

**The heterogeneity of the family business:
Goal orientation, intergenerational
differences and succession**

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1. Introduction

1.1 Family business characteristics

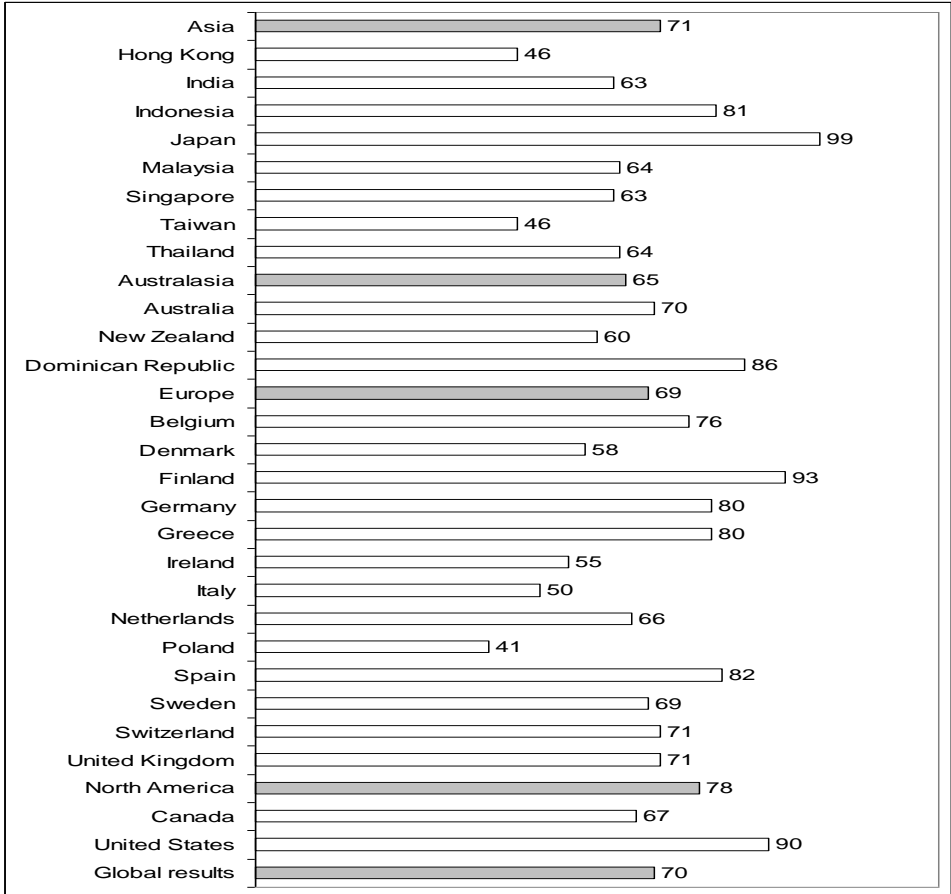
1.1.1 The importance of the family business

There is no doubt that family businesses play a prominent role in the world economy. If one takes into account their total number as well as their total contribution towards the employment and national product of most countries, it's clear that they should be regarded as one of the most important types of organization. According to some estimates, their share lies in a range of 50 to 96% of all companies depending on the country and the definition used (Ifera, 2003). Similar findings result from a study executed by Grant Thornton (2002). Based on a survey questioning more than 8.000 business owners around the world, it was found that 71% of the respondents in Asia, 69% in Europe and 90% in the United States perceive their business to be a family business. A detailed overview of the importance of family businesses in 26 countries is given in Figure 1.1.

Also in Belgium the family owned business dominates the economic landscape. Several studies show that 70 up to 80% of all Belgian companies can be considered as family businesses, which altogether generate more than half of the GNP (Donckels, Hoebeke, 1992; Grant Thornton, 2002; Ifera, 2003). They should be seen as companies going from small corner stores to large multinational corporations that all share the common premise that the decision making and operations of the firm are influenced by the owning family. In the first place one can think of successful publicly listed corporations like Colruyt, Bekaert, UCB or Van de Velde that are mainly controlled by a strong business family who owns a large part of the firm's stocks. However, besides these large corporations, family firms are even more

represented in the group of small- and medium-sized enterprises. In fact, the Belgian economy strongly depends on these “smaller” organizations, given that less than 1% of all companies in Belgium employ more than 250 people. We will therefore focus on these privately held small- and medium-sized businesses in current doctoral research, as will be described further on in this chapter. Overall, the above figures which clearly illustrate the prevalence of the family business, should already give some indication why research on this type of organizations is relevant and necessary.

Figure 1.1: Importance of the family business based on self-perception (%)



PRIMA global research report, 2002, Grant Thornton

1.1.2 The heterogeneous character of the family business

Despite the size of the family business sector, the field itself is still relatively new in organizational research, given that the words “family business” only occasionally appeared in

the literature before the 1980s. To some extent, this can be explained by the fact that family business data is rather difficult to gather because companies have no obligation whatsoever to disclose information on the involvement of the family in the business, and since many business families are very keen on their privacy which restricts their communication on the ownership structure of their company (Flören, 2002). Moreover, researchers have always experienced important difficulties in identifying the exact factors that differentiate a family business from a non-family business, which resulted in the application of several family firm definitions making it quite complicated to compare various studies. But even today, after almost three decades of efforts, researchers have not succeeded in developing a uniform family firm definition.

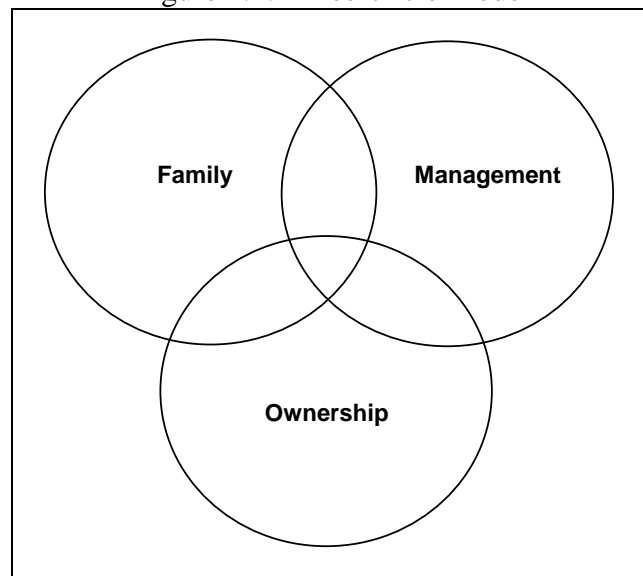
Table 1.1 gives an overview of some family firm definitions that have been used in the literature as well as the fundamentals on which they are based. In general, five different criteria can be differentiated which are either separately used or in combination in the cited definitions. In the first place, it concerns the question whether the ownership is in hands of a family, as a large proportion of the shares in hands of family members enables them to control the company. The second criterion rather looks at the management of the company. It refers to the degree of family involvement in the management team as this reveals the extent to which the family can direct the activities of the business. The third criterion concentrates on the commitment of the family to the business and the presence of shared values and vision between both subsystems. The fourth criterion considers the self-perception of the business owners/managers by questioning if they regard their company as a family business. Finally, some authors assess the family character of a company based on the existence of a successor within the family, as this assures the transfer of the firm from one generation to the next.

Table 1.1: Overview of family firm definitions

Barnes and Hershon, 1976	Controlling ownership is rested in the hands of an individual or of the members of a single family.
Carsrud, 1994	A closely-held firm's ownership and policy making are dominated by members of an "emotional kinship group".
Chua, Chrisman and Sharma, 1999	The family business is a firm governed and/or managed with the intention to shape and pursue the vision of the firm held by a dominant coalition controlled by members of the same family or a small number of families in a manner that is potentially sustainable across generations of the family or families.
Daily and Dollinger, 1992	Two or more individuals with the same last name were listed as officers in the business and/or the top/key managers were related to the owner working in the business.
Tagiuri and Davis, 1996	A business in which two or more extended family members influence the direction of the business through the exercise of kinship ties, management roles, or ownership rights.
Donckels and Fröhlich, 1991	Family members in one family own 60% or more of the equity in the business.
Gallo and Sveen, 1991	A business where a family owns the majority of the stock and has total control.
GEEF, 2005	A firm, of any size, is a family enterprise, if: 1. The majority of votes is in possession of the natural person(s) who established the firm, or the natural person(s) who has/have acquired the share capital of the firm, or their spouses, parents, child or children's direct heirs. 2. The majority of votes may be indirect or direct. 3. At least one representative of the family or kin is involved in the management or administration of the firm. 4. For listed companies: person who established/acquired the firm or their families or descendants possess 25% of the right to vote mandated by their share capital.
Handler, 1989	An organization whose major operating decisions and plans for leadership succession are influenced by family members serving in the management or on the board.
Lansberg, Perrow and Rogolsky, 1988	A business in which members of a family have legal control over the firm's ownership.
Litz, 1995	A business may be considered a family firm to the extent that its ownership and management are concentrated within a family unit, and to the extent its members strive to achieve and/or maintain intra-organizational family-based relatedness.
Rosenblatt, de Mik, Anderson and Johnson, 1985	A business in which majority ownership or control lies within a single family and in which two or more family members are, or at some time were, directly involved in the business.
Shanker and Astrachan, 1996	- Broad definition: the family has effective control of the strategic direction and the business is intended to remain in the family; - Middle definition: former criteria + the founder or descendant runs the company; - Narrow definition: former criteria + the business has multiple generations involved, has direct family involvement in daily operations, and has more than one family member with significant management responsibility.
Stoy Hayward, 1989	A firm meets at least one of the following criteria: - More than 50% of the shares are owned by one family; - At least 50% of management are from one family; - A significant number of members of the board are from a single family.
Ward, 1987	A firm that will be passed on for the family's next generation to manage and control.
Westhead and Cowling, 1998	Seven family firm definitions are identified that take into account one or more of the following elements: - Perception of chief executive/managing director/chairman to be a family firm; - Majority of ordinary voting shares are owned by members of the largest single family group related by blood or marriage; - One or more of the management team is drawn from the single dominant family group who owns the business; - The company has experienced an ownership transition to second or later generation family members.

One of the reasons which complicate the development of a uniform family firm definition can be found in the fact that a family firm should be regarded as a system. The most frequently cited work in this respect is the model of Tagiuri and Davis (1996) which portrays family firms by means of the overlap between the subsystems family, management and ownership, as represented in Figure 1.2. The three-circle-model incorporates the view that the unique characteristics of a family business result from the interaction between these three subsystems, where each of these characteristics can be a source of benefits and disadvantages for the family, owners and employees.

Figure 1.2: Three-circle-model



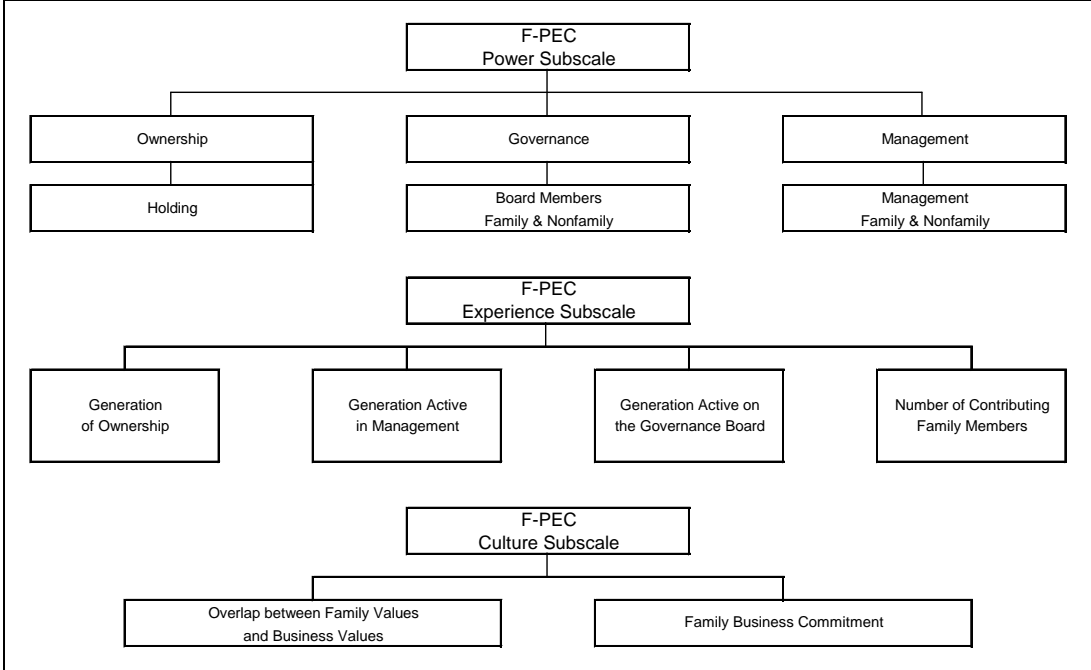
Tagiuri, Davis (1996), p. 200

Moreover, the above insights increased the awareness among researchers that the characteristics of the family type of organization need to be analyzed by identifying various degrees of family influence in a company. In that sense, an interesting contribution was made by Shanker and Astrachan (1996). Starting from a multidimensional scale of family influence measured along a continuum, they came to three operational definitions of family firms (a

broad, middle and narrow definition) ranging from low to high levels of family involvement in a company (see Table 1.1).

Based on the work of Shanker and Astrachan (1996), Astrachan, Klein and Smyrniotis (2002) developed and validated (Klein, Astrachan, Smyrniotis, 2005) the F-PEC scale which further emphasizes the heterogeneous character of family firms. The authors take into account three dimensions or subscales in order to measure the influence of the family in the business. In particular, they distinguish a power dimension, an experience dimension and a culture dimension, as illustrated in Figure 1.3.

Figure 1.3: The F-Pec scale and its dimensions



Astrachan, Klein, Smyrniotis (2002), p. 47-51

The power dimension examines to what extent the family participates in the capital of the firm and is represented in the management team and in the board. Besides direct representation of family members in the management and in the board, the subscale also takes into account the indirect family representation through non-family members who were

appointed by the family. The experience dimension is related to the succession aspect of the family business as it examines which generation owns the company and which generation has managerial control over the firm. Additionally, it also evaluates the number of family members that contributes to the business. Finally, the culture dimension tries to assess to what degree the values of the family and the business overlap and to what extent the family is committed to the company. Taking into account these three dimensions, the F-Pec scale provides an attractive instrument to measure the diversity of family influence that can be found in a business.

A similar contribution was made by Uhlaner (2005) who developed a family orientation index based on the Guttman scale¹. By combining different dimensions related to family ownership and management, intention to transfer the company to the next generation, and the determining of strategy by the family, a single scale was created measuring family influence specifically in the context of small- to medium-sized firms. Through this scale the author tries to respond to the family business definition problem by presenting a tool which integrates the multidimensional nature of family involvement in a company.

Starting from the fact that one will hardly be able to develop a uniform family firm definition in the future given the various ways in which a family can have an impact on a business, a number of researchers recently claimed that an interesting step in getting more insight into the heterogeneous character of family firms concerns the development of a family firm typology (Westhead, Howorth, Cowling, 2002; Chrisman, Sharma, Taggar, 2007;

¹ According to Uhlaner (2005, p. 42), the Guttman scaling technique “offers a method for combining different dimensions or criteria into one index and tests whether these criteria can be ordered according to difficulty. Additionally, it tests whether the more difficult criteria define subsets of cases that are contained or “imbedded” within the subsets defined by the more easily met criteria.”

Vought, Baker, Smith, 2008). In literature, some studies have already been developed in this direction. Birley (2001) e.g. found a distinction between “family in”, “family out” and “juggler” family businesses based on the attitude of owner-managers with regard to several statements measuring the influence of the family in the business. On the other hand, Sharma (2002) distinguished family firms by relying on the three-circle-model of Tagiuri and Davis (1996). By analyzing the position of internal stakeholders in the three-circle-model as well as the number of stakeholders in that position, 72 categories of family firms could be identified. Dyer (2006) developed four types of family firms by starting from the idea that certain family factors in a company can lead to agency benefits and important assets, while other family factors create costs and are liabilities to the firm. By analyzing the extent to which these agency costs and family assets and liabilities occur in the company, a distinction was made between the “clan family firm”, the “professional family firm”, the “mom and pop family firm” and the “self-interested family firm”. Another example concerns the work of Westhead and Howorth (2007) which differentiated between several types of family businesses based on company ownership and management structures as well as company objectives. By taking into account the ownership of the firm which can be diluted within or outside the family, the management which is either or not dominated by the family, and the importance of financial-versus non-financial objectives in the firm, the authors managed to identify six conceptualized types of family businesses.

