TOWARDS A BETTER UNDERSTANDING OF FAMILY BUSINESS GROUPS FROM A CROSS-CULTURAL PERSPECTIVE

Abstract

Around the world, some of the largest firms in many countries are controlled by family business groups such as Fiat in Italy, Ford in the US, Hutchison Whampoa in Hong Kong, Samsung in South Korea and many others. Further, many family groups have a long history. Although family business groups are a significant and long standing phenomenon in most parts of the world, their resilience to globalization in their use of different governance structures and relational capabilities have received little attention from a cross-cultural perspective. Drawing on our previous work, the study provides a theoretical framework to classify family business groups 'key traits on the basis of their etic/emic distinction from a cross-cultural perspective.

Keywords: etic, emic, cross-cultural perspective, family business group, family business, business group.

Track 17: Cross-cultural communications, negotiations, ethnocentrism and management, leadership in multicultural contexts.

1. Introduction

Although family business groups are a significant and long standing phenomenon in most parts of the world, their resilience to globalization in their use of different organizational structures have received little attention from a cross-cultural perspective. In particular, both the conceptualization of their governance structure and of their relational capability needs to be further explored. Existing research mainly focuses on their strategic, organizational and financial capabilities by devoting very limited attention to the different cultural settings in which family business groups operate. The aim of this paper is to provide a theoretical framework with a twofold objective:

- First, drawing on the literature it seeks to identify and critically assess the relevant dimensions that can better explain the distinctive semantic traits' that belong to the family business group;
- Second, to provide a taxonomy of family business groups from a cross-cultural perspective by adopting GLOBE (Javidan and House, 2004; Chhokar et al., 2007) and by relying on the emic/etic distinction of their key traits (Pike, 1976). The underlying assumption is that while their etic dimensions do not vary across different cultural clusters, family business groups would have distinctive emic dimensions depending on the different cultural cluster they belong to.

The proposed theoretical framework presents several benefits. Not only it allows a more holistic interpretation of the concept of family business group by simultaneously taking into account all the relevant dimensions, both the etic and the emic ones (Pike, 1976). Taking into account the work of Pinder & Moore (1979) on the taxonomizing of organizations, our framework will provide a fuller understanding of the phenomenon by allowing a classification of the family business groups' key traits from a cross-cultural perspective.

2. Literature Review

2.1 Family business groups and their distinctive traits

Interest in the governance that characterizes family business groups is not new in the literature. Furthermore, family business groups are increasingly important players of the private sector of many emerging as well as developed markets (La Porta et al., 1999). Accordingly, family business groups have emerged as a distinct theme in the literature and have thus attracted the interest of a wide range of scholars from different disciplines. In particular, renewed interest in this topic has recently spurred from the definition developed by Granovetter (1995, 2005) and tends to overcome this main shortfall by providing a richer insights over the existence of a particular set of ties by which governance can be exerted by the founding family. Similarly, when discussing family business groups, Steers et al. (1989) outline the importance of the strong social ties that families use in order to place their members in the key positions so to strengthen the power of the family. Granovetter (2005) and Pieper (et al., 2009) also highlight the importance of the persistence between formal and informal ties to ensure both the longevity and the long-term sustainability of family business groups. Overall, all these accounts widely refer to the key traits that characterize the inter-organizational relations within family business groups that are namely the “nature”, the “type”, the “intensity” and the “persistence” of the ties (Della Piana et al., 2010a; 2010b).

2.1.1 The nature of inter-organizational relations

Although many scholars have analyzed business groups characteristics (Granovetter, 1995; Chung, 2001; Khanna and Yafeh, 2005; Cestone et al., 2005; Cuervo-Cazurra, 2006; Gopalan et al., 2007; Hsieh, 2009; Della Piana et al. 2010b) as well as family business groups (Harvey et al., 1994; Aronoff et al., 1995; Ensley, 2005; Minichilli et al., 2010), there is still an unsolved dispute about what constitutes a family business group. Family business groups are often seen as a specific type of business groups possessing a set of distinctive features. The first trait regards the nature of inter-organizational relations; specifically we refer to the shareholding as “*a set of legally-separate firms with stable relationships operating in multiple strategically unrelated activities and under common ownership and control*” (Cuervo-Cazurra, 2006: 420). In this sense the business groups is identified as a type of firm network, characterized by a multiple set of stable relationships on the basis of a common ownership (Della Piana and Cacia, 2009). Accordingly, if we analyze business groups based on their ownership we can identify three different types: family-owned, widely-held, and state-owned as illustrated in the Table1.

