945 the board considered positively the fact that Alastair Pilkington (who was the inventor of the floating process and thus a powerful resource for the company) was a 'Pilkington', even if his branch of the family had had no connections with that owning the firm for at least fifteen generations. At the same time, it should not be forgotten that, as stressed by Theo Barker, the process of managerialisation and the co-optation of non-shareholder directors had started at Pilkington's between the world wars (Barker 1977: 320ff.), and that in the same minutes quoted by Chandler, the board declared – even if in a very cautious tone – themselves ready to prepare for the future by accepting truly promising candidates (1977: 417–18).

It seems in the end somewhat hazardous to suggest an explicit and direct relationship between a firm's size and the right form of ownership.

Likewise, it is also wrong to assume that family firms are in general less profitable and consequently less efficient than those run by managers. There has been a long debate on profitability because the field research on the subject provides variable results, differing from time to time, from country to country, and according to the industry (for a discussion and a brief summary, Hannah 1982: 4–5). There is a growing amount of research trying to link business performance to ownership structure but, since it tends to concern well-defined sectors and/or countries in what is usually a relatively short span