Given the latter study which focuses on firm objectives, as well as the view of Tagiuri and Davis (1992) and Chua, Chrisman, and Steier (2003) which brings forward that goals can be seen as a driving force in directing company behavior, it should be clear that especially the goals of a family business provide a fruitful path towards the categorization of family businesses. In that sense, several authors bring forward that family firms aren't exclusively

wealth maximizing organizations, but also care about non-economic goals and the needs of the family (e.g. Sharma, Chrisman, Chua, 1997; Astrachan, Jaskiewicz, 2008; Eddleston, Kellermanns, Sarathy, 2008). When describing family business behavior, researchers should therefore incorporate the idea that family firms usually pursue a combination of family oriented goals next to business oriented goals. Current doctoral research will start from this view by taking the goal orientation of the family business into consideration in order to get a better knowledge of the heterogeneous character of this most common form of business organization.

1.2 Family business succession

1.2.1 The challenge of the family business transfer

The transfer of a company, and specifically the succession of a family business, is since many years a well discussed topic in organizational literature. The vast interest in this subject can be explained by the fact that succession concerns a specific phase which confronts many family firms, and which, besides the foundation of the company, can be regarded as one of the most difficult steps in the life cycle of an organization. One of the reasons lies in the complexity of the succession process which often goes together with much emotion and conflicting family interests. Due to the overlap between the family and the business system emotional tensions can arise, which especially become apparent at the moment of the family business transfer. This manifests itself for example in conflicts or rivalry between the successor and the incumbent or other (non)family members (De Massis, Chua, Chrisman, 2008), but also in emotional problems of the founder who needs to let go the company (Sharma et al., 2001). Moreover, many business leaders also deal with the difficult question whether to keep the business in the family irrespective of the successor's qualifications or to hand it over to external owners/managers (Royer et al. 2008). On the other hand, a lot of

family business leaders often realize too late that the succession can not be settled at short notice, but entails planning and preparation during several years (Sharma, Chrisman, Chua, 2003). In this respect, Lambrecht (2005) even demonstrates that a family business transition over generations should be seen as a lifelong and continuous process. In developing his explanatory model, the author explains the success factors of family business succession for the individual, the family and the business. In addition, a time factor is added to indicate that succession should be seen as a process that never ends.

Taking the above insights into consideration, it should be no surprise that many family firms are unsuccessful in transferring the ownership/management to next generation family members (Miller, Steier, Le Breton-Miller, 2003). The latter clearly results from US figures that have been described by Birley (1986), Ward (1997a) and Kets de Vries (1993). They found that about one third of family businesses survive into the second generation and that only 10-15% makes it into the third generation. A study from the United Kingdom leads to the same conclusion. 24% of family businesses are transferred to the second generation and merely 14% survive to the third generation (Stoy Hayward, 1989).

Furthermore, many (inter)national organisations and governments in several countries have shown an increasing interest for the succession issue. They realize that, besides stimulating entrepreneurship leading to the start up of new companies, the survival of existing organizations is even more important. In that sense, entrepreneurship must also be seen in the light of business people who are prepared to take over and carry on existing ventures, since they significantly contribute to the economic growth of a country as well (Westhead, 2003). According to figures published by the European Commission (2003, 2006) it is expected that the coming ten years one third of all European companies will be transferred to the next

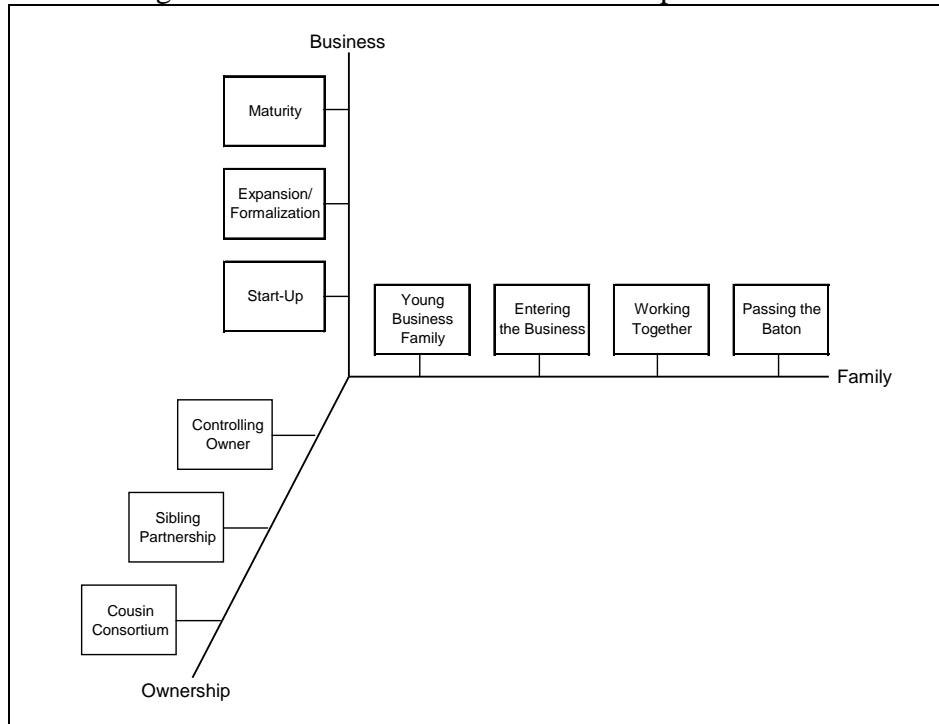
generation. On average this comes to 690,000 small and medium-sized companies per year, which altogether generate more than 2.8 million jobs. Similar findings result from national data. The United Kingdom Small Business Service identified one third of SME owners as vulnerable to age-related transfer failure. In Germany around 354,000 companies are expected to be handed over in the next five years. In France the transfer potential is estimated around 600,000 enterprises for the next decade. If we extrapolate these estimates to Belgium, it is expected that more than 200,000 SMEs will be involved in a business transfer in the following ten years (Lambrecht, Naudts, 2007). Overall, these thoughts and figures should already make clear why business succession comprises a very big challenge for many family controlled companies and why research is warranted in this field.

1.2.2 Intergenerational differences in the family business

In addition to the overview in the previous section, the importance of family business succession also results from several definitions described in Table 1.1. Researchers like Ward (1987), Shanker and Astrachan (1996), Westhead and Cowling (1998), and Chua, Chrisman and Sharma (1999) especially pay attention to the transfer of the family firm as they regard the involvement of next generation family members as one of the distinguishing factors in comparing family- and non-family firms. What's more, in differentiating between several types of family firms, the generational situation can be an important criterion as well.

In that sense, the book of Gersick et al. (1997) should be mentioned as it brought many insights to the literature by describing the evolution of the family business over time. Starting from the three-circle-model of Tagiuri and Davis (1996), Gersick et al. extend this view by adding a separate developmental dimension. Their model, which again indicates the large variety of firms in the family business sector, is illustrated in Figure 1.4.

Figure 1.4: The three-dimensional development model



Gersick et al. (1997), p. 17

Besides the family dimension which is subject to change due to parenthood, marriage, retirement or other issues affecting the family, and the business dimension which goes through several stages from start-up to maturity, especially the ownership dimension is worth mentioning as it is closely related to the generational evolution in the family firm. With respect to the latter, a family firm can undergo three general stages starting with the founding owner or couple holding the shares, after whom sibling partners may jointly own the firm, and finally ownership passes to a third- or next-generation cousin consortium in which ownership is widely dispersed throughout the family. The authors show that a family firm in each of the stages has its own characteristics and needs to deal with specific challenges, meaning that differences can be expected in the behavior of family firms in hands of different generations. They further add that this sequence of ownership stages is not fixed as family business succession should not always lead to greater complexity. The latter view is also demonstrated

by Lambrecht and Lievens (2008) who bring forward that “pruning the family tree” should even be considered as a valuable way to create family harmony and increase business performance.

Next to the work of Gersick et al. (1997), other studies also found evidence that family firms differ according to the generation in charge. Reid et al. (1999) e.g. bring forward that a family firm’s objectives can change as it develops over generations. They start from the idea that a distinction can be made between family firms where the business rather serves the family, and family firms where the family rather serves the business. Based on these thoughts, they found that next-generation family firms are often more oriented towards the family in comparison with first-generation companies. On the other hand, Schulze, Lubatkin and Dino (2003a) and Kaye and Hamilton (2004) describe the varying risk preferences of family business leaders if the company progresses from one generation to the next. Kaye and Hamilton (2004) e.g. mention the fact that second generation family members are often more risk averse and have a higher fear of losing control compared to founders, as they are expected to cherish the family wealth they inherited from their parents. With regard to the study of Schulze, Lubatkin and Dino (2003a), it is shown that the risk-attitude of private family firms changes over generations due to the ownership dispersion that can accompany a family business succession. In that sense, especially sibling partnerships were found to use less debt, and thus willing to bear less risk, compared to controlling owners and cousin consortiums, since they are characterized by increased levels of loss aversion and misalignment among family members. Finally, the work of Davis and Harveston (1999) points to the changing pattern of conflicts that is apt to occur in different generations of family firms. They bring forward the idea of “founder shadow”, which refers to the enduring presence of the founder even after the succession has taken place. Since such a succession can

be regarded as incomplete, an increased level of conflicts between the founder and the descendants can be expected in these family firms, which can harm the success of the business.

Despite the importance of generational differences suggested by a number of authors, the family business literature is still rather scarce with respect to this issue, which calls for additional research that investigates the impact of various generations on the behavior of family firms.

1.3 Aim of current doctoral research

If one observes the past family business literature, it becomes clear that many studies have focused on the distinction between family and non-family firms in different areas like performance, finance, strategy, etc. By following this procedure, one inherently assumes that the family business population can be regarded as a homogeneous group with equal characteristics and similar behavior. However, the need to better understand to what extent family firms differ from one another still remains (Chrisman, Sharma, Taggar, 2007). The overall aim of current doctoral research is therefore to increase our knowledge on the distinguishing characteristics of family firms by adopting a heterogeneity approach in analyzing these organizations.

Starting from the literature overview in the previous sections on the various aspects of family involvement and the family business succession issue, a twofold method will be followed. In a first step, the diversity of the family firm will be investigated based on the degree of family and business orientation of the company. A second step will concern an analysis of the differences between family firms by taking into account the transfer of the

family firm over generations. The focus will more specifically lie on the impact of these differing family firm characteristics on the behavior of family firms by investigating the performance and capital structure of these organizations. This will allow us to get more insight into the questions whether the goal orientation and the intergenerational succession of family firms can help in explaining why some companies perform better or are financed differently than the other.

In chapter 2 we will investigate the goals that drive family business behavior based on a framework integrating the agency theory (Jensen, Meckling, 1976; Fama, Jensen, 1983b), the stewardship theory (Donaldson, Davis, 1991; Davis et al., 1997), and the concept of altruism (e.g. Eddleston, Kellermanns, 2007). A distinction will be made between a family and a business orientation by measuring the degree to which family goals and business goals are being pursued in the company. After having explained the several concepts used in current chapter, we will try to contribute to the scarce literature on family firm typologies by categorizing family firms based on the link between the pursuit of family goals and business goals. This corresponds to the work of Leenders and Waarts (2003) who derived a four-quadrant model by taking into account various combinations of a family and a business orientation. Furthermore, this chapter will also be directed towards the investigation of the relationship between several family influence variables and the goal orientation of a family firm as the literature shows that there's a lack of research relating dimensions of family involvement to goal priorities. Finally, the impact of the developed family firm typology on perceived performance will be analyzed in order to verify whether the goal orientation of a family business is an important factor in explaining different levels of perceived performance. Given the controversy that exists regarding the link between performance and family ownership/management, this approach will answer the need brought forward in literature that

the heterogeneous character of the family firm should be taken into account in order to come to a better understanding of this relationship (Miller, Le Breton-Miller, 2006).

Chapter 3 will focus on the distinction between various generations of family firms by studying to what extent these generational differences have an influence on the financing and growth behavior of family firms. It will start from the idea forwarded by researchers like Ward (1987, 1997a), Gersick et al. (1997), Reid et al. (1999), etc. that the needs of a family firm and their family members, together with their risk attitude and family orientation can significantly change as family businesses develop over generations. We will first take the existing capital structure literature and its relevant variables into account in order to examine how a family business' level of debt is affected by the generation in charge of the company. In addition, we will investigate whether the generational situation is also an important factor in explaining a firm's growth rate. Finally, since a big challenge of many family firms lies in the accommodation of the path of growth to the availability of financial means in order to maintain control within the family, we will also take the relationship between financing and growth behavior into account. This will be accomplished by using the concepts of internal and sustainable growth (Higgins, 1977; Kyd, 1981; Demirgüç-Kunt, Maksimovic, 1998), as they allow measuring a firm's growth capacity in relation to the available financial resources. Through this analysis on the consistency of the finance-growth pattern over different generations of family firms, we try to get more insight into the opposite results that are often found in past studies and to contribute to the extant family business succession literature.

In chapter 4 the impact of the succession event on a family business' financial structure and performance is studied by relying on panel data. This answers the need brought forward by Miller, Steier, and Le Breton-Miller (2003) that business transfers in general, and family

business successions more specifically, are a big challenge for any economy that merits further investigation. Our method differs from the approach in chapter 3 which is based on a cross-sectional comparison of different generations of family firms, and therefore only provides indirect evidence of the effects of succession on family firm behavior. Current chapter tries to identify the direct transitional effects based on a longitudinal study of family business succession by taking into account financial information of the company before and after the transfer. In order to clearly identify the changes in family firms going through a succession, a matching procedure will be followed by making comparison to a group of similar family firms from the first generation that have not yet been involved in a succession (Barber and Lyon 1996). The chapter will also investigate the distinction between family business successions in first-generation family firms and those in next-generation family firms, as several authors have shown that a transfer from the founder to the second generation can be different from that occurring in later generations (e.g. Davis, Harveston 1998, 1999; Schulze, Lubatkin, Dino 2003a; Villalonga and Amit 2006). In this way, we want to gain a better knowledge of the impact of one of the most important events in the life cycle of family firms on their financial structure and performance.

Finally, chapter 5 will give a summary and conclusion of the main research results of this doctoral thesis as well as an overview of our main contributions to the existing family business literature. In addition, we will discuss the main limitations of current research and make some suggestions how to further improve our analyses in the future. This thesis will conclude by indicating some implications of our findings for practitioners and governmental institutions.

1.4 Data gathering process

1.4.1 Sample

In order to test our research questions that will be further developed in the following chapters, data from two distinct sources were used. Non-publicly available information was taken from a large-scale written survey sent out to 2.500 Flemish (northern part of Belgium) companies. This sample was constructed based on the Bel-First database of Bureau Van Dijk, containing detailed financial information on more than 300.000 Belgian businesses. Several criteria were used in order to derive our survey population.

In a first step some sectors were omitted from the population, especially those involved in the financial sector (Nace-Bel code 65-67), in the educational sector (Nace-Bel code 80) and in the social sector (Nace-Bel code 75, 85-99). We further selected only small and medium-sized businesses with total employment between 10 and 250 employees. Micro-firms (less than 10 employees) were ignored, as they often lack a high degree of formality in their organizational structure and management (Gray, Mabey, 2005). Finally, only limited liability companies were selected, given that these firms represent the major legal form of companies in Belgium. This resulted in a total population of 15,137 companies.

Since the questionnaire was specifically developed for measuring family influence in an organization, firms that absolutely lacked any form of family involvement would hardly be able to complete the survey. For this reason, only potential family firms were selected based on four additional criteria. Two are related to the name of the directors and the company name, and the other two are based on address information. By investigating whether two or more company directors had the same family name, or whether the company was named after

one of its directors, we indirectly had an indication of the occurrence of family involvement in these firms. A company was further expected to be a family firm if two or more directors resided on the same address, or where at least one of the directors resided on the business address. After manually screening these 15,137 firms, almost 54% of the companies (8,146) were found to correspond to at least one of these four criteria, meaning that they could be regarded as potential family firms. Finally, in a last step a random sample was drawn out of these 8,146 potential family businesses in order to arrive at a group of 2,500 companies.

1.4.2 Design of the survey

A four-page postal survey was sent to the managing directors of these 2,500 companies in September 2006. In a covering letter the respondents were kindly asked to cooperate in this doctoral study by filling out a questionnaire that would only take 10 minutes of their valuable time. In addition, we assured the anonymity and confidentiality of the survey information, and we provided an incentive by promising (and eventually sending) a research report which would allow them to compare their own answers with the mean values of the other respondents. Finally, we included a postage paid reply envelope which made it possible to return the completed questionnaire free of charge.

The questionnaire was subdivided in seven sections (see Appendix 1). The first section was related to the involvement of the family in the business. It contained questions on the perception of being a family business, the percentage of ownership in hands of the family, the total number of family members that were actively involved in the business, and the composition of the management team by making a distinction between the total number of family- and non-family managers. In addition, it was asked which generation managed/owned

the business, in what year the most recent management/ownership transition occurred over generations, and whether the founder was still actively involved in the company.