These types of business groups have different actors who own, control and manage them so this results in different agency costs, different levels of diversification and performance (Cuervo-Cazurra, 2006). In this context, family-owned business groups are a particular type of business groups often characterised by large shareholdings that enable and provide incentives for the family to exert strict control over management (Shleifer and Vishny, 1997). Family business groups also do not suffer from agency problems of separation of ownership and control as do other types of business groups (Claessens et al., 2000). Besides, using family members and trusted intermediaries as managers solves the agency costs of managerial misbehaviour thanks to the social control provided by the family relationships (Davis, 1983). These circumstances allow family-owned business groups to generate superior performance (Shleifer and Vishny, 1997; Maury, 2006).

Table 1 - *Business Groups Taxonomy (Source: Cuervo-Cazurra, 2006)*

	family-owned	**widely-held**	**state-owned**
Ownership	individual or family	dispersed among many shareholders - no controlling stake	citizens - firms are officially owned by the government /national/sub-national /local level
Control	individual or family	Managers - no distinct majority	Politicians
Management	individual or family	Professionals	Professionals
Separation of the roles	No	Managers are appointed by the board, which in many cases is controlled by the managers	The politicians and civil servants manage the firm either directly or indirectly, through the control of appointed managers.
Professional managers	under close control by the family	control decision-making	control decision-making

La Porta, Lopez-de-Silanes and Shleifer (1999) show that family-controlled firms often use pyramidal ownership structures to exert control over a large network of firms. The family achieves control and exerts governance over the entire business group by establishing a chain of ownership relationships: the family directly controls a firm, which in turn controls another firm, which might itself control another firm, and so forth (Almeida and Wolfenzon, 2006).

2.1.2 The type of inter-organizational relations

The classification from the standpoint of ownership in itself does not highlight the features and the role of different types of inter-organizational relations. In particular, Granovetter (2005: 429) highlights the importance of relationships types, describing them as "*persistent formal and/or informal ways*" in which the ties are established between firms, that are established through equity alliances and interlocking directorships. He further argues that *"the level of binding is intermediate between … two extremes that are not business groups: sets of firms linked merely by short-term strategic alliances, and those legally consolidated into a single entity"*. In line with Khanna and Rivhin (2006), we argue that as products of social construction, family business groups most likely cannot be reduced to the distinctive presence of specific types of ties between firms such as equity holdings, family bonds, or interlocking directorships. Nonetheless, inter-firm ties play a significant role in the family business governance and scholars have consistently identified groups due to the presence of particular types of ties (Khanna and Rivhin, 2006). For instance, research shows that family businesses can rely on networks and long-term relationships that might foster trust and altruism (Le Breton-Miller and Miller, 2009; Pieper, 2007; Astrachan, 2010) and frequently have a long-term perspective (Le Breton-Miller and Miller, 2009; Pieper, 2007).

2.1.3 The intensity of inter-organizational relations

While scholars have extensively debated about the nature of inter-organizational relationships as well as about the types of inter-organizational relationships, surprisingly very limited attention has been devoted to the interplay between these two traits and in particular to their coexistence. By adopting a family embeddedness perspective, research has extensively highlighted the importance of the simultaneous presence of shareholdings (formal ties) and personal ties (informal ties) (Hamilton and Biggart, 1988; Granovetter, 1995, 2005; Mahmood et al., 2011). In particular, several authors point out that business groups are characterized by particular types of ties (Khanna and Rivhin, 2006; Pieper, 2007; Astrachan, 2010) and these mostly entail equity alliances and interlocking directorships (Granovetter, 2005). Indeed, the mere existence of interlocking directorships in itself does not share any light over the features and the role of different types of relationships and the way in which these ties might be valuable for the governance of the family business group. Other researchers (Ben-Porath, 1980; Pollak, 1985; Aronoff and Ward, 1995; Harvey, 1999) refer to these ties as implicit ties that are often an effective substitute for the relatively more formalized, explicit, contractual relationships. This is particularly visible in the family system, where the key features that influence the firms' operations are the pre-existing, implicit and social ties among family members and often the family system, thanks to the presence of trust, no longer needs hierarchical control (Powell, 1990; Ring and Ven de Ven, 1992; Ernst and Bleeke, 1993; Barney and Hansen, 1994; Holm, Eriksson and Johanson, 1999; Schulze, 2003; Gulati, 2005; Lorenzoni and Lipparini, 1999; Ferrin and Dirks, 2003; Lubatkin, 2005). In this context, family relationships can provide competitive advantage in addition to firms' specific resources. Family can add and shed resources to the business in various ways, through financial, labour, intellectual, cultural and trust capital by facilitating the decision-making process, thereby providing family businesses with an edge over its competitors (Le Breton-Miller and Miller, 2009; Astrakhan, 2010).

