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Differences Among Family Firms: What the Research Shows

Jordan Rich (JR): Welcome to the *FFI Practitioner* podcast. Today's conversation is entitled "Differences Among Family Firms: What the Research Shows," featuring Doctor Francesco Barbera. Frank Barbera is Associate Professor of Entrepreneurship and Strategy at Toronto Metropolitan University and is part of the GEN Faculty teaching the course "Evidence-Based Advising: Using Research to Empower Family Enterprises."

So Dr. Barbera, let's get right to it. What does the research show?

Francesco Barbera (FB): So family business typically, kind of a young discipline—it's only been around for thirty years or so, which is interesting, right because this is one of the oldest institutions on the planet. And yet, we've only really just started studying them in the last few decades. Like the development of any discipline and field, there are stages that occur. The first stage, in this case, is just to establish the fact that family firms are different. So the uniqueness of family businesses. And they are quite unique, and we can get into that, but ultimately those first rounds of inquiry were establishing the differences between whatever "a family business" is, between them and whatever a "non-family business" is. And a lot of those first early studies did a very good job at establishing that yes, indeed, family businesses are different. But the problem there is that a big assumption is made, and that assumption is that all family firms are the same, and all non-family firms are the same. Yes, we do need to study this, but of course, as the field progresses, that assumption of homogeneity within the groups is a pretty poor one. You start to relax that, and you start to go a little bit deeper, and ask, "Hold on a minute—in what ways are family businesses different?" In what ways are they different—not just in comparison to non-family firms, but in comparison to other family firms. Similar to ideas in strategy research, where you have an approach that assumes all firms are the same, then they go off and they purchase resources and capabilities, and they scan the environment, and they then acquire competitive advantages, and these competitive advantages are what distinguishes them from other firms. But ultimately, all firms can have the ability to go out and acquire these capabilities and resources, and they too can develop competitive advantages.

But then, the field progressed, we have the resource-based view approach, which is an internal idea of what distinguishes firms from each other, or what creates competitive advantage, and we see that not everything can be purchased, right? There are inherent resources and capabilities that do lead to competitive advantages. And in fact, all firms are unique. And so, the opposite statement of "All firms are the same," is that all firms are unique. Of course, the reality of things is that all families are unique, all individuals are unique, and therefore all family businesses are unique. As a discipline, as a group of scholars who are studying this phenomenon, are starting to ask, "Well, then what are the differences?" Now we know there are patterns across family and non-family [firms], but what are the differences? It's important because it takes the field to the next level. It's important because it starts to allow us to go a little bit deeper into the nuances of what exactly are the unique challenges and opportunities that family business face. It's not the same for all family businesses, but that said, we can go deeper and discover what those differences are.

JR: What are the implications for families, and certainly family advisors, if we continue to have a distorted, homogeneous view of family firms?

FB: There's a lot of talk about best practices, because there are some patterns and there are some similarities, and you can always bring abstract out to those patterns and similarities. Then of course, best practices can be developed, and these are things like, "You ought to think about succession," right? "You ought to develop a plan." "By the way, family firms typically have a lot of emotions, are very emotionally laden, and therefore you ought to be mindful of that." And "By the way, family firms have the next generation up and coming, and we need to develop those people." And another one is governance, “We ought to develop structures that govern the ways in which the family influences the business, or affects the business.” And this is all well and good, but the problem is when you have a kind of vanilla, blanket approach, one solution to all problems, then it’s pretty obvious that that becomes problematic. So, again, all families are unique, all family firms are unique, and so there’s not going to be one solution from an advisory perspective that is solving all the problems. I think it’s the same idea—suffice to say that family firms are different, and yet there are some key practices, what you might call “best practices,” that ought to be followed. But to not go any deeper than that, right to blindly follow a best practice without understanding the heterogeneity that does exist can be very detrimental, obviously, form an advisory perspective, because then we have advisors who are not necessarily delivering the best advice and offering the best interventions.

JR: Dr. Barbera, share with us a bit about the theory of family science, how it applies to our discussion today and how it’s evolving;.

FB: As you know, I would call myself a researcher in this space. There’s no exhaustive list in terms of the ways in which family firms can be different, right? But I can name a few. It starts with these ideas about why is it that family firms are different. And so one of the arguments in the literature is this idea socio-emotional wealth. And I’m sure the audience will be familiar with this concept, but to summarize really crudely, it’s essentially the affective value that families gain and they accumulate, and the benefit that they receive based on non-economic attributes. So, the old economic perspective of a business is simply that the purpose of that business is to maximize profit for its owners. But of course in a family firm—and by the way, this is not just for family firms, but socio-emotional wealth was a concept that was born out of the family business literature—in a family firm, they don’t just care only about profit, there are other factors that add value and they want to maximize. And those are not economic, so things like their reputation, their control (which in and of itself gives them a sense of satisfaction), keeping it in the family, their whole identity is wrapped up in this business, and the emotions of others and keeping everybody happy, and finally the relationships that [they] develop with customers and suppliers and so on in the community. These are non-economic, although they may lead to economic consequences, ultimately, they in and of themselves are values that want to be maximized and sometimes even to the detriment of economic value.