The second section was about the corporate governance of the firm. Questions were related to the existence of a governance board, the composition of the board (family- versus non-family members), the frequency of board meetings, and the generational situation of the family board members. We further asked whether the company had a written strategic plan, a family charter, and a forum where the family could regularly discuss the role of the family in the business and solve family conflicts.

A third section was oriented towards the characteristics of the firm's shareholders and managing directors. It addressed issues like the total number of shareholders (family- versus non-family shareholders), the bond between family shareholders, and the number of family shareholders that do not hold the position of employee, managing director or board member. Additionally, questions were included on the total number of managing directors, as well as their age, gender, and length of tenure. If the managing director(s) belonged to the family, we went more deeply into their generational and family situation (e.g. number of children, age of eldest child, number of children actively involved in the company). Finally, we asked whether the directors already considered the succession of their business, and assessed the time span in which they expected to retire.

The fourth section dealt with the culture of the business. The respondents were asked to express to what extent they agreed (on a scale from -3 to +3) on ten different propositions which were related to the commitment of the family to the business. It allowed us to assess whether the family and the business shared the same values, whether the family supported the

decisions taken by the company, if family members were proud to belong to the business and were willing to make great efforts in order to contribute to the firm's success, etc.

The following two sections were oriented towards the goals of the family business. In section five, the respondents were questioned on the degree to which (on a scale from -3 to +3) several goals could be regarded as one of the main goals of the company. The goal items were related to the increase of the financial value of the business, the growth of the sales figure of the business, the maximization of profit, the successful business transfer to the next generation, the preservation of family control and independence, the minimization of family conflicts, etc. In section six, we further evaluated (on a scale from -3 to +3) to what extent the respondents were satisfied with the realization of the same goals as described in section five. By following this approach, we were able to measure the performance of the family business in a subjective way.

The last section was about the financing of the business. The questions assessed whether the company experienced constraints in finding external financial means for supporting the growth of the business, if the bank recently rejected financing requests by the company, if the company itself recently refused to attract bank financing, and the extent to which one or more family owners/directors supplied a loan to their company.

1.4.3 Financial statements information

Besides the information contained in the survey, additional data were collected in the form of publicly available archival data. For this purpose, the Bel-First database was used as a second source of information in current doctoral research as it contains detailed financial information on all Belgian firms. For all the companies in our sample, information on industry

as well as balance sheet and profit and loss account figures were gathered over several years, which enabled us to analyze the financial performance and capital structure of the firms corresponding to the main research questions that will be investigated in the following chapters.

1.4.4 Description of the research data

After the first round of the survey being held in September 2006, 279 completed questionnaires were received. However, in order to further improve the response rate of the survey, a second round was organized in November 2006 by sending out the questionnaire to those that had not cooperated in the first round. This resulted in an additional 225 answers, bringing the total population of respondents to a group of 504 companies. The final response rate of 20.16% that was obtained after the two rounds, is in line with other studies addressing managing directors in SMEs (Pearce, Zahra, 1991; Geletkanycz, 1997).

In order to assess the presence of non-response bias, we compared the firms that responded to the first round of our questionnaire against those that cooperated in the follow-up survey. No significant differences could be detected between these two groups of respondents with respect to the size, industry, age, and location of the company. We also compared these business characteristics between the responding firms and the 2,500 firms in our sample. With respect to all these variables, the group of respondents had similar characteristics to those of the sample of 2,500 firms. As a result, it is expected that non-response bias is not a major concern in our study.

Table 1.2 presents the profile of the companies in our data set. When looking at the size of the companies, 80% of the firms have a maximum total assets figure of 5 million euro. If we

further take the total employment into account, a large majority of the firms (89%) have less than 50 full time employees. We also learn that two thirds of the companies in our data set have been in business for more than 25 years. With regard to industry, most companies (62%) are in the manufacturing or trade sector, while the remaining firms are equally distributed among the construction and services sector. Finally, almost 80% of the companies are located in Antwerp, East- and West Flanders. A smaller number of firms come from the provinces Flemish Brabant and Limburg.

Table 1.2: Profile of firms

<u>Total assets</u> ^a	< 1 mio EUR	1 - 2 mio EUR	2 - 5 mio EUR	5 - 10 mio EUR	> 10 mio EUR
	95 (19%)	142 (29%)	157 (32%)	59 (12%)	42 (8%)
<u>Employment</u> ^b	< 20 FTE	20 - 49 FTE	50 - 99 FTE	≥ 100 FTE	
	275 (56%)	166 (33%)	39 (8%)	15 (3%)	
<u>Age</u>	< 10 years	10 - 24 years	25 - 49 years	50 - 99 years	≥ 100 years
	27 (6%)	130 (27%)	165 (35%)	125 (26%)	29 (6%)
<u>Industry</u>	Manufacturing	Construction	Trade	Services	
	157 (32%)	99 (20%)	147 (30%)	92 (18%)	
<u>Location</u>	East Flanders	West Flanders	Antwerp	Flemish Brabant	Limburg
	96 (19%)	134 (27%)	152 (31%)	43 (9%)	67 (14%)

^aTotal assets based on 2006 figures.

^bFTE: employment in full time equivalents based on 2006 figures.

In order to identify the family firms in our data set, we started from the several family firm definitions and their criteria described earlier in Table 1.1. We chose to apply a broad definition as suggested by Westhead and Cowling (1998) by taking into account the ownership situation of the company and the perception of the managing director. As stated in the questionnaire, a family is regarded as blood-related and in-law family members. The 504

companies in our data set could all be regarded as family businesses since they had 50% or more of the shares owned by members of the family and/or a managing director who perceived the company as a family business. In 26 companies, only one family member was actively involved in the company, meaning that the large majority of the firms had two or more family members who substantially contributed to the company (e.g. as an employee, shareholder or director). In that sense, using such a broad family firm definition in current doctoral research better allowed us to investigate the heterogeneous character of the family type of organization and identify which factors contribute to the differentiation of these companies from one another.

In the following chapters, the data set of 504 family businesses will be used in order to answer our main research questions. However, depending on the presence of missing data with respect to the various research variables, some observations will be excluded from the study. The final data set will therefore differ according to the various analyses and will be described more in detail in the chapters concerned. Chapter 2 will focus on the categorization of family firms based on the goal orientation of a family business. Chapter 3 will be oriented towards the analysis of intergenerational differences in family firms. Chapter 4 will deal with the transfer of a family business by taking the succession event itself into consideration. Finally, Chapter 5 will conclude by giving a summary of the main research results as well as some limitations and implications of current doctoral research.

2. Family business goal orientation and its impact on perceived performance²

2.1 Introduction

After more than two decades of extensive research on the behavior of family firms, academics still have little knowledge of the differing characteristics of this most common form of business organization in the world (Chrisman, Sharma, Taggar, 2007). By emphasizing in the past the comparison of family firms with their non-familial counterparts, one inherently treated the bulk of the family business population as one homogeneous group with equal characteristics and similar behavior. It's probably due to this point of view that in past family business publications conflicting results still prevail with respect to the question whether companies gain an advantage from family influence. The overall aim of this study is therefore to follow a heterogeneity approach in characterizing family businesses by taking into account the firms' goal orientation.

Several authors state that goals can be seen as a driving force in directing company behavior, making of them an important first step in considering the creation of a family firm theory (e.g. Tagiuri, Davis, 1992; Chua, Chrisman, Steier, 2003). Moreover, if family business researchers want to develop such a theory, they should take into consideration the main organizational theories and adapt them to the family business situation (Dyer, 2003). The first aim of this study is therefore to analyze the goal setting of family firms based on theoretical grounds. By starting from a framework integrating the agency theory (Jensen, Meckling, 1976; Fama, Jensen, 1983b), the stewardship theory (Donaldson, Davis, 1991;

² This chapter is co-authored with Eddy Laveren and Lorraine Uhlaner.

Davis et al., 1997), and the concept of altruism (e.g. Eddleston, Kellermanns, 2007), we will investigate the goals that drive family business behavior. A distinction will be made between a family and a business orientation by measuring the degree to which family goals or business goals are being pursued in the company. The latter will be evaluated by questioning respondents about the importance they attach to family oriented goals and business oriented goals. One could expect that family firms mainly pursuing intrinsic rewards like family independence and control will behave differently than those striving for business growth or profit maximization.

Probably one of the most important and basic steps in conducting any form of scientific research and in developing theory is the classification or ordering of objects (Carper, Snizek, 1980; Doty, Glick, 1994). For this reason, we will go deeper into the goal setting of a family business by investigating the link between the pursuit of family goals and business goals in order to categorize family firms. This corresponds to the approach followed by Leenders and Waarts (2003) who illustrate the existence of a “family business space” based on various combinations of a family and a business orientation. Starting from their insights, our second aim is to analyze whether one can differentiate between several types of family firms by investigating the relationship between the pursuit of family and business goals based on theoretical grounds. In this way, we try to contribute to the scarce literature on family firm typologies and go beyond the empirical classifications that can be found in past family business research.

In addition, most researchers agree that the one thing that is unique to family businesses is family influence, often referred to with the concept of familiness (Habbershon, Williams, 1999; Habbershon, Williams, MacMillan, 2003). The latter describes the bundle of resources

and capabilities a firm has as a result of family involvement. Several studies are in this respect oriented towards testing the effect of this concept on business behavior, where a distinction is made between distinctive and constrictive familiness since the influence of the family on the business can lead to benefits as well as disadvantages. However, a study of the family business literature learns that there's a lack of research linking various dimensions of family involvement to goal priorities. A third aim of this study is therefore directed towards the analysis of the association between several family influence variables and the goal setting of a family business. We will relate various aspects of family influence to the goals being pursued in the company, principally based on the valuable dimensions provided by the F-Pec scale (Klein, Astrachan, Smyrniotis, 2005). This will allow assessing the extent and quality of a family's influence on a business, and whether these family influence variables explain why a company is characterized by a family and/or a business orientation. We will also study the link between various dimensions of family involvement and the developed family firm typology and analyze whether family influence variables can help in explaining why a family firm belongs to one type or another.

Finally, the controversy that exists regarding the link between organizational performance and family ownership and management of a company calls for additional studies that take into account the heterogeneous character of the family firm (Miller, Le Breton-Miller, 2006). Especially with respect to the relationship between a family firm typology based on the goal orientation of a company and the performance of a firm, little is known. A fourth aim of this study therefore concerns increasing our knowledge on this relationship by following an alternative approach in measuring company performance. All too often family firms are being compared with non-family firms solely based on financial ratios (Sorenson, 2000; Athanassiou et al. 2002; Chrisman, Chua, Sharma, 2005; Chrisman, Chua, Kellermanns,

Chang, 2007). We abandon this idea by stressing differences in perceived performance between family firms, where the latter will be researched by means of both financial and non-financial performance indicators measured in a subjective way. It will allow us to empirically verify whether the goal orientation of a family business is an important factor in explaining different levels of perceived performance. In this way, we hope to gain more insight into the conflicting results and ideas regarding family business performance that can be found in past empirical research.

This chapter is structured as follows. In a first step the literature on family business goals, typology and performance will be explained. This will lead to the formulation of testable hypotheses. Next, we will provide information about our research variables and method, followed by an overview of the main results. Finally, a discussion together with some concluding remarks regarding our findings will be included in a last section.

2.2 Literature review and formulation of hypotheses

2.2.1 Theoretical background on family business goals

If family business researchers want to develop a theory of the family firm, the most obvious method consists in examining the main organizational theories (Dyer, 2003). In this respect, Jensen and Meckling's (1976) agency theory can be considered as one of the most extensively used frameworks in explaining organizational behavior. An agency relation is one in which a principal delegates authority to an agent to perform some service for the principal. The key feature of all agency relations is that once principals delegate authority to agents, they often have problems controlling them, because agents' interests often differ from theirs, and agents often have better information about their actions than do principals. More specifically, by measuring the amount of agency costs between owners and managers, and

between bondholders and shareholders, academics were able to account for differences in performance and capital structure decisions in companies. With regard to businesses where an overlap exists between the owner and manager, Jensen and Meckling found evidence that there are almost no agency costs in these firms. Also Fama and Jensen (1983b) and Daily and Dollinger (1992) state that family firms are indeed an efficient type of organization given their lower exposure to agency costs due to the overlap of ownership and control.

However, other studies show that this higher efficiency isn't necessarily the case in family businesses, and that agency costs do become significant for this type of firms (e.g. Schulze et al., 2001; Gomez-Mejia, Nunez-Nickel, Gutierrez, 2001). In this respect, self-control, executive entrenchment, asymmetric altruism and exploitation of minority shareholders are often mentioned as main causes of inefficiencies in the family firm. The problem of self-control relates to the fact that private family ownership frees the company from the discipline imposed by the market, which increases the chance that owner-managers will take actions that "harm themselves as well as those around them" (Jensen, 1998, p. 48). Executive entrenchment describes the idea that executives can hold their jobs past the point where it is beneficial to owners, e.g. by manipulating information or making themselves irreplaceable. According to Gomez-Mejia, Nunez-Nickel and Gutierrez (2001, p. 84) it can occur in the family business since "emotions may color perceptions of the competence of executives, which reduces monitoring effectiveness." In addition, altruism can be defined as a trait that positively links the welfare of an individual to the welfare of others (Bergstrom, 1995). Parents e.g. are generous to their children because they love them, but also because they would harm their own welfare if they acted in any other way (Becker, 1981). However, altruism can cause agency costs if it is asymmetric in nature, meaning that it can create dysfunctional behavior when parents have the incentive to be too generous towards their

children. In that sense, the parents' actions can result in shirking and free-riding by their children, which eventually harm their own welfare (Schulze, Lubatkin, Dino, 2003b). Finally, Poutziouris (2006) and Miller and Le Breton-Miller (2006) bring forward that family ownership can induce agency costs if minority shareholders are exploited by dominant family shareholders who neglect the interests of the former. Overall, the above examples should make clear that agency problems do exist in family businesses.

Besides these contradictions in literature, there is also some debate about the importance of the agency theory in explaining family business behavior (e.g. Greenwood, 2003; Sharma, 2004; Chrisman, Chua, Litz, 2004). When applying this theory, researchers inherently take on the assumption that rational economic outcomes like wealth maximization is one of the main goals of a business. However, especially in a family firm setting, additional factors need to be included which to a large extent relate to the fact that individuals in a family business aren't exclusively self-serving and also care about non-economic benefits and the well-being of the family (Sharma, Chrisman, Chua, 1997; Chrisman, Chua, Litz, 2003; Dyer, 2003; Chrisman, Chua, Sharma, 2005; Westhead, Howorth, 2006; Astrachan, Jaskiewicz, 2008; Eddleston, Kellermanns, Sarathy, 2008). It is more likely that they pursue the maximization of a utility function that is made up of both financial and non-financial goals. This idea becomes clear when considering that family firms consist of at least two important subsystems, i.e. the family and the business. A close relationship exists between these two parts, where both the family influences the business and the business influences the family. By emphasizing only (financial) business goals the family in its broad sense is being neglected, which illustrates the importance of taking the desires of both the business and the family into account (Chua, Chrisman, Steier, 2003).

In this respect, many authors pay attention to the reciprocal or symmetrical aspect of altruism in the family business (e.g. Karra, Tracey, Phillips, 2006; Eddleston, Kellermanns, 2007; Lubatkin, Durand, Ling, 2007). It should be differentiated from asymmetric altruism which strongly focuses on the dark side of altruism resulting from the self-serving behavior of family members (Corbetta, Salvato, 2004). Reciprocal altruism specifically assumes that family members have a collectivistic orientation and that they promote the family bond by fostering loyalty, interdependence and commitment to the family's long-term prosperity (Ward, 1987; Eddleston, Kellermanns, 2007). As such, reciprocal altruism may explain why family owners/managers are often, besides pure financial success, even more motivated by creating family harmony or pursuing goals like family independence and security. When integrating these thoughts into agency theory, one comes to a different interpretation of agency costs in a company. If family managers decide to safeguard the independence of the family in the business or deliver a job to family members, this should not be regarded as inefficiencies per se, given that family owners can consider family harmony or family control as major elements of their goal set (Chrisman, Chua, Litz, 2004). This should make clear that sources of agency costs in family firms do not fully correspond with those found in organizations without any form of family influence (Chrisman, Chua, Sharma, 2005).