2.1.4 The persistence of a specific set of inter-organizational relations

Although the nature, type and intensity stresses the importance of “family bonds” and “family bridges” between the family and its business in creating unique resources and wealth, we believe that to capture the goal of the family business group, which is maximizing the interests of the founding members across generations and the long-term profitability of the group as a whole, is necessary to assess the persistence of the specific set of inter-organizational relationships.. Though there are many examples of long-lived family businesses, their sources of longevity are not well understood (Astrachan, 2010). There are many factors that complicate the task of assuring long-term survival to family businesses. As family and business grow older and larger over time, family ties often ebb making norms, obligations and informal control more difficult to maintain. For example, as ownership disperses, control over the business becomes harder to be exerted (Astrachan, 2010). Apart from business vitality, research shows that persistent family values are crucial for maintaining family ownership in the long run (Pieper, 2007). Memili and colleagues (2011) highlight that in family businesses the entrepreneurial behaviour is related to growth and the number of generations the family has been in business. For example, they further argue that amongst publicly listed family companies, family ownership is inversely related to acquisitions. Other empirical evidence shows that entrenched CEOs, especially those with long tenures, have a constraining effect on growth, whereas entrepreneurship and growth are promoted by families that are involved in business oversight and management (Zahra, 2005). Similarly, Claver and colleagues (Claver et al., 2009) find that a long-term orientation and non-family management are positively related to international growth.

2.2. Family business groups from a cross-cultural perspective

Although there is a quite established consensus about the existence of the distinctive traits that characterize family business groups, namely the nature, the type, the intensity and the persistence of inter-organizational relations we tend to lack a fuller appreciation on how governance structures and relational capabilities are likely to differ across different cultural settings. To fill this gap, the theoretical framework underpinning our research relies on GLOBE (Javidan and House, 2004; Chhokar et al., 2007) and on the etic/emic distinction introduce introduced by Pike (1976).

2.2.1. Globe

For the purpose of our research we adopt GLOBE (Javidan and House, 2004; Chhokar et al., 2007). GLOBE's intent is to explore the cultural values and practices in a wide variety of countries and to identify their impact on organisational practices and leadership attributes. To this end, House et al., (2004) examine national cultures in terms of nine dimensions:

1. *Uncertainty Avoidance* is defined as the extent to which members of a society strive to avoid uncertainty by reliance on social norms, rituals and bureaucratic practices to mitigate the unpredictability of future events.
2. *Power Distance* is defined as the degree to which members of society expect and agree that power should be equally shared.
3. *Institutional Collectivism* reflects the degree to which societal practices encourage and reward collective distribution of resources and collective action.
4. *In-Group Collectivism* reflects the degree to which individuals express pride, loyalty and cohesiveness in their organisations.
5. *Gender Egalitarianism* is the extent to which a society minimises gender role differences and gender discrimination.
6. *Assertiveness* is the degree to which individuals in societies are assertive, confrontational and aggressive in their social relationships.
7. *Future Orientation* is the degree to which individuals in societies engage in future-oriented behaviours such as planning, investing in the future, and delaying gratification.
8. *Performance Orientation* refers to the extent to which a society encourages and rewards group members for performance improvement and excellence.
9. *Humane Orientation* is the degree to which individuals in organisations or societies encourage and reward individuals for being fair, altruistic, friendly, generous, caring and kind to others.

On the basis of the nine cultural dimensions listed above, the GLOBE study identifies ten societal clusters: South Asia, Anglo, Arab, Germanic Europe, Latin Europe, Eastern Europe, Confucian Asia, Latin America, Sub-Sahara Africa and Nordic Europe. National culture provides a fruitful area for research in family business groups[1]. We argue that

[1] There is a substantial body of literature available about national culture but there is very little that adopts a holistic approach to assess its effects on the governance of family business groups. While existing research

extending this line of enquiry family business groups holds great potential to gain a fuller insight on whether they are managed differently across different national cultures. In particular, the paper attempts to provide a fuller appreciation of family business group's governance and relational capabilities.