So, you asked what's going on in the literature with respect to heterogeneity. In the old days—so to speak, not that old, maybe ten years ago—socio-emotional wealth came out as a big concept, and it was just this assumption that family firms value or pursue socio-emotional wealth, and non-family firms do not. But of course, when you understand the heterogeneity perspective, you think, "Well, what aspects of socio-emotional wealth do different family firms pursue?" Maybe a fifth-generation family business is more interested in reputation and identity, rather than control. Maybe a first-generation family business is more interested in keeping it in the family or in the social capital that they've created within the community. So, there's going to be variation across family business in terms of what aspects of socio-emotional wealth they care about. And if you go one step further, there's also going to be differences within each individual family, in terms of whether or not, or the extent to which, they value socio-emotional wealth. So you may have a patriarch who is extremely interested in reputation, and then you may have a next-generation or a rising generation son or daughter who is more interested in identity. And so there's going to be variation even within the same family. But to date—or I shouldn't say "to date," because now the research is being done in these areas, but it's burgeoning, and it's up and coming—because, up until more or less this point, there'd been this assumption [of] socio-emotional wealth, yes or no, and then they'd applied it to the entire family, and sometimes the whole group of family businesses. So that's one area that's being worked on—the extent to which socio-emotional wealth is affecting behaviors and outcomes for family businesses. But there’s all kinds of other interesting areas that are coming out, like with respect to governance and the configuration of best practices around governance, entrepreneurial orientation is another one, so these are all areas that consider the fact that it’s not a one-size-fits-all explanation for these groups of people. That even within the family group, it’s consisting of individuals, and those individuals have their own minds and hearts and souls, [and] you cannot say they’re all the same.

JR: So the benefits of understanding the sources, types, and variances of heterogeneity among family firms can put the advisor in a better place, and can really help the family socially and economically.

FB: Absolutely. I was always a proponent of, you know, there’s this interesting idea as I said, with socio-emotional wealth is an example if you go down this path again, there is this argument that, well, sometimes non-economic objectives are pursued to the detriment of economic objective. But if you factor in something like time, which they don’t do very well at the moment, (that’s not to say that my colleagues are not looking into this and doing great work on this), but when you factor in time, who’s to say that something that you do now, in terms of, say, protect your family name and therefore decide to remain a little smaller and not grow, that that wouldn’t pay off later on, when you consider the bigger picture, the temporal aspects of things? So, similarly for an advisor, right, it’s looking at the bigger picture and understanding that, almost like—we talk about heterogeneity, we can talk about levels, so there’s the macro level, the mezzo level, and the micro level. And when you go down the rabbit hole of thinking about heterogeneity, then you realize that no two things are the same ever. Even the same thing itself has changed across time. So, even you yourself, Jordan, are not the same Jordan that you were yesterday. And so there’s heterogeneity even within you! And so, once you understand the nature of that phenomenon of change, the phenomena of difference and change, then you realize that nothing stays the same and you must consider that fact if you, as an advisor, bringing it back to advisors, you must consider that fact if you really want to be the most effective advisor you can be.

JR: Dr. Barbera, they say the only thing constant in life is change. And you and your colleagues seem pretty energized, keeping up with these changes and sharing them with the rest of us.

FB: Because here's the thing, this is about the [GEN] 501 course that we recently revamped, right, and I've been teaching this course for more than ten years now, so I've seen the different iterations of the course. And most definitely, this version is the best version so far. But in the spirit of change, right, it will continue to improve, and I do get that feedback, that the advisors are thinking, "Wow, that's actually much deeper and insightful than—not to compare it to the previous version—but this is a much deeper and more insightful way to think about families in business and business families. Again, that's what makes family business so cool, right? Family business is about that intersection between the economic-business-technical world, with the human-relational-emotional world. And so automatically that creates a very interesting scenario and a very interesting area of study. And then when you factor in the stuff that we've been talking about today, now all of the sudden it's like, "Wow, how nuanced is this?" It's almost a little bit overwhelming too, right? As I said in the beginning, you do need an initial starting point to say, "Hold on, family firms are different." And so you do need some assumptions to say there are some patterns that family firms all exhibit, right? But beyond that anchoring, we can really explore now. We are at a time in the research world and therefore when we (you know, I love the FFI because they're so good at translating and connecting the researchers with practitioners), it's such an interesting time for practitioners now to really accept this, embrace it, and as I said before, to thrive as an advisor.

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JR: Thank you to Dr. Francesco Barbera for this conversation. Listeners who are interested in learning more about this topic or enrolling in the GEN certificate programs should visit ffigen.org. For more information on *FFI Practitioner*, go to ffipractitioner.org. I'm Jordan Rich. Thank you for listening!

ABOUT THE CONTRIBUTORS

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INTERVIEWER: Jordan Rich is celebrating a quarter century at one of America's top legacy radio stations, interviewing thousands of celebrities, authors, actors, and interesting personalities throughout his career. Jordan is co-owner of Chart Productions Inc. and teaches voice-over acting. His main focus these days is in podcast creation and production, featuring conversations with the world's most creative people.

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