Based on all these ideas in literature, it is obvious that the agency theory only delivers a partial explanation of family business behavior. Therefore, several authors suggest supplementing agency theory with a complementary theory like stewardship theory which better allows for taking into account these non-financial family oriented goals and reciprocal altruistic thoughts (Corbetta, Salvato, 2004; Chrisman, Chua, Sharma, 2005; Westhead, Howorth, 2006). Stewardship theory was first introduced by Donaldson and Davis (1991) and Davis, Schoorman and Donaldson (1997). It starts from the idea that individuals in a company

aren't predominantly self-serving, but that their motives support those of the company and go beyond purely economic goals (Zahra et al., 2008). Where in agency theory the focus lies more on extrinsic motivation of individuals serving themselves, stewardship theory stresses more their intrinsic motivation. Especially in the family business case this seems interesting since many family members are characterized as altruistic, often feel strongly committed to the business and believe that it is their responsibility to see the business prosper (Eddleston, Kellermanns, 2007). Also Corbetta and Salvato (2004) regard the pursuit of non-economic goals and the presence of altruistic thoughts as important determinants of stewardship behavior which increases pro-organizational behavior, although they further state that it can coexist with the self-serving behavior assumed by the agency theory. In that sense, Chrisman, Chua, Kellermanns and Chang (2007) bring forward the idea that family managers could be seen as a combination of both agents and stewards. Hence, it should be clear that the concept of altruism together with the focus on family oriented goals next to business oriented goals need to be incorporated in order to come to a better understanding of the family form of organization (Chrisman, Chua, Zahra, 2003). We will therefore start in this study from the idea of value creation, which implies a utility function containing both financial and non-financial goals, instead of pure financial wealth creation in family firms, based on the premises and complementariness of the agency and stewardship theory.

2.2.2 Family business goals and typology identification

Family businesses can be considered as complex entities, since in this form of organization the business system is to some extent intertwined with the family system. In accordance with the work of Carper and Snizek (1980), we believe that one way of tackling this organizational complexity lies in the classification or ordering of objects, as it can deliver a parsimonious structure for explaining the behavior of family firms. Indeed, as has been

claimed by a number of authors (e.g. Dyer, Handler, 1994; Sharma, 2002; Westhead, Howorth, Cowling, 2002; Chrisman, Chua, Kellermanns, Chang, 2007; Chrisman, Sharma, Taggar, 2007; Vought, Baker, Smith, 2008), the distinction of several types of family firms would be an important step in getting more insight into the heterogeneity of family firms. Moreover, Sharma (2002) states that a good classification scheme should start from both theoretically and practically differing and resembling characteristics of the family business. In this respect, Doty and Glick (1994) explain that one in fact should make a distinction between empirical taxonomies and theoretical typologies. The development of organizational taxonomies is often based on empirical results lacking any theoretical ground. A good typology however, is one that should be able to construct one or more ideal types of organization by relying on theory, and one that should be testable. Only then the construction of typologies can be regarded as strong theory, as it allows the specification of nonlinear relationships among constructs which can then be used to predict the variance in several dependent variables.

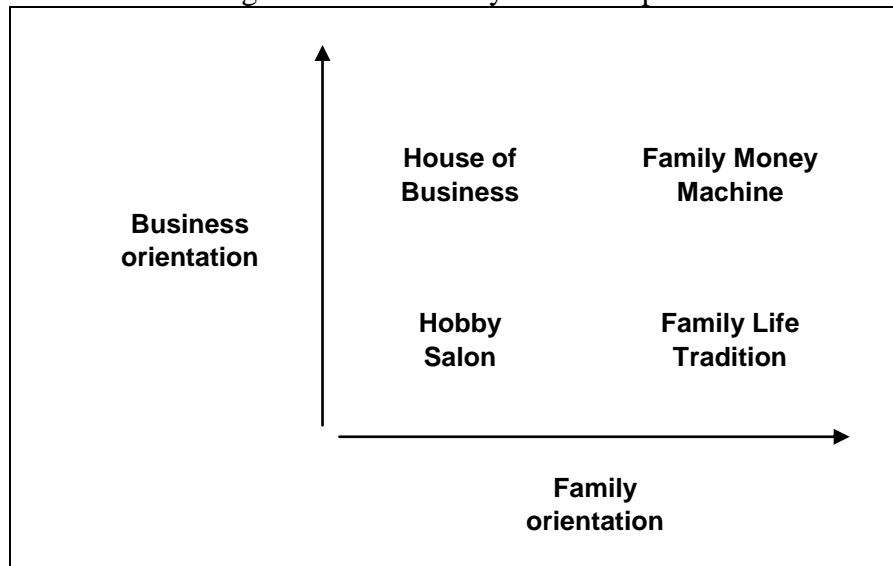
With regard to this study, we are particularly interested in categorizing family firms by using family and business goals in explaining organizational behavior. As stated by Tagiuri and Davis (1992) and Chua, Chrisman, and Steier (2003), goals can be seen as a driving force in directing company behavior, making of them an important first step in the identification of a family firm typology and eventually in the creation of a family firm theory. Furthermore, Sharma, Chrisman, and Chua (1997) claim that studies on goals and objectives are strongly needed. They point to the fact that knowledge is still limited if it comes to understanding the complex mix of goals in family firms, and that these insights could substantially broaden our view on family business behavior.

In literature, there have been some attempts in creating family firm typologies, although they are rather limited in number. A first example is the work of Dyer (1986) who developed a typology of business, board, and family cultures in order to predict successful leadership succession in the family firm. Ward (1987) recognized the existence of a family and business orientation in the family business in order to differentiate between family-first family firms where the business serves the family, and business-first family firms where the family rather serves the business. Gersick et al. (1997) distinguished family firms in terms of the ownership dimension, where they describe the development of a family firm over time from the founding owner or couple, to a sibling partnership, and finally to a cousin consortium. Birley (2001) categorized family firms on the basis of family involvement in the firm resulting in a three-cluster solution, i.e. “family in”, “family out” and “juggler” family businesses. Sharma (2002) relied in her study on the stakeholder mapping technique to identify more than 70 categories of family firms with a varying extent of family involvement. Dyer (2006) developed four types of family firms by analyzing the extent to which agency costs, family assets and family liabilities occur in the company. A distinction was made between the “clan family firm”, the “professional family firm”, the “mom and pop family firm” and the “self-interested family firm”. Finally, Westhead and Howorth (2007) recognized the existence of six types of family businesses based on the objectives that are emphasized in the company as well as the firm’s ownership and management structure.

Although some of these studies take into account the priorities and goals of a company in order to derive various types of family businesses, they to some extent suggest that the preference for a family or a business orientation in a company should be seen as an either/or scenario, or as a choice between two extremes of a continuum representing the priorities of a company (Reid et al., 1999; Garcia-Alvarez, Lopez-Sintas, 2001). However, Uhlaner,

Dekkers and Verheul (2003), and Leenders and Waarts (2003) go beyond this idea of distinguishing family oriented from business oriented family firms by claiming that a business orientation and a family orientation are not necessarily negatively correlated. In that sense, Leenders and Waarts (2003) developed a “family business space” based on various combinations of a family and a business orientation. Their model is illustrated in Figure 2.1 and shows the existence of four types of family firms by measuring the level of family and business orientation (weak versus strong), i.e. “house of business”, “family money machine”, “hobby salon” and “family life tradition”.

Figure 2.1: The family business space



Leenders, Waarts (2003), p. 688

In what follows, we will start from the idea of analyzing several combinations of a family and a business orientation, and additionally use the premises of agency and stewardship theory and the concept of altruism in order to identify a family firm typology. We define family orientation as the extent to which importance is attached in the company to family oriented goals, and business orientation as the extent to which importance is attached to business oriented goals. In other words, if a company is characterized by a high family

orientation it strongly pursues family oriented goals, and if it has a strong business orientation it strongly pursues business oriented goals.

As described above, it should be possible for a family firm to combine a strong family orientation with a strong business orientation. In fact, this first type of family firms is especially interesting to study, as they could be regarded as ideal family firms. The family members in these companies are highly committed to the family as well as to the firm given their high importance attached to both family and business oriented goals. This mainly corresponds to the symmetrical type of altruism as described by the stewardship perspective, since this behavior reinforces family members' involvement and participation in the family business and encourages them to achieve the business objectives (Zahra, 2003). A second type of family firms contains those that strongly pursue business goals to the detriment of family goals. As these family firms care less about the needs of the family, the low levels of altruism in these companies may result in self-serving behavior which can increase conflict among family members (Eddleston, Kellermanns, 2007). The behavior of this type of family firms therefore complies more with the agency perspective. Thirdly, some family firms attach high importance to family goals but less to business goals. In these companies, a too high focus on the family's needs without taking into account the priorities of the business could engender the asymmetrical type of altruism in the company. As this could create agency problems related to self-control, free-riding and shirking, it can eventually harm the welfare of both the family and the firm (Schulze et al., 2003b). Finally, a last type of family firms could be characterized by a low attention paid to both family and business goals. To some extent, they can be regarded as the least favorable type of business as they care less about the needs of the family as well as the business. These companies do not take advantage of the fact that

the family can create value to the business and that the business can help to let the family flourish.

In the remainder of this chapter, we will take the above considerations into account in order to test several hypotheses that will be developed in the following sections. They will be based on the general idea that the pursuit of family goals does not exclude the pursuit of business goals in a company and that a family firm should be able to pursue various combinations of a family and a business orientation.

2.2.3 Family involvement and family business goal orientation

In family business research there is general agreement on the fact that all family businesses, whether small corner stores or large multinational corporations, share the common feature that the decision making and operations of the firm are influenced by the owning family. This family influence is the one thing that is unique to the family business and could be regarded as a resource to the business. In literature, this unique bundle of resources and capabilities resulting from family involvement is often called “familiness”, a concept first introduced by Habbershon and Williams (1999). According to Chrisman, Chua and Steier (2005) family influence is a necessary condition for familiness, although it is not sufficient since it must be exploited in order to create specific benefits or disadvantages for the company. They further state that one can identify the different dimensions of family influence by using the components of the F-PEC scale developed by Astrachan, Klein and Smyrniotis (2002). Via the channels of power, experience, and culture the extent and quality of a family’s influence on a business can be measured (Klein, Astrachan, Smyrniotis, 2005).

The power dimension concerns the extent to which the family participates in the capital of the firm and is represented in the management team and in the board. The experience dimension is related to the succession of the family business as it examines which generation owns/controls the firm. It also evaluates the number of family members that contributes to the business. Finally, the culture dimension assesses to what degree the values of the family and the business overlap and to what extent the family is committed to the company. In fact, as described by Uhlaner et al. (2007, p. 276), the latter dimension can be regarded as an owner commitment scale which forms an aspect of relational governance, and which can be defined as “the degree to which owners as a group feel emotional attachments, involvement and identification to the firm they own”. Overall, these three dimensions capture a family’s ability and willingness to influence the direction of a business, as well as the depth to which a family’s influence is likely to affect business decision making.

As a consequence, the importance and strength of this family influence factor leads one to suspect that it will also be associated with the extent to which either family oriented or business oriented goals are being pursued in a company. Nevertheless, a thorough study of the family business literature learns that only a small number of family business studies investigate the link between family influence variables and the priorities and goals of a family firm. Starting from Ward’s (1987) insights, Basu (2004) suggests that family-first firms can be characterized by a reluctance to sell shares to non-family members or to allow non-family members to the management team. Next to that, Westhead and Howorth (2006) analyze the relationship between the management and ownership structure of a family business and the objectives of the company. They find that family firms with a higher proportion of family directors more frequently cite objectives like “shares are not sold outside the family” and “to pass on the business to the next generation”. The objective “providing employment to family

members” is also positively associated with a higher proportion of family directors and family members in the management team. Finally, researchers like Cromie, Stephenson and Monteith (1995) and Reid et al. (1999) further claim that family firms evolving from the first to the second and subsequent generations often become more family oriented than first-generation companies.

Based on this literature, we expect that family firms will attach more importance to family oriented goals for each increase in the level of family influence in the company measured by means of the level of family ownership, the number of family members in the management team, the number of family members actively involved, and the generation managing the company. On the other hand, in the literature overview in the previous section, the idea was brought forward that a family orientation will not exclude a business orientation in a company (Leenders, Waarts, 2003; Uhlaner, Dekkers, Verheul, 2003). In that sense, we expect that the higher importance attached to family goals in family firms characterized by a higher level of family influence, will not necessarily mean that less importance will be attached to business goals in the company. We therefore come to the following hypotheses:

Hypothesis 1a: Higher levels of family influence in a company will be associated with a higher importance attached to family goals.

Hypothesis 1b: Higher levels of family influence in a company will not be associated with a lower importance attached to business goals.

2.2.4 Family business goal orientation and perceived performance

An important research question in family business studies is about the performance of family firms, i.e. do they perform better in comparison with non-family firms. If so, one often

concludes that in this type of company the influence of the family yields a unique advantage to the business hard to imitate. As a result, researchers are convinced of the importance of differentiating between family and non-family firms in organizational studies. Contrary to this view, several studies bring forward the idea that family firms do not have a general competitive advantage due to the family's influence (Jones, Rose, 1993; Mühlebach, 2004; Venter, Kruger, 2004; Chrisman, Steier, Chua, 2008). As described by Habbershon and Williams (1999) and Habbershon, Williams and MacMillan (2003), researchers need to discriminate between distinctive and constrictive familiness since the impact of the family on the business should not always be favorable. In that sense, the controversy that exists regarding the link between organizational performance and family ownership and management of a company should make clear that the heterogeneous character of the family firm should be taken into account in order to come to a better understanding of this relationship (Miller, Le Breton-Miller, 2006).

An obvious step in acknowledging the absence of a common family firm advantage is to discern between different types of family firms, which, given the subject of this study, will be based on the importance attached to family and business oriented goals. This answers the need brought forward by Sharma, Chrisman and Chua (1997) to get better knowledge of how the goals that are chosen in the family firm affect performance, and to what extent family firms perform better if they pursue the traditional goals and objectives of non-family firms, than the unique goals and objectives of family businesses. Furthermore, family business researchers are recently becoming aware of the fact that one should also study non-financial performance in family firms, given that wealth creation is not the sole goal of these companies (e.g. Sorenson, 2000; Athanassiou et al. 2002; Chrisman, Chua, Sharma, 2005; Chrisman, Chua, Kellermanns, Chang, 2007). They claim that using the same performance

measures in family firms as in other types of organizations, is less useful to family owners and managers who need to deal with both economic and non-economic goals when making decisions³. These family owners and managers also need to direct their efforts at other than purely traditional financial performance targets (Daily, Near, 2000). In this respect, Chrisman, Chua and Litz (2004) propose to measure the performance in terms of the goal set of a family firm.

Starting from the work of Rutherford, Kuratko and Holt (2008) which measures perceived financial performance by means of the satisfaction of the respondents with several financial performance indicators, current study will go one step further by taking into account the multidimensional nature of performance. By analyzing perceived performance based on the extent to which family business leaders are satisfied with the realization of economic as well as non-economic goals in the company, we are able to assess both the family (non-economic) and business (economic) performance of the firm. More specifically, we define family performance as the degree to which the managing director is satisfied with the achievement of family oriented goals, and business performance as the degree to which the managing director is satisfied with the achievement of business oriented goals.

When referring to the typology that was described earlier, it can be expected that the various types of family firms will not all perform equally. Especially those firms that strongly pursue both family and business goals will probably be the most successful ones as they could be regarded as ideal family businesses. They attach high importance to both family and business needs, which enables them to create a positive environment in which the family

³ In fact, any firm could have goals that go beyond economic goals. Ansoff (1979) e.g. showed that firms interact with various stakeholders as they are part of a community, meaning that they have socio-economic duties as opposed to purely financial duties.

thrives and the business flourishes. This is mainly in line with the symmetrical type of altruism as described by the stewardship perspective, since this behavior reinforces family members' involvement and participation in the family business and encourages them to consider the effect of their actions on the firm (Zahra, 2003; Kellermanns, Eddleston, 2004). This further corresponds to the findings of Carlock and Ward (2001) who claim that, although a difficult challenge for any family firm, success depends on being able to combine the goals of the family system and the goals of the business system. As also brought forward by Chua, Chrisman, and Steier (2003), a sustainable family business is one where a synergistic and symbiotic relationship exists between the family and the business. The family must try to add value to the business in a manner that is hard to accomplish without family influence, and the business should perform in a way that engenders value for the family. Based on these ideas we come to the following hypotheses on the relationship between a family business' goal orientation and the perceived performance of the firm:

Hypothesis 2a: Family firms will realize the highest levels of family performance if a strong family orientation is accompanied by a strong business orientation in the company.

Hypothesis 2b: Family firms will realize the highest levels of business performance if a strong business orientation is accompanied by a strong family orientation in the company.

2.3 Research methodology

2.3.1 Data

In this study, we will start from our data set of 504 family businesses. However, for the purpose of the analyses, we omitted 9 respondents from the research population due to the anonymous character of these firms. This results in a final sample of 495 companies.

As we are aware of the fact that collecting data from the same source in the same survey can result in common method bias, we applied Harman’s single-factor test (Harman, 1967), as described by Podsakoff and Organ (1986). Exploratory factor analysis on all the variables used in this study resulted in a 9-factor solution, where the first factor accounted for only 27.5% of the variance. Although this analysis does not completely rule out the possibility of common method bias, it does diminish our concern for a common method factor. Hence, we conclude that common method variance is not a major issue in current study.

2.3.2 Measures

Given the subject of this study, respondents were questioned on the importance they attach to several family business goals which are often mentioned in the literature and which can be placed within the agency- and stewardship framework. They are listed in Table 2.1 together with some descriptive statistics.

Table 2.1: Items used to measure importance of business and family goals

	Factor loadings	Mean	Median	Std. dev.
Business goals (Cronbach’s alpha)	$\alpha = .74$	1.88	2.00	.78
1. Increase of the financial value of the business	.72	2.01	2.00	.94
2. Growth of the sales figure of the business	.79	1.84	2.00	.96
3. Maximization of profit	.78	2.06	2.00	.94
4. Increase of the market share of the business	.66	1.61	2.00	1.23
Family goals (Cronbach’s alpha)	$\alpha = .73$	1.20	1.25	1.17
5. Successful business transfer to the next generation	.77	1.47	2.00	1.62
6. Preservation of family control and independence	.77	1.58	2.00	1.50
7. Minimization of family conflicts	.73	1.68	2.00	1.43
8. Provision of work to family members	.65	0.07	0.00	1.73

Note: All eight items indicate the extent to which respondents attach importance to the specific goals, measured on a scale from -3 to +3 (from “not at all” to “to a very high extent”).

Business goals represents a summated scale which is calculated by taking the average of the scores (from -3 to +3) on all four business goal items. Family goals represents a summated scale which is calculated by taking the average of the scores (from -3 to +3) on all four family goal items.

Respondents were asked to what extent a list of eight goals could be regarded as one of their main goals, based on a seven-point Likert scale ranging from -3 to +3. Four of them can be considered as business oriented goals, whereas the other four are more related to the family. In that sense, the latter family goal items to some extent represent the altruistic thoughts towards the family in the company, as they measure the extent to which importance is attached to the family's needs. All eight items were subjected to an exploratory factor analysis with varimax rotation, which resulted in a two-factor model, explaining more than 56% of total variance. No significant cross-loadings could be detected. As described in Table 2.1, Cronbach's alpha's reach figures of .74 and .73 respectively, indicating sound levels of internal consistency.

With respect to the analysis on perceived performance, we follow the view of Chrisman, Chua and Litz (2004) who suggest measuring the performance in terms of the goal set of a family firm. We therefore asked the respondents to what extent they are satisfied with the realization of the business goals and family goals as described in Table 2.1. By following this approach, both financial and non-financial performance could be measured in a subjective way by relying on the level of satisfaction as perceived by the main family shareholder (managing director). Again, a seven-point Likert scale ranging from -3 to +3 was used. The answers were subjected to an exploratory factor analysis (with varimax rotation), which resulted, as expected, in a two factor solution explaining 67% of overall variance. Again, no significant cross-loadings could be detected. To check reliability of this factor model, Cronbach's alpha's were calculated, which shows figures ranging from .89 for business performance, to .77 for family performance respectively. The factor loadings together with some descriptive statistics are described in Table 2.2.

Table 2.2: Items used to measure perceived business and family performance

	Factor loadings	Mean	Median	Std. dev.
Business performance (Cronbach's alpha)	$\alpha = .89$	1.33	1.50	1.09
1. Increase of the financial value of the business	.86	1.45	2.00	1.28
2. Growth of the sales figure of the business	.88	1.49	2.00	1.22
3. Maximization of profit	.87	1.19	1.00	1.32
4. Increase of the market share of the business	.79	1.22	1.00	1.16
Family performance (Cronbach's alpha)	$\alpha = .77$	1.18	1.25	1.00
5. Successful business transfer to the next generation	.74	.99	1.00	1.38
6. Preservation of family control and independence	.72	1.53	2.00	1.23
7. Minimization of family conflicts	.79	1.37	2.00	1.35
8. Provision of work to family members	.74	.76	0.00	1.23

Note: All eight items indicate the extent to which respondents are satisfied with the achievement of the specific goals, measured on a scale from -3 to +3 (from "totally dissatisfied" to "totally satisfied").

Business performance represents a summated scale which is calculated by taking the average of the scores (from -3 to +3) on all four business performance items. Family performance represents a summated scale which is calculated by taking the average of the scores (from -3 to +3) on all four family performance items.

In addition, if family business researchers want to analyze the influence of the family in an organization, they can rely on the F-Pec scale developed by Astrachan, Klein and Smyrnios (2002). The scale is a standardized instrument that enables the measurement of the extent and quality of a family's influence on a business along the three dimensions of power, experience and culture.

Power is firstly measured by looking at the proportion of family members in the management team (proportion of family in management). Besides that, we also have information available regarding the proportion of shares in the hands of family members. As 92% of the companies in our sample were totally owned by family members, meaning that no external shareholders were involved, a dummy variable was created indicating total or partial family ownership (family ownership). With respect to experience, we questioned on the one hand which generation of family members was actively involved in the management of the firm (2nd vs. 1st generation and 3rd vs. 1st generation), and on the other hand whether the founder still took part in actively managing the company (founder involvement). These variables are included in the analyses by using dummies. Another variable related to the

experience subscale considers the total number of family members actively involved in the company (family members actively involved), as this gives more insight into the complexity of the family business. Finally, the culture subscale is based on the family business commitment questionnaire developed by Carlock and Ward (2001) to analyze the overlap between family values and business values, as well as the commitment of the family to the business. It is a measure of family influence since it is expected that families that are highly committed to the business are more likely to have a substantial impact on the business. Cliff and Jennings (2005) however, recently suggested some slight adaptations to the culture dimension by reconsidering some items of this scale in order to better emphasize the extent to which the company is managed to help realize the family’s vision. We therefore excluded four items of the original subscale, in order to replace them by two new items. The questions related to this subscale can be found in Table 2.3.

Table 2.3: Items used to measure family culture

	Factor loadings	Mean	Median	Std. dev.
Family culture (Cronbach’s alpha)	$\alpha = .92$	2.07	2.30	.88
1. Your family and your company share the same values	.57	1.82	2.00	1.44
2. Your family members feel committed to the company	.80	2.15	3.00	1.19
3. Your family members support the company in discussions with friends, employees and other family members	.84	2.24	3.00	1.04
4. Your family members are proud to be part of the company	.84	2.28	3.00	.99
5. Your family members are very concerned about the fate of the family business	.85	2.30	3.00	1.01
6. Your family members agree with the policy, the plans and the goals of the company	.74	2.06	2.00	1.06
7. Your family understands and supports the decisions taken with regard to the future of the company	.78	1.97	2.00	1.09
8. Your family members are willing to make extra efforts compared to other employees to guarantee the success of the company	.81	2.13	3.00	1.21
9. Your company contributes to serving the interests and needs of the family	.65	1.86	2.00	1.24
10. Your family contributes to realizing the goals of the company	.83	1.93	2.00	1.27

Note: All ten items indicate the extent to which respondents agree with the specific propositions, measured on a scale from -3 to +3 (from “totally disagree” to “totally agree”).

Family culture represents a summated scale which is calculated by taking the average of the scores (from -3 to +3) on all ten family culture items.

The answers to these ten culture items, based on a seven-point Likert scale ranging from -3 to +3, were subjected to an exploratory factor analysis (EFA) with varimax rotation. A single factor was extracted accounting for 60% of overall variance, with factor loadings ranging from .57 to .85. Cronbach's alpha for this culture subscale equals .92, which, based on Hair et al.'s (2006) rule of thumb of .70, suggests a high level of internal consistency. Culture will therefore be integrated into our analyses based on a summated scale (family culture), which is calculated by taking the average for each respondent of the scores (from -3 to +3) on all ten items.

The variables measuring family influence will be included in the regressions on family business goal orientation in accordance with hypotheses 1a and 1b. In addition, they will also be integrated in the regressions on perceived performance, since it can be expected that the degree of family influence will be related to family and business performance as well. With regard to the generational situation in a company, we can e.g. assume that a firm of the second- or third generation will probably be more satisfied with the realization of family oriented goals as it already succeeded in retaining family control and independence over generations. Moreover, since family culture measures the overlap between the values of the family and the business and the extent to which the family is committed to the business, it can also be expected that companies with high levels of family culture will be more satisfied with the realization of both family and business oriented goals. We further suppose to find a negative relationship between family ownership and business performance since the presence of external shareholders could force the company to focus more on higher profitability and growth figures, which can increase the level of satisfaction regarding the realization of these business goals.

Finally, some general control variables are integrated into our analyses. They concern business characteristics like age, size and industry. Age is measured by taking the difference of 2006 and the year of foundation. It is included in all regression analyses as it is expected to be significantly correlated with the variables measuring founder- and generational involvement, which makes it necessary to control for this variable in order to determine the true association between intergenerational succession and the dependent variables⁴. In addition, size is integrated by means of the natural logarithm of total assets in 2006. We especially assume to find a positive relationship between size and business performance, since managing directors of larger firms will probably be more satisfied with the achievement of business oriented goals, as the achievement of these goals enabled them to bring the firm to its current size. Moreover, larger firms can benefit from economies of scale which can increase the level of satisfaction regarding the realization of business goals like maximizing profitability or increasing the financial value of the company. With respect to industry, three dummy variables are created based on the Nace-Bel code. They correspond to the manufacturing, construction, and trade sector. The services sector is used as reference category. It can be expected that companies in a more traditional and fragmented industry (e.g. construction) will focus less on business oriented goals like increasing the market share or the sales figure of the company, which can lead to a negative relationship between this industry and the importance attached to business goals.

Descriptive statistics and correlations of the variables used in this study are shown in Table 2.4. When analyzing the figures, it is surprising to find a rather low correlation figure between the number of family members actively involved in the company and the proportion

⁴ Statistics show that first generation companies are significantly younger than companies of the second and third generation. Also with respect to founder involvement, it is found that firms in which the founder is still actively involved are significantly younger than those in which there is no active founder involvement anymore.

of family members in the management team (i.e. .04). This could be attributed to the fact that actively involved family members include a broader category than just family managers (e.g. family shareholders, family employees, etc.). Moreover, family proportion in the management is a relative measure of family influence, meaning that in some companies a large absolute number of family managers only represents a minority of a large management team.

Table 2.4: Descriptive statistics and correlations

Variables	Mean	SD	1	2	3	4	5	6	7	8	9	10	11	12
1. Business goals	1.88	.78												
2. Family goals	1.20	1.17	.41**											
3. Business performance	1.33	1.09	.35**	.32**										
4. Family performance	1.18	1.00	.34**	.66**	.39**									
5. Company age	43.58	33.98	-.06	-.03	-.04	.05								
6. Log size	7.76	1.08	.12**	.07	.19**	.07	.23**							
7. Family culture	2.07	.88	.38**	.48**	.26**	.52**	.02	.09*						
8. Proportion of family in management	.79	.29	-.00	.18**	-.01	.13**	-.17**	-.38**	.14**					
9. Family ownership (dummy)	.92	.27	.01	.16**	-.03	.13**	-.02	-.13**	.10*	.23**				
10. Family members actively involved	3.67	2.16	.02	.10*	.03	.12*	.15**	.22**	.12**	.04	.03			
11. Founder involvement (dummy)	.43	.50	.08	.04	.03	-.01	-.52**	-.15**	.07	.11*	.01	-.07		
12. 2 nd vs. 1 st generation (dummy)	.47	.50	.02	.08	.03	.02	-.24**	.02	.01	.05	.00	.12**	.04	
13. 3 rd vs. 1 st generation (dummy)	.30	.46	-.05	.02	-.04	.10*	.64**	.12**	.02	-.07	.05	.08	-.55**	-.62**

Note: * $p < .05$; ** $p < .01$.

Business goals represents a summated scale which is calculated by taking the average of the scores (from -3 to +3) on all four business goal items. Family goals represents a summated scale which is calculated by taking the average of the scores (from -3 to +3) on all four family goal items. Business performance represents a summated scale which is calculated by taking the average of the scores (from -3 to +3) on all four business performance items. Family performance represents a summated scale which is calculated by taking the average of the scores (from -3 to +3) on all four family performance items. Company age is measured by taking the difference of 2006 and the year of foundation. Log size is the natural logarithm of the 2006 total assets figure. Family culture represents a summated scale which is calculated by taking the average of the scores (from -3 to +3) on all ten family culture items. Proportion of family in management measures the proportion of family members in the management team. Family ownership is a dummy variable indicating total (100%) vs. partial (< 100%) family ownership. Family members actively involved measures the total number of family members actively involved in the company. Founder involvement is a dummy variable indicating whether the founder still takes part in actively managing the company. 2nd vs. 1st and 3rd vs. 1st generation are dummy variables that take on value 1 if the company is managed by the second or third generation respectively, and 0 if it is managed by the first generation.

2.3.3 Testing procedures

Besides exploratory factor analysis used in this study, our results will be validated by following the approach described by Gerbing and Hamilton (1996). Given the importance attached to family and business goals in this research, they will be subjected to a confirmatory

factor analysis based on maximum likelihood estimation. In that way, we will to some extent be able to assess the degree of generalizability of the model developed in this study.

Multivariate regression and multinomial logistic regression will be the primary techniques used to test our hypotheses. Both multivariate regression analysis and multinomial logistic regression analysis will be implemented for testing to what extent the various dimensions of family influence are associated with the pursuit of family goals and business goals, and for testing whether these family influence variables can help in explaining why a family firm belongs to one type or another. Multivariate regression analysis will also be used to investigate our hypotheses with respect to the influence of family firm goal orientation on family and business performance.

2.4 Results

2.4.1 Family firm typology

Before testing our hypotheses, this section will focus on the link between family goals and business goals in order to identify a family firm typology. Interesting findings can already be derived from the statistics in Table 2.1. Given mean figures for each of the business goal items that all lie above 1.60 and median values of 2.00 (on a scale from -3 to +3), it's clear that on average all companies in our sample strive in a medium to high level for financial goals like profit maximization, sales growth, increase in financial value, and a rise in their market share. If the summated scale of business goals is being studied, which is calculated by taking the average for each respondent of the scores (from -3 to +3) on all four business goal items, the same conclusion holds. Here, an overall mean figure can be found of 1.88, indicating that the family firms in our sample are to a large extent concerned with realizing business goals. In fact, as brought forward by Kotey (2005) and Lee (2006), this is no surprise

as a family business is in some way forced to be efficient due to market competition. As the companies in our sample clearly aren't non-profit organizations, it seems logical that they are to a large extent driven towards financial business goals.

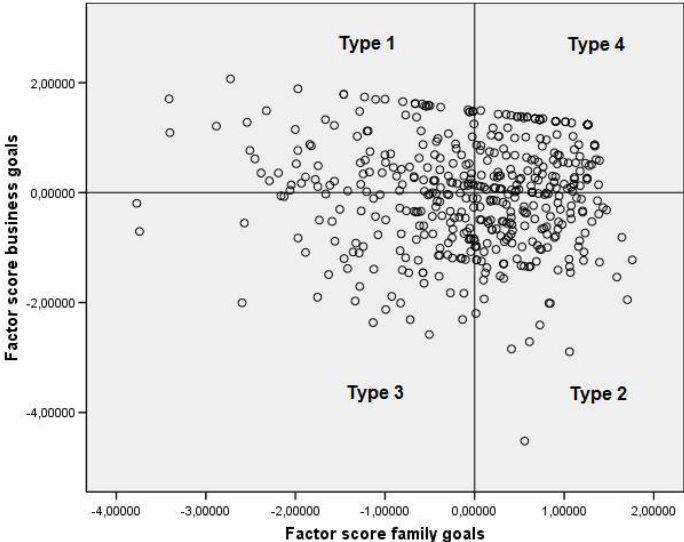
If we turn to the family goals, we come more or less to the same conclusion. Almost all mean and median figures lie around 1.50 and 2.00 respectively, indicating medium to high levels of family goals being pursued in the companies of our sample. However, Table 2.1 further makes clear that the goal of providing work to family members is characterized by diverging statistics compared to the other family goals. Apparently, respondents agree less on the pursuit of this specific goal item in their company, given its much lower mean (0.07) and median (0.00) figure and its higher standard deviation (1.73). If we further calculate the summated scale of family goals by taking the average for each respondent of the scores (from -3 to +3) on all four family goal items, a value of 1.20 can be found, which indicates that most family firms also strive for non-financial family oriented goals like family harmony, independence, a successful company transfer to the next generation and provision of work to family members.

Apart from these insights, additional findings result from Table 2.4, which shows the bivariate Pearson correlation figures for the variables included in our analyses. For the companies in our sample, the pursuit of family goals proves to be significantly positively related to pursuing business goals, as shown by the correlation figure of .41. In other words, our results give evidence of the fact that striving for business goals and striving for family goals should not be seen as an either/or scenario, since most family firms seem to be able to combine both types of goals. This therefore supports our main idea brought forward in this

study that the pursuit of family goals does not necessarily exclude the pursuit of business goals in a company.

Starting from these empirical findings and the theoretical framework supplied by the agency and stewardship theory and the concept of altruism, we are now able to categorize the family firms in our sample. Corresponding to the four-quadrant model as described by Leenders and Waarts (2003), a family firm typology will be developed based on the importance attached to family and/or business goals. In that way, we go beyond the traditional classification of family-first versus business-first family businesses, as a family firm also has the opportunity of pursuing both a family and a business orientation. However, since a large majority of the companies in our sample are oriented towards the pursuit of both family and business goals (see Table 2.1) and since a significant positive correlation exists between these family and business goals, each family firm will be assigned to one of the four quadrants based on the standardized factor scores on family and business goals. These factor scores are derived from the exploratory factor analysis as described in Table 2.1. The result of this analysis is presented in Figure 2.2.

Figure 2.2: Importance attached to family goals and business goals (factor scores)



As Figure 2.2 makes clear, four types of family firms can be identified. The first family firm type is formed by those firms that attach high importance to business goals but in a lower degree to family goals (upper left quadrant). As these firms care less about the needs of the family, they are characterized by lower levels of altruism, which can increase the self-serving behavior among family members in these firms. A group of 110 companies in our sample corresponds to this specification. A second type consists of 121 family firms that strongly pursue family goals contrary to business goals (lower right quadrant). In these companies, the needs of the business are given less priority and more attention is given to the needs of the family, which could engender the asymmetrical type of altruism due to problems of self-control, free-riding and shirking by family members. A third type of family firms concerns 101 companies in the lower left quadrant. They attach little importance to both family and business goals. Finally, a fourth type is composed of 146 family firms that achieve high scores on both family and business goals (upper right quadrant). The behavior of these family firms complies more with the symmetrical type of altruism since family members in the latter group are highly committed to both the family and the business, making of them an ideal type of family firm.

In order to check whether the four types of family firms significantly differ from one another with respect to their factor score on family goals and business goals, we perform a multivariate analysis of variance (MANOVA). The results are presented in Table 2.5. The table shows that the four types are significantly different regarding their factor score on family goals and business goals, given F-values of 277.80 and 286.76 respectively. In addition, post-hoc tests are carried out in order to detect where exactly the differences among the four types of firms occur. Based on either the Dunnett's C test (no homogeneity of

variances assumed) or the Tukey method (homogeneity of variances assumed) each type of firm is compared with each of the three remaining types, by calculating the mean differences in factor scores for both family goals and business goals. As can be observed, all types significantly differ from one another, except for type 2 vs. type 4 and type 1 vs. type 3 with regard to the factor score on family goals, and type 1 vs. type 4 and type 2 vs. type 3 with regard to the factor score on business goals. Specifically for type 4 family firms this means that they are only significantly distinct from type 1 firms based on their family goals score, and that they only significantly differ from type 2 firms based on their business goals score.

Table 2.5: Manova results (dependent variables: family/business goals factor score)

	Family goals factor score		Business goals factor score	
	Mean Difference	SE	Mean Difference	SE
Type 1 vs. Type 2	-1.62***	.09	1.64***	.08
Type 1 vs. Type 3	-.20	.11	1.64***	.08
Type 1 vs. Type 4	-1.75***	.08	.06	.08
Type 2 vs. Type 3	1.42***	.08	-.00	.08
Type 2 vs. Type 4	-.13	.05	-1.58***	.07
Type 3 vs. Type 4	-1.55***	.08	-1.58***	.08
F-value	277.80***		286.76***	
N	478		478	

Note: *** indicates statistical significance at 1%.

The dependent variable family goals factor score measures the standardized factor score on the family goals factor. The dependent variable business goals factor score measures the standardized factor score on the business goals factor. Type 1 to type 4 represent the family firm typology containing four types of family firms, where each of these four types is compared two by two.

In the following sections, the above insights will be used in order to investigate the association between various dimensions of family involvement and the orientation of a family firm as well as the impact of the developed family firm typology on perceived performance.

2.4.2 Family involvement

In order to analyze the link between various dimensions of family influence and the goal orientation of a family business, we will first start from a multivariate regression analysis where both the summated scales of family goals and business goals are integrated as

dependent variables. The independent variables consist of the several dimensions measuring family influence, together with some control variables which are related to company age, size, and industry. The results are presented in Table 2.6.

Table 2.6: OLS regression results (dependent variables: family/business goals)

Variables	Family goals		Business goals	
	B	SE	B	SE
Constant	-1.436***	.514	1.079***	.362
Controls				
Company age	-.002	.002	-.001	.001
Log size	.060	.053	.043	.037
Manufacturing	-.119	.148	-.046	.104
Construction	-.325**	.161	-.376***	.113
Trade	-.073	.151	.131	.107
Family influence				
Family culture	.545***	.057	.337***	.040
Proportion of family in management	.485**	.201	-.074	.142
Family ownership	.413**	.187	-.044	.131
Family members actively involved	.014	.026	-.020	.019
Founder involvement	.174	.138	.050	.097
2 nd vs. 1 st generation	.466***	.146	.038	.103
3 rd vs. 1 st generation	.484**	.210	-.020	.148
R ²		.265		.203
Adjusted R ²		.244		.181
F-value		12.598***		8.932***
N		433		433

Note: ***, **, * indicate statistical significance at 1, 5, and 10% respectively.

The dependent variable family goals represents a summated scale which is calculated by taking the average of the scores (from -3 to +3) on all four family goal items. The dependent variable business goals represents a summated scale which is calculated by taking the average of the scores (from -3 to +3) on all four business goal items. Company age is measured by taking the difference of 2006 and the year of foundation. Log size is the natural logarithm of the 2006 total assets figure. Manufacturing, construction and trade are three industry dummy variables where the services sector is used as reference category. Family culture represents a summated scale which is calculated by taking the average of the scores (from -3 to +3) on all ten family culture items. Proportion of family in management measures the proportion of family members in the management team. Family ownership is a dummy variable indicating total (100%) vs. partial (< 100%) family ownership. Family members actively involved measures the total number of family members actively involved in the company. Founder involvement is a dummy variable indicating whether the founder still takes part in actively managing the company. 2nd vs. 1st and 3rd vs. 1st generation are dummy variables that take on value 1 if the company is managed by the second or third generation respectively, and 0 if it is managed by the first generation.

A first conclusion that can be drawn out of this table concerns the absence of significant figures with regard to most family influence variables in the regression on business goals. Only the family culture variable is positively correlated with the extent to which business goals are emphasized in the company. Moreover, the same significant effect of this variable can be found with respect to family goals. This seems to suggest that companies where the

family largely shares the same values as the business attach more importance to both family and business goals. If we further take the other family influence variables into consideration in the regression on family goals, additional findings result. A transfer of the company to next-generation family members for instance is positively related to the degree to which family goals are being pursued. This indicates that next-generation family firms are characterized by a higher importance attached to family goals. Also for the family ownership variable, a significant positive effect can be detected. This means that family firms where all shares are in hands of family members pay more attention to family goals compared to their counterparts which are not fully owned by the family. This seems quite logical, since external shareholders can prevent family members from striving strongly for the wellbeing of the family. With respect to the proportion of family members in the management team a significant positive relationship can be found too, which means that family firms with a high presence of family members in the management team attach more importance to family goals. Finally, family firm complexity measured by the total number of family members actively involved in the company, is not associated with the extent to which family or business goals are being pursued. Overall, these results already indicate that hypothesis 1a can be accepted, given the significant positive relationship that can be found between most family influence variables and the pursuit of family goals in the company. In addition, since almost none of the family influence variables are associated with the importance attached to business goals, we can also accept hypothesis 1b. Apparently, the stronger orientation towards the family in firms characterized by higher levels of family influence is not accompanied by a lower orientation towards the business.

Given the above analysis on the relationship between family involvement and family business goals, and the identification of a family firm typology in the previous section, we

will now go one step further by analyzing the association between the various family influence variables and the developed family firm typology. This should enable us to gain more insight into the question whether several family influence variables can help in explaining why a family firm belongs to one type or another. To accomplish this, multinomial logistic regression analysis is used, where family firm typology serves as the dependent variable. The independent variables consist of the several dimensions measuring family influence, together with some control variables which are related to company age, size, and industry. To estimate the fit of the model, we examined the variable significance levels and the pseudo R^2 (Nagelkerke), where the latter reaches a figure of .318. Apart from family culture (at the 1% level) and to some extent the proportion of family members in the management team (at the 10% level), none of the family influence variables proved to be significantly associated with the developed family firm typology, meaning that they are not able to classify a company into one of the four types of family firms. However, in order to more fully understand the link between family influence and typology, we explore the significance levels of the individual parameter estimates by comparing each of the four family firm types two by two. The results of this analysis are presented in Table 2.7.

Table 2.7 indicates that family firms characterized by high levels of family culture have a higher probability of belonging to a type 4 family business compared to the other three types. This seems quite logical, given that companies characterized by a high overlap of family and business values (family culture) prove to be the ones that also attach high importance to both family and business goals. We further find that firms with a high proportion of family members in the management team have a higher probability of being a type 2 instead of a type 1 or type 3 family business, but also a higher probability of being a type 4 instead of a type 1 or type 3 family business. However, when comparing type 2 and type 4 family firms,

the proportion of family members in the management team does not seem to be an influential factor. With regard to the other family influence variables, the probability of belonging to a specific type of family firm is not significantly related to any other variable measuring family influence. We only find that firms which are fully owned by the family have a higher probability of being a type 4 family firm compared to a type 1 or type 3 family business, and that the number of family members actively involved in the company proves to be positively associated with the probability of belonging to a type 2 compared to a type 3 family business.

Table 2.7: Logistic regression results (dependent variable: family firm typology)

Variables	Type 1 vs. 2		Type 1 vs. 3		Type 1 vs. 4		Type 2 vs. 3		Type 2 vs. 4		Type 3 vs. 4	
	B	SE	B	SE	B	SE	B	SE	B	SE	B	SE
Constant	2.172	1.642	-1.759	1.511	6.103***	1.724	-3.931**	1.706	3.932**	1.720	7.862***	1.831
Controls												
Company age	.006	.006	.002	.006	-.003	.006	-.004	.007	-.009	.006	-.005	.007
Log size	.086	.165	.129	.163	-.203	.160	.043	.176	-.289*	.159	-.332*	.176
Manufacturing	-.420	.452	-.168	.456	.140	.430	.253	.479	.561	.420	.308	.467
Construction	-1.144**	.535	-1.184**	.537	-.296	.533	-.040	.489	.848*	.452	.888*	.497
Trade	.215	.461	.812*	.480	.371	.432	.597	.525	.157	.443	-.440	.509
Family influence												
Family culture	-.474**	.188	.391**	.174	-1.224***	.217	.866***	.192	-.750***	.221	-1.616***	.228
Proportion of family in management	-1.340**	.610	-.059	.595	-1.149**	.587	1.281**	.645	.191	.609	-1.090*	.643
Family ownership	-.488	.552	-.047	.483	-1.317**	.618	.440	.587	-.830	.672	-1.270*	.662
Family members actively involved	-.091	.074	.077	.090	.012	.080	.168*	.088	.103	.071	-.065	.093
Founder involvement	.412	.419	.283	.445	.024	.412	-.128	.435	-.388	.379	-.260	.441
2 nd vs. 1 st generation	-.335	.448	-.121	.465	-.255	.424	.215	.480	.080	.414	-.134	.471
3 rd vs. 1 st generation	-.474	.626	-.285	.648	.347	.629	.189	.652	.821	.602	.632	.676
Nagelkerke R ²							.318					
χ^2 - value							147.610***					
N							417					

Note: ***, **, * indicate statistical significance at 1, 5, and 10% respectively.

The dependent variable is family firm typology containing four types of family firms, where each of these four types is compared two by two. Company age is measured by taking the difference of 2006 and the year of foundation. Log size is the natural logarithm of the 2006 total assets figure. Manufacturing, construction and trade are three industry dummy variables where the services sector is used as reference category. Family culture represents a summated scale which is calculated by taking the average of the scores (from -3 to +3) on all ten family culture items. Proportion of family in management measures the proportion of family members in the management team. Family ownership is a dummy variable indicating total (100%) vs. partial (< 100%) family ownership. Family members actively involved measures the total number of family members actively involved in the company. Founder involvement is a dummy variable indicating whether the founder still takes part in actively managing the company. 2nd vs. 1st and 3rd vs. 1st generation are dummy variables that take on value 1 if the company is managed by the second or third generation respectively, and 0 if it is managed by the first generation.

Besides the fact that Table 2.7 gives insight into the logarithmic values of the odds figures (the ratio of the probability of belonging to one type versus the probability of belonging to another type) of the two by two comparisons between types of family firms, it also enables us to calculate the probability figures corresponding to each of the four types (Allison, 2005). If this is accomplished specifically for the variable family culture, it can e.g. be found that companies with a high level of family culture have 51% chance of being a type 4 family firm, 24% chance of being a type 2 firm, 15% chance of being a type 1 firm, and 10% chance of being a type 3 firm⁵. If we follow the same procedure with regard to the variable proportion of family members in the management team, it is shown that companies with a high proportion of family in management have 42% chance of being a type 2 family firm, 35% chance of being a type 4 firm, 12% chance of being a type 3 firm, and 11% chance of being a type 1 firm⁶.

Overall, the results of Table 2.7 should lead to the conclusion that most of the family influence variables are not able to explain why a certain family business belongs to a specific family firm type and not to the other three types. Although some effects could be detected with regard to the family orientation of a family business (type 2 or 4 versus type 1 or 3), no association could be found with regard to the level of family influence and the business orientation of a company. This means that a family business has some opportunity of moving from one quadrant to the other. Therefore, these findings provide further support for hypothesis 1a and 1b and for the main argument brought forward in this study that a family firm should be able to pursue various combinations of a family and a business orientation.

⁵ The chance of belonging to type 1 is calculated as $e^{-1.224} / (1 + e^{-1.224} + e^{-0.750} + e^{-1.616}) = 0.15$, the chance of belonging to type 2 as $e^{-0.750} / (1 + e^{-0.750} + e^{-1.224} + e^{-1.616}) = 0.24$, the chance of belonging to type 3 as $e^{-1.616} / (1 + e^{-1.616} + e^{-1.224} + e^{-0.750}) = 0.10$. This leads to a chance of belonging to type 4 = $1 - 0.15 - 0.24 - 0.10 = 0.51$.

⁶ The chance of belonging to type 1 is calculated as $e^{-1.149} / (1 + e^{-1.149} + e^{0.191} + e^{-1.090}) = 0.11$, the chance of belonging to type 2 as $e^{0.191} / (1 + e^{0.191} + e^{-1.149} + e^{-1.090}) = 0.42$, the chance of belonging to type 3 as $e^{-1.090} / (1 + e^{-1.090} + e^{-1.149} + e^{0.191}) = 0.12$. This leads to a chance of belonging to type 4 = $1 - 0.11 - 0.42 - 0.12 = 0.35$.

2.4.3 Perceived performance

A last step in this study deals with investigating whether the family firm typology leads to perceived performance differences. We will try to answer the question whether one family firm type is more successful than the other. As has been mentioned previously, performance is measured in a subjective way by means of the level of satisfaction of the managing director with regard to the fulfillment of family and business goals. Therefore, the dependent variables in our multivariate regression analysis include both family and business performance, where the family firm typology as well as the various dimensions of family involvement and variables related to age size and industry are used as independent variables. Regarding the family firm typology, three dummy variables are created, where type 4 family firms, those that attach high importance to both family and business goals, are taken as a reference category. Consistent with the literature and in line with hypothesis 2a and 2b, we expect this fourth type of family firms to perform very well. The results are shown in Table 2.8.

Table 2.8 shows that the three dummy variables which characterize type 1, type 2 and type 3 family firms compared to type 4 family businesses, give evidence of a significant negative effect of these three family firm types on family and business performance. This indicates that type 4 family firms indeed realize the highest levels of satisfaction regarding the fulfillment of both family and business needs. With respect to family performance the table shows that in type 2 family firms the strong orientation towards the family does not guarantee the highest levels of satisfaction regarding the fulfillment of family goals. Only when the strong family orientation is accompanied by a strong business orientation (type 4) the highest level of family performance can be realized. The same conclusion holds with respect to business performance. In type 1 family firms the strong business orientation does not result in the highest levels of satisfaction regarding the realization of business goals. Only when the strong

business orientation is accompanied by a strong family orientation (type 4) the highest level of business performance can be realized. Apparently, combining a strong family with a strong business orientation, results in the highest overall level of satisfaction, since overly stressing family needs contrary to business needs and otherwise seems to have a restrictive effect on both family and business performance. Moreover, as expected, companies pursuing neither family nor business goals (type 3) realize the lowest levels of perceived performance.

Table 2.8: OLS regression results (dependent variables: family/business performance)

Variables	Family performance		Business performance	
	B	SE	B	SE
Constant	.726*	.433	.413	.560
Controls				
Company age	-.001	.002	-.002	.002
Log size	-.014	.042	.179***	.055
Manufacturing	-.106	.116	-.152	.151
Construction	-.063	.128	.180	.166
Trade	-.125	.121	.078	.156
Family influence				
Family culture	.382***	.051	.159**	.065
Proportion of family in management	-.073	.159	.049	.205
Family ownership	.093	.145	-.276	.188
Family members actively involved	.003	.021	-.021	.027
Founder involvement	.101	.108	-.024	.140
2 nd vs. 1 st generation	.277**	.115	.001	.149
3 rd vs. 1 st generation	.471***	.165	.016	.213
Typology				
Type 1 vs. type 4 family firm	-.900***	.114	-.502***	.147
Type 2 vs. type 4 family firm	-.372***	.107	-.494***	.139
Type 3 vs. type 4 family firm	-.976***	.123	-.838***	.159
R ²		.412		.170
Adjusted R ²		.390		.139
F-value		18.662***		5.485***
N		415		417

Note: ***, **, * indicate statistical significance at 1, 5, and 10% respectively.

The dependent variable family performance represents a summated scale which is calculated by taking the average of the scores (from -3 to +3) on all four family performance items. The dependent variable business performance represents a summated scale which is calculated by taking the average of the scores (from -3 to +3) on all four business performance items. Company age is measured by taking the difference of 2006 and the year of foundation. Log size is the natural logarithm of the 2006 total assets figure. Manufacturing, construction and trade are three industry dummy variables where the services sector is used as reference category. Family culture represents a summated scale which is calculated by taking the average of the scores (from -3 to +3) on all ten family culture items. Proportion of family in management measures the proportion of family members in the management team. Family ownership is a dummy variable indicating total (100%) vs. partial (< 100%) family ownership. Family members actively involved measures the total number of family members actively involved in the company. Founder involvement is a dummy variable indicating whether the founder still takes part in actively managing the company. 2nd vs. 1st and 3rd vs. 1st generation are dummy variables that take on value 1 if the company is managed by the second or third generation respectively, and 0 if it is managed by the first generation. Typology is represented by three dummy variables that take on value 1 if the company is a type 1, type 2 or type 3 family firm respectively, and 0 if it is a type 4 family firm.

The analysis further makes clear that family culture has a significant positive impact on family and business performance. As has been stated before, a higher level of family culture indicates a higher overlap of family and business values, which could explain why culture positively affects both family and business performance. In addition, the results show that intergenerational succession in the family firm seems to have a significant positive effect on family performance. Given that two of the four family goal items are closely related to succession (i.e. successful business transfer and preservation of family control and independence), it is no surprise that second- and third-generation family firms show higher levels of satisfaction with respect to family goals, as they already gave proof of succeeding in retaining family control and in going through a family business transfer over generations.

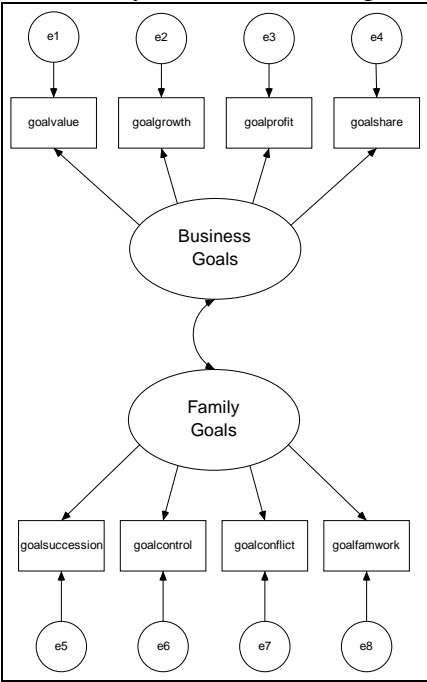
Overall, our analysis provides support for the idea that type 4 family firms could be seen as ideal family firms given that success in a family business depends on being able to combine a strong family with a strong business orientation. Based on these empirical results, hypothesis 2a and 2b can be accepted.

2.4.4 Validation of the model

In order to validate our findings, some further analyses were being applied to assess the degree of generalizability of the results found in this study (see Appendix 2). In a first step, we follow the approach as suggested by Gerbing and Hamilton (1996). Starting from a random split of our total sample in two sub samples, we again apply exploratory factor analysis (EFA) to one half of our sample, where the other half is part of a confirmatory approach (CFA). This allows validating our model as presented in Figure 2.3, which provides the basis for this research. By randomly dividing our sample in two approximately equal parts

by means of SPSS, sub samples were derived containing 244 and 251 observations respectively. The first sub sample was again subjected to EFA. As with the complete sample, the same two-factor model was found (family goals versus business goals), explaining more than 54% of total variance. Next, CFA based on maximum likelihood estimation was applied to the second sub sample of 251 companies. A chi-square value of 34.657 with probability level of .015 was found. Other model fit indicators resulted in figures of 1.824 for χ^2/df , .972 for CFI, and .057 for RMSEA. If these figures are being compared with the cut-off values ($\chi^2/df < 2$, CFI $> .95$, RMSEA $< .05$ or $.07$) suggested by Kline (1998) and Hair et al. (2006), we can conclude that our research model as presented in Figure 2.3, fits the data very well. This, therefore, gives some indication of the validity of the results found in this study.

Figure 2.3: Family versus business goals (CFA)



Secondly, the figures in Table 2.4 indicated that a significant positive correlation exists between family and business goals, and between family and business performance respectively. In order to allow for this correlation between factors, analyses were repeated based on principal components factor analysis with a promax instead of a varimax rotation.

Promax makes use of an oblique rotation technique in order to obtain a factor structure without imposing conditions of orthogonality (Kim, Mueller, 1978). However, conducting this factor analysis with promax rotation produced the same results as before. Even with regard to the categorization of family firms based on standardized factor scores, the same fourfold typology could be identified, with a similar effect on family and business performance as described in Table 2.8.

A third check refers to a potential multicollinearity problem in our analyses due to the fairly high correlations of .64 between company age and the third- versus first-generation dummy, -.55 between founder involvement and the third- versus first-generation dummy, and -.52 between founder involvement and company age. In order to consider this potential problem of multicollinearity, we calculated the variance inflation factors (VIF) for all the independent variables in our regression models. The highest value in our analyses equaled 3.9, which is far below the commonly accepted value of 10 used to indicate multicollinearity concerns (Hair et al., 2006). We nevertheless replicated all our analyses by excluding both founder involvement and company age from our regressions. However, similar effects could be detected, which again provides support for the results found in this study.

Finally, the analyses in Table 2.7 and 2.8 indicate that we in fact have a partial mediating model, since family influence has some effect on perceived performance through the mediating factor family firm typology, next to a direct effect of family influence on perceived performance. As this induces a potential endogeneity problem, a partial solution lies in estimating the analyses of Table 2.7 and 2.8 simultaneously based on structural equation modeling (SEM). SEM allows analyzing the hypothesized relationships within the context of the entire model, and therefore is an attractive choice when testing mediating variables since

all the relevant paths are directly tested, and complications such as measurement error are directly incorporated into the model (Baron, Kenny, 1986). When integrating all variables into SEM, including family firm typology which is measured by means of a dummy variable with value one if the firm is a type 4 family firm and zero otherwise, an acceptable model fit can be found for both the family and business performance model. Moreover, similar results are detected as before, since type 4 family firms indeed realize significant higher levels of family and business performance compared to the other types. Overall, the SEM analyses to some extent show that the endogeneity problem will not seriously distort the results found in current chapter.

2.5 Discussion and concluding remarks

By starting from the premises of both agency theory and stewardship theory and the concept of altruism, we were able to get more insight into the goal setting of a family business. As many times acknowledged in previous research, family businesses aren't exclusively profit maximizing organizations striving for the ultimate goal of shareholders value. In fact, they are often found to care even more for the wellbeing of the family. In that sense, agency theory alone isn't able to fully explain family business behavior, which calls for additional theories to better understand this most common form of business organization. An often suggested solution in this respect lies in the stewardship theory, which has been proposed by several authors to complement the agency framework, since it do accounts for the altruistic thoughts and the pursuit of non-economic goals which are frequently diagnosed in the family business.

Since goals can be seen as a driving force in directing company behavior (Tagiuri, Davis, 1992; Chua, Chrisman, Steier, 2003), the companies in our sample were questioned on the

importance they attach to family and business oriented goals. In that way, a distinction could be made between a family and a business orientation based on the degree to which family goals and business goals are being pursued in the company. In addition, we tried to gain more insight into the question whether the pursuit of family goals excludes the pursuit of business goals in a company by investigating the relationship between a family and a business orientation. Statistics clearly showed that family goals and business goals are not negatively correlated and therefore, should not be seen as an either/or scenario. Moreover, by theoretically and empirically analyzing various combinations of a family and a business orientation, we were able to identify a fourfold family firm typology. In line with the findings of Leenders and Waarts (2003) and Uhlaner et al. (2003), we found evidence that the traditional classification of family-first versus business-first family businesses does not entirely cover the family business population, as a family firm should also have the possibility of pursuing neither or both family and business oriented goals.

By further integrating several dimensions of family involvement into our study, we managed to detect interesting relationships between various family influence variables and the orientation of a family firm. Higher levels of family involvement due to increased family ownership and family membership in the management team were found to be positively related to the pursuit of family goals. Also with respect to the generational situation in a business this same conclusion holds true. Succession from first to subsequent generations of family members is associated with a higher orientation towards the family. In that sense, our findings mainly correspond with those of Cromie et al. (1995), Reid et al. (1999), Basu (2004) and Westhead and Howorth (2006). However, with regard to the relationship between these family influence variables and business goals no significant effects could be detected. This means that the stronger orientation towards the family in firms characterized by higher levels

of family influence is not necessarily accompanied by a lower orientation towards the business. This conclusion also resulted from the analysis on the association between the various family influence variables and the developed family firm typology, where it was found that most of the family influence variables are not able to explain why a certain family business belongs to a specific family firm type and not to the other three types. Overall, these findings led to the acceptance of hypothesis 1a and 1b.

If a family business indeed has some opportunity of moving from one quadrant to the other by altering the importance attached to family versus business goals, a last step was oriented towards answering the question whether a family business would favor from belonging to a specific family firm type compared to the other types. In that sense, especially the companies that succeed in combining a strong family and a strong business orientation are expected to perform very well, as they create a setting where both the family and the business can flourish. The latter view was clearly empirically demonstrated by relating family firm typology to family and business performance, since the highest levels of overall satisfaction could be detected in those companies where both family and business matters were given high attention (type 4 family firms). This provides support for the findings of Carlock and Ward (2001), and Chua, Chrisman and Steier (2003). As a result, hypothesis 2a and 2b were accepted.

Overall, the main conclusion of this study is that the identification of a family firm typology based on the goal orientation of a company should be seen as a valuable way for better understanding family business behavior. By following this approach, evidence was found that combining a strong family orientation with a strong business orientation (type 4 family firms) contributes to the success of both the family business and the business family.

Indeed, as brought forward by Zahra (2003), and in line with the stewardship perspective, the behavior of these family members that are highly committed to the family as well as to the firm mainly corresponds to the symmetrical type of altruism which stimulates family members to cooperate and work together in order to realize the objectives of the business. On the other hand, type 2 family firms (high family orientation, low business orientation) could be regarded as companies where the family factor gets too much attention, distracting the company from the basic reason of existence, i.e. developing a successful economic business activity. In that sense, the asymmetrical type of altruism that is expected to be found in these firms could lead to inefficiencies which in the end can harm both the family and the business (Schulze et al., 2003b). Type 1 family firms (low family orientation, high business orientation) could be considered as companies where the family is somewhat discriminated against the business, therefore not fully taking advantage of the influence the family can bring to the business. Moreover, in line with Eddleston and Kellermanns (2007), the low levels of altruism in these companies could result in self-serving behavior which jeopardizes the family bond and the commitment towards the firm. These findings should make clear that trying to combine a strong family with a strong business orientation could be interpreted as a best family business practice. In this way, referring to the work of Habbershon and Williams (1999) and Habbershon, Williams and MacMillan (2003), real distinctive familiness could be seen in the light of being able to encourage symmetric altruistic behavior in the company, which will allow family members to fulfill both family and business needs. Only then, a company will fully succeed in reaping the benefits of family involvement as a source of competitive advantage.

3. Intergenerational differences in family firms: Impact on capital structure and growth behavior⁷

3.1 Introduction

The interest in family business studies has increased rapidly over the years, leading to a distinctive legitimate field of study in organizational research. As both academics and practitioners have become aware of the importance of these firms for the world economy, considerable effort has been put into research that improves our knowledge of family business behavior and of the varying extent and nature of family involvement in a firm. Astrachan, Klein, and Smyrnios (2002) for instance developed the F-Pec scale as an instrument for assessing family influence in a company based on three subscales: power, experience and culture. With respect to the experience subscale, the authors focus on succession in the family business, which can be of great value for a firm given the experience brought into the company by various generations of family members. Also Gersick et al. (1997), Ward (1987, 1997a), and Schulze, Lubatkin, and Dino (2003a) pay special attention to the generational evolution in a family firm. Overall, they share the view that the needs of a family firm and their family members, together with their risk attitude and family orientation can significantly change as family businesses develop over generations. Taking into account the importance of generational differences in family firms suggested by a number of authors, this study wants to contribute to the literature by capturing the central idea of a heterogeneity approach in family business studies (e.g. Klein, Astrachan, & Smyrnios, 2005; Sharma, 2004; Dyer, 2003; Tsang, 2002). As such the first aim of this study is to distinguish between different generations of family firms and to analyze whether these generational differences have an influence on the

⁷ This chapter is co-authored with Eddy Laveren and Ann Jorissen.

financing and growth behavior of family firms. By supporting and recognizing this view, we no longer treat the majority of the business population as one homogeneous group with equal characteristics and similar behavior.

The extant literature provides evidence that family firms are complex entities, since in this form of organization the business system is to a large extent intertwined with the family system, and because they pursue a combination of both financial and non-financial goals (Sharma, 2004; Chrisman, Chua, & Sharma, 2005; Westhead & Howorth, 2007). In this respect, a big challenge for family firms lies in the accommodation of the path of growth to the availability of financial resources in order to maintain control within family boundaries. Referring to the work of Ward (1997a) and Carlock and Ward (2001), an interesting measure to assess a family firm's financial situation and to study the financing and growth behavior of family firms can be found in the "sustainable growth" concept. This concept calculates a firm's growth capacity in relation to the available financial resources and, as a result, allows us to gain more insight into the influence of a firm's capital structure and financing decisions on the growth realized by the company (Higgins, 1977; Kyd, 1981; Demirgüç-Kunt & Maksimovic, 1998). Examples of previous studies that applied the concept of "sustainable growth" to the family business setting are still rather scarce. Therefore, the second aim of this study is to further refine previous insights into the financing and growth behavior of family firms by using this concept of "sustainable growth" and to analyze whether this behavior is consistent over different generations of family firms.

With the analysis of the consistency of the finance-growth pattern over different generations of family firms, we also try to provide an understanding for the opposite results that are often found in past studies regarding the capital structure and growth behavior of

family firms. Moreover, through this study we indirectly contribute to the extant business transfer literature by providing evidence of the effects of an intergenerational succession on the financing and growth behavior of a family firm.

This chapter is structured as follows. First, we start with a literature review resulting in the formulation of testable hypotheses. Next, we provide information about the research data, measures, and the statistical methodology. Finally we present the results, and conclude with a discussion of the implications of the findings, together with some suggestions for future research.

3.2 Literature review and formulation of hypotheses

3.2.1 Financing behavior of family firms

A survey of the finance literature shows that up till now several capital structure theories have been developed. As described by Titman and Wessels (1988), Harris and Raviv (1991), Fama and French (2002), and Frank and Goyal (2003), most capital structure theories start from the trade-off or pecking order approach. Both are to some extent inspired by the agency theory (Jensen & Meckling, 1976) which points to the conflicts between debtholders and shareholders and a reduction of the free cash flow problem resulting from the use of debt. Next to that, potential bankruptcy costs as well as the deductibility of interest payments are also taken into account in many studies in order to trade-off the costs and benefits related to debt financing to determine the optimal capital structure in a company. An alternative capital structure theory, known as the pecking order model, has been developed by Myers (1984). This model is based on the concept of information asymmetry between the firm and the investor. As transaction costs arise for each new issue of securities or debt, firms will prefer to finance their investments first with retained earnings, then with debt, and finally with equity.

In this way, the firm's level of debt is not driven by trading-off costs and benefits of leverage, but rather by the firm's desire to minimize information asymmetry costs in raising external finance.

Capital structure models based on the trade-off or pecking order concept are often used to empirically determine the optimal capital structure in large as well as small firms. However, in the family business literature and SME literature we do find additional approaches to study the capital structure of these specific firms. Researchers like Barton and Matthews (1989), Hutchinson (1995), and Romano, Tanewski and Smyrniotis (2001) take into account managerial preferences for understanding the level of indebtedness of these firms. In this sense, the authors point to the risk-taking propensity, the values and goals of the owner/manager as they all affect the debt position of the firm. Given that many entrepreneurs pursue a safe and secure business, and want to stay in control of the firm's long-term strategic choices, they prefer to finance the firm's needs from internally generated funds rather than from external debt in order to maintain flexibility and control in their decision-making. We will take this capital structure literature and its relevant variables into account in order to examine how a family business' level of debt is affected by intergenerational differences.

When studying different generations of family firms, an often cited work in this respect is the book of Gersick et al. (1997), in which the authors describe the development of ownership in a family firm over time, from the founding owner, to a second-generation sibling partnership, and finally to a third-or later-generation cousin consortium. According to the authors, family firms going through this evolution could experience better conditions in seeking debt finance from financing institutions if the transition of the firm from one generation to the next is managed successfully. In that case, these companies will be able to

build on long-term and solid relationships with their bank, giving them the status of more reliable debtors. In line with this view, the study of Le Breton-Miller and Miller (2006) analyzes the importance of long-term relationships between family firms and external stakeholders like bankers for financing opportunities. Given that the family name is at stake in these companies, they have higher incentives to meet current and future obligations. Another idea is brought forward by Blanco-Mazagatos et al. (2007) who describe the increasing weakness of family ties and problems of opportunism and altruism over the course of generations. The authors found evidence that family members who are not actively involved in the business will put pressure on the family business leaders to increase the leverage, because debt can serve as a governance mechanism that reduces the harmful effect of managerial opportunism. Building on these studies, one could expect higher amounts of debt in the capital structure of next-generation family firms.

However, other authors like Anderson, Mansi and Reeb (2003) claim that bondholders can consider the transfer of a family business from the founder to the next generation as harmful to their wealth. In their article, they start from the agency theory, which states that agency costs can arise due to asymmetric information between shareholders and bondholders. Given that the selection of a new business leader is mainly based on the existence of family ties, the succession in family firms can involve less qualified founder-descendants, resulting in a detrimental effect on the company (Smith & Amoako-Adu, 1999). Authors also observe that an increase in the number of active and passive shareholders can be expected after succession, leading to higher dividend payout ratios and less attention for the reinvestment of retained earnings (Schwass, 2005). Furthermore, as more persons like brothers and sisters, aunts and uncles, cousins and in-laws get involved in the business, intra-family conflicts and rivalry could arise as shown by Davis and Harveston (1999), and Harvey and Evans (1995). These

authors identified a pattern of rising conflict with each succession in a family business. Moreover, Beckhard and Dyer (1983) and Paul (1996) suggest that these conflicts are a major contributor to family business failure. As a result, it is expected that debt holders will provide less capital to descendant-controlled family firms, unless higher interest yields can be incurred, which can ultimately lead to lower levels of debt in the capital structure of next-generation managed family firms compared to their founder-controlled counterparts. So we observe conflicting views with regard to the debt levels of first- versus next-generation firms.

In contrast to these supply constraints confronting next-generation family firms, many researchers also take into account the demand side of the capital market in studying family firm financing behavior. Several authors found that most owners of family firms are reluctant to engage in debt financing (e.g. Sonnenfeld & Spence, 1989; Ward, 1997a; Miller & Le Breton Miller, 2005). Over time, when the company starts to prosper, they avoid an excessive level of indebtedness. If cash is generated, it will mainly be used to reduce the amount of debt in the capital structure of the company. This preference for internal financing supports the family's strong desire to successfully transfer a healthy company over different generations, as a way of safeguarding the wealth, the security and the tradition of the family. Failure of the company would be seen as a violation of the family's name and a huge loss of the lifework once created by the founder.

Finally, with respect to the owner's descendants, Shepherd and Zacharakis (2000) stated that successors of the founder consider financial sunk costs in their decision making. Given that they usually have invested large amounts of capital for buying themselves into the company, they have a lower willingness to undertake risky activities. This corresponds to the work of Kaye and Hamilton (2004) who identified that descendants usually are less willing to

take risk and have a higher fear of losing control compared to their parents. As they care more about wealth-preservation instead of further wealth-creation, this can result, amongst other things, in a lower debt-oriented capital structure. These observations and findings should lead to the conclusion that lower levels of debt can be expected from the moment next-generation family members get involved in the company. On the basis of the extant literature we therefore formulate the following hypothesis, which is in line with the demand side literature and part of the supply side literature:

Hypothesis 1: First generation family firms will have higher levels of debt in their capital structure compared to second- and third generation family firms.

3.2.2 Growth behavior of family firms

A review of the literature (e.g. Evans, 1987; Cabral, 1995) shows the existence of two basic theories for explaining the main determinants of firm growth. A first well known theory in this respect is Gibrat's (1931) Law, which states that the rate of growth of a firm is independent from its size, meaning that both small and large firms will on average grow at the same pace. For decades, this model has been part of many empirical studies, where researchers mainly come to the conclusion that Gibrat's Law should be rejected, given the relationship that is often found between both variables. A second theory that is frequently cited in literature concerns the model derived by Jovanovic (1982) which describes the change in growth over the life cycle of the firm. By highlighting the role of learning in an organization, the author found an inverse relationship between growth and age, which means that older firms are expected to realize lower growth rates compared to younger firms. In addition, we can also make reference to Penrose's (1959) theory of firm growth which claims that, according to the "resource based view of the firm", the managerial resources available

over time determine the firm's ability to expand. Finally, the work of Davidsson et al. (2002), Delmar et al. (2003), and Delmar and Wiklund (2008) investigates the growth dynamics of small businesses. They come to the conclusion that several demographic characteristics can have an influence on growth, such as the age, size, industry affiliation and growth motivation of the firm.

With respect to this study, evidence can be found in the family business literature that also intergenerational differences are an important factor in explaining a firm's growth behavior. However, different results can be found in this literature regarding the question how intergenerational differences affect growth. Zahra (2005) and Fernández and Nieto (2005) found that when new generations of family members become actively involved in the company, wealth increase and strategic renewal become more important. The underlying argument is that with each succession in a firm, new family members bring fresh knowledge and insights into the company, which positively affects the incentive to innovate, internationalize and grow. However, Kellermanns and Eddleston (2006) come to the opposite conclusion. They find no significant impact of generational involvement on corporate entrepreneurship. For this reason, they claim that entrepreneurs can be found across all generations of family firms, and that first generation companies do not necessarily become more or less entrepreneurial over time.

In contrast to these findings, other researchers indicate that a negative life-cycle effect exists with respect to the growth level realized by the family firm. Ward (1987, 1997a) for instance starts from the complex interactions between the family and the business to show that family firms can differ according to their promulgated goals and priorities, which shift over time. As a result, there are family firms where the business rather serves the family (family-

first companies), as well as family firms where the family rather serves the business (business-first companies). In accordance with this model, evidence was found that first-generation family firms are more business oriented in comparison with subsequent generations, and that firms with a business orientation have a higher capacity to grow (Dunn, 1995; Cromie et al., 1995). Reid, Dunn, Cromie and Adams (1999) used these same ideas to suggest that first-generation family firms grow at a faster rate compared with subsequent generations of family firms, and that for the latter type of firms family goals (family orientation) become more important compared to first-generation companies. These findings also correspond to the study of Martin and Lumpkin (2004) who found that with regard to successive generations entrepreneurial orientation tends to diminish and family orientation seems to prevail, as stability and inheritance concerns become the businesses' principal drivers. Similarly, McConaughy and Phillips (1999) claim that second and later generation family firms invest less in capital equipment and R&D, and exploit less new technologies and markets, leading to slower growth compared to founder-controlled firms.

Finally, interesting conclusions can be drawn from Gersick et al. (1997), who state that with each succession in a family firm there is an increased chance for ownership dispersion and a multiplication of the number of family members involved. Starting from this observation, Miller and Le Breton-Miller (2006) suggest that slower growth can be expected as family firms progress over generations. According to them this is driven by the increasing demand for dividends as family businesses enter second or later generations, thus strongly reducing the availability of financial means needed to support the firm's development and growth. In line with these findings, several authors found evidence that in next-generation family firms a serious increase in information asymmetries between owners and managers can be identified, resulting in a high level of conflict, rivalry and managerial opportunism in the

company, which might be detrimental for growth (e.g. Fama & Jensen, 1983a; Kellermanns & Eddleston, 2004; Blanco-Mazagatos et al., 2007). According to Ward (1997b), these conflicts among family members can be seen as one of the main reasons behind the stagnation of a family business. Based on the majority of these research studies who expect lower growth figures in next-generation family firms, we hypothesize that:

Hypothesis 2: First-generation family firms will realize higher levels of growth compared to second- and third generation family firms.

3.2.3 Link between financing and growth behavior

So far we have discussed prior literature in which the financing behavior and growth behavior of family firms have been studied as individual research variables. However, in the SME- and financing literature a number of articles can be found which focus on the complex relationship between investment, financing and profit distribution decisions and the growth rate of a company (e.g. Rajan & Zingales, 1998; Michaelas et al., 1999; Berggren et al., 2000; Becchetti & Trovato, 2002; Carpenter & Petersen, 2002; Watson & Wilson, 2002; Hall et al., 2004; Oliveira & Fortunato, 2006). Referring to the research of Carpenter and Petersen (2002), and Oliveira and Fortunato (2006), the internal finance theory of growth can be mentioned which focuses on the relationship between financing constraints and growth. As many small firms have limited access to external capital, the authors state that the growth of these firms will be constrained by the availability of financial means internally generated by the company. Moreover, in the case of owner managed firms, this relationship between financing and growth can become even more important due to the fact that many owners/managers have a strong preference to keep ownership and control of the firm in the family's hands (Barton & Matthews, 1989; Berger & Udell, 1998; Jordan et al., 1998;

Hutchinson, 1995; Romano et al., 2001). In this respect, Poutziouris (2001) points to the fact that a majority of the family businesses in the UK can be regarded as “traditionalists” as they want to maintain the status quo and prefer to retain independence and control, which results in a heavier reliance on internally generated funds for financing their growth.

In order to examine the link between financing and growth behavior we use the concept of “sustainable growth”. This concept, also known as “supportable”, “affordable” or “attainable” growth, is well described in both the academic literature and practitioner journals. The most referenced version of the concept goes back to Higgins (1977) and Kyd (1981) who defined it as the annual growth rate that is consistent with the firm's established financial policies, given that the company wants to maintain a constant dividend payout ratio and capital structure without issuing new equity. It can be obtained by starting from the following equation:

$$D_t = g_t * \text{Assets}_{t-1} - \text{Earnings}_t * b_t \quad (1)$$

where D_t represents the amount of borrowing needed at time t if the firm is to grow at a rate of g_t , and b_t is the proportion of the firm's earnings after interest and taxes that are retained for reinvestment. The formula clearly shows that the external financing need is the difference between the required amount of investment, for a company growing at g_t percent, and the internally available resources for investment, given a constant dividend payout ratio.

Based on formula (1) two different estimates of a firm's maximum attainable growth rate can be calculated, i.e. the internally financed growth rate and the sustainable growth rate. With regard to the internally financed growth rate, it is assumed that no external financial means are used. This implies that growth is funded by exclusively relying on retained earnings, meaning that new debt finance and capital increases are not taken into consideration.

Thus, by equating D_t to zero and solving the equation for g_t , the internal growth rate can be derived as follows:

$$IG_t = b_t * Earnings_t / Assets_{t-1} \quad (2)$$

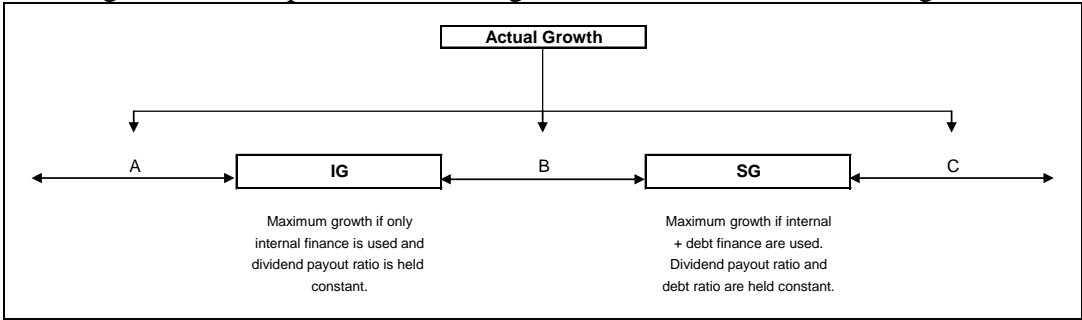
In accordance with Demirgüç-Kunt and Maksimovic (1998) one can also derive the sustainable growth rate (SG) which expresses the maximum growth rate that can be financed without resorting to external equity finance and without altering the current capital structure. Thus, it's the growth rate that can be realized when the firm uses internal resources and an amount of debt financing that keeps its total debt to assets level constant. Again, capital increases are not taken into consideration. SG can be calculated based on formula (1) by equating D_t to the growth rate at time t multiplied by the amount of borrowing at time $t-1$. Solving the equation for g_t results in:

$$SG_t = b_t * Earnings_t / Equity_{t-1} \quad (3)$$

With the use of equations (2) and (3), useful information can be obtained on financing decisions taken in a firm in order to realize growth by comparing the actual realized growth rate with the internal and the sustainable growth level respectively. A graphical representation of these relations is given in Figure 3.1. A company growing at a rate below or equal to the internal growth rate is able to fund its growth by exclusively relying on internally generated financial means (field A). If the actual realized growth lies in-between the internal and sustainable growth rate (field B), the firm will need additional external finance like debt to fund its growth. However, these firms will use less debt so that their debt ratio will fall below its current level. If higher growth than the sustainable growth rate is realized (field C), the management of the firm can consider different options like issuing new equity, reducing

planned profit distributions (dividends), or increasing the anticipated use of debt finance above the actual debt ratio, given the enterprise’s current financial position and its access to the capital market⁸.

Figure 3.1: Comparison of actual growth and internal/sustainable growth



Although the concept has not been widely empirically researched, Ward (1997a), Carlock and Ward (2001), and Mishra and McConaughy (1999) describe this concept as an interesting measure to assess a family firm’s financial situation. Given that many family business owners want to keep control within the family, a major issue in these firms is the accommodation of the growth path to the availability of financial resources. Investment opportunities might arise that need funding beyond the level that is feasible without causing any loss of family control, or beyond the current level of indebtedness. In this respect, interesting conclusions can be drawn from the analysis of companies in which the actual growth rate exceeds the internal or sustainable level. Given that in companies in which a higher growth is realized than the internal or sustainable growth rate, additional amounts of leverage will become necessary to fund their activities and investments, this will lead to a higher probability of financial distress and loss of control. Therefore, the excess growth in a company (above the internal/sustainable growth rate) is a valuable measure for assessing the level of risk tolerance. Although we are

⁸ As the use of external equity financing proved to be extremely exceptional and since dividend payments are rather low for our sample firms, it will be assumed in this study that external financial means correspond to debt finance.

aware that risk encompasses many aspects, we thus specifically focus on control risk in the family business in accordance with the study of Mishra and McConaughy (1999), by analyzing the external financing need of the company resulting from growth.

Referring to the literature on intergenerational differences in family firms, Reid et al. (1999) start from the idea that family orientation becomes more important as family firms develop to show that “family-first firms” are more reluctant to use external sources of capital as family control can dilute, even if it was in support of growth. They further suggest that these firms will finance growth rather from internal than “risky” external sources of finance like debt or venture capital. In the same sense, Schulze, Lubatkin and Dino (2003a) describe the changing risk attitude if ownership gets dispersed among various family members of a privately held family business based on the assumption that with each transition of a family firm to the next generation there is a high chance of equity ownership becoming more diffuse. As this can lead to a divergence of interests between shareholders who serve on the boards of these closely-held firms, family owners will find it prudent to reduce financial leverage, as increased corporate risk has a direct effect on the safety of their personal investments. The effect of this sub-optimal capital structure is that the rate of firm growth is largely limited to the growth rate of internally-generated capital.