2.2.2. Etic vs Emic

Following a thorough review of the relevant literature on family firms (Sharma, 2004; Astrachan, 2010; Cruz et al., 2012; Pittino and Visintin, 2010; Memili et al., 2011) and business groups (Leff, 1978; Ghemawat and Khanna, 1998; Morck and Nakamura, 1999; Chung, 2001; Friedman et al., 2003; Khama and Yafeh, 2005; Cestone and Fumagalli, 2005; Almeida and Wolfenzon, 2006; Gopalan et al., 2007) we endorse the idea that the key traits of family business groups (nature, type, intensity and persistence) are likely to vary across different cultural settings. Recently, several contributions explore economic action within a wide variety of organizing contexts in which family businesses are embedded. In particular, two related issues find widespread acknowledgement: the importance of the broader social context in affecting economic behavior, and the wide variety of organizational contexts in which this occurs (Granovetter, 1985; Rao et al., 2000; Steier, 2003; Uzzi, 1996). In line with this work, Aldrich and Cliff (2003), Steier (2001), Steier et al., (2009: 1158) share the view by which "*family firms and their family stakeholders are usefully viewed as embedded in social relationships*". Through their work, firstly they illustrate that family actors are embedded in multiple social systems, and that the nature of embeddedness has economic implications.

Although there is wide consensus that the organizational context is crucial to fully understand family business groups very few studies devote attention to their cultural context. Veliyath' study (et al., 2000) for instance investigates the CEO's social embeddedness and overt and covert power as determinants of CEO pay in a sample of Indian family-controlled firms. From the findings it emerges that family shareholding and the percentage of inside directors on the board are found to be the predominant influences on CEO pay. Similarly, a very recent study conducted by Masulis et. al., (2011) using a dataset of 28,635 firms in 45 countries, investigate the motivations for family-controlled business groups. They provide evidence consistent with the argument that particular group structures emerge not only to perpetuate

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mainly adopts Hofstede's dimensions of national culture, GLOBE captures more comprehensively and less ambiguously the elements of national culture as illustrated in Table 2 in the Appendix.

control, but also to alleviate financing constraints at the country and firm levels. At the country level, family groups, especially those structured as pyramids, are more prevalent in markets with limited availability of capital. Bertand et al., (2008) analyze how the structure of the Thai families behind these business groups affects the groups' organization, governance and performance. Interestingly, groups that are run by larger families (more male siblings of the group head) tend to have lower performance.

Overall this evidence in terms of governance structures and relational capabilities of family business groups embedded in very different cultural settings leads us to assume that their key traits are also likely to vary accordingly. In order to produce an useful taxonomy of family business groups and their key traits, the emic/etic distinction as it has been introduced by Pike seems particularly valuable. Emic refers to" *logical-empirical systems whose phenomenal distinctions or "things" are built up out of contrasts and discriminations significant, meaningful, real, accurate, or in some other fashion regarded as appropriate by the actors themselves* " (Pike, 1976: 571). Etic depends upon "*phenomenal distinctions judged appropriate by the community of scientific observers* " (Pike, 1976: 575). For the purpose of the research the framework is therefore useful to identify those key traits of family business groups that do not tend to vary across different cultural settings (the etic dimensions that characterize family business groups) from those that are likely to vary (the emic ones).

3. A Cross-Cultural Framework

Figure 1 below provides a graphical representation of our cross-cultural framework.

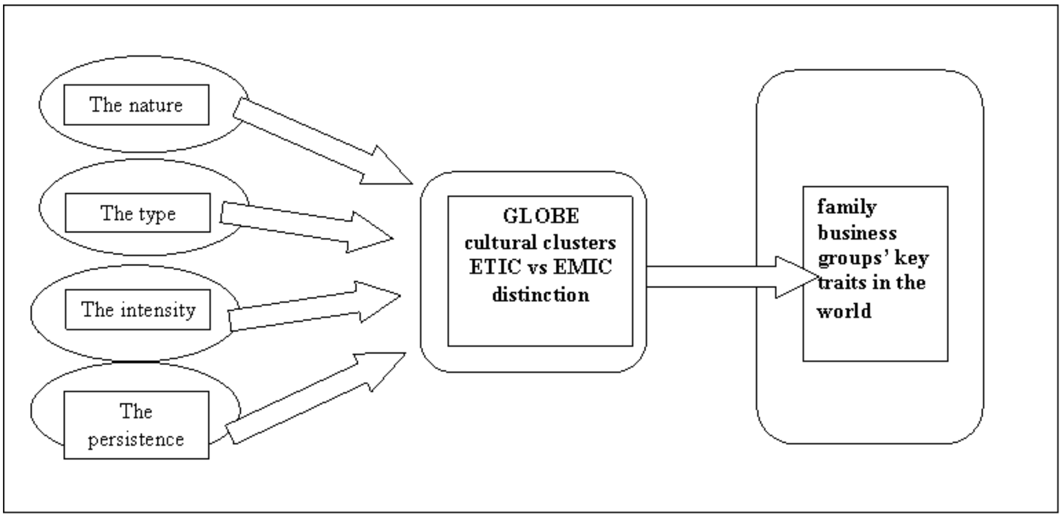

Figure 1 – *A cross-cultural framework of FBG' key traits based on etic/emic distinction* .

3.1. Proposition

Drawing on sections 2.2.1 and 2.2.2, we attempt to test the following propositions.

1) Family business groups belonging to different cultural clusters are likely to display similar governance structures thus the nature of their inter-organizational relations is likely to be an etic dimension.
2) Family business groups belonging to different cultural clusters are likely to display different relational capabilities thus their type (both formal and informal ties), their intensity and their persistence are likely to be emic dimensions. More specific propositions could be further developed, such as:
    i) Family business groups tend to rely more extensively on formal ties on those clusters that score high in power distance.
    ii) Family business groups tend to rely more extensively on formal ties on those clusters that score high in institutional collectivism.
    iii) Family business groups tend to rely more extensively on informal ties on those clusters that score low in power distance.
    iv) Family business groups tend to rely more extensively on informal ties on those clusters that score low in in-group collectivism.
    v) Intensity between formal ties and informal ties is likely to be greater for those family business groups in clusters scoring high in uncertainty avoidance.
    vi) Persistence is likely to be grater for those family business groups in clusters scoring high in long term orientation.

3.2. Research design

This research is exploratory and its aim is to introduce a theoretical framework on the basis of which we can more accurately depict the family business groups' key traits from a cross-cultural perspective. "*Case studies represent a methodology that is ideally suited to creating managerially relevant knowledge*" (Gibbert et al., 2008) and they are considered most appropriate as tools in the critical, early phases of a new management theory, when key variables and their relationships are being explored (Yin, 1994; Eisenhardt, 1989). Therefore case study research is particularly useful at the early stages of theory development, in which key themes and categories have yet to be empirically isolated (Eisenhardt, 1989; Elg and Johansson, 1997; Parkhe, 1993; Yin, 1984). In particular multiple case studies provide a more solid basis for generalization and can provide substantial opportunities for theory-building (Steier and Miller, 2010). For the purpose of the research 10 explorative case-studies belonging to the 10 GLOBE clusters will be selected drawing from a variety of different sectors. According to Kerlinger and Lee (2000: 586), "*exploratory studies have three purposes: discovering significant variables in the field situation, discovering relationships among variables, and laying the groundwork for later, more systematic and rigorous testing of hypotheses*". Since the purpose of the research is to develop an analytical framework which will require further testing, the selection of multiple case studies was deemed as appropriate. As highlighted in the work of Birkinshaw, Brannen and Tung (2011), qualitative methods can take us beyond Hofstede (1980) and GLOBE (Tung & Verbeke, 2010) to generate other interpretations of culture that will enable us to make sense of complex FBG phenomena. Finally, as for the reliability of the research (Gibbert and Ruigrok, 2010; Denzin and Lincoln, 1994), data collection and data analysis will replicate previous work (Della Piana, et al. 2010a, 2010b).

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APPENDIX

Table 2: Correspondence between Hofstede and GLOBE				
	Hofstede's dimensions of national culture			
GLOBE's dimensions of national culture	Uncertainty Avoidance	Power Distance	Collectivism	Masculinity
Uncertainty Avoidance	√			
Power Distance		√		
Institutional Collectivism			√	
In-Group Collectivism			~	
Gender Egalitarianism				~
Assertiveness				~
Future Orientation				
Performance Orientation				
Humane Orientation				
(Source: Hofstede, 2006) √=direct correspondence, ~ = weak similarity				
Hofstede (2006) has discussed the equivalence between his dimensions of national culture and those of GLOBE. While there is direct correspondence for uncertainty avoidance, power distance and collectivism (with institutional collectivism) the remaining six GLOBE dimensions are not found to have a direct correspondence among Hofstede’s four dimensions. For example, Hofstede's masculinity is split into assertiveness and gender egalitarianism in GLOBE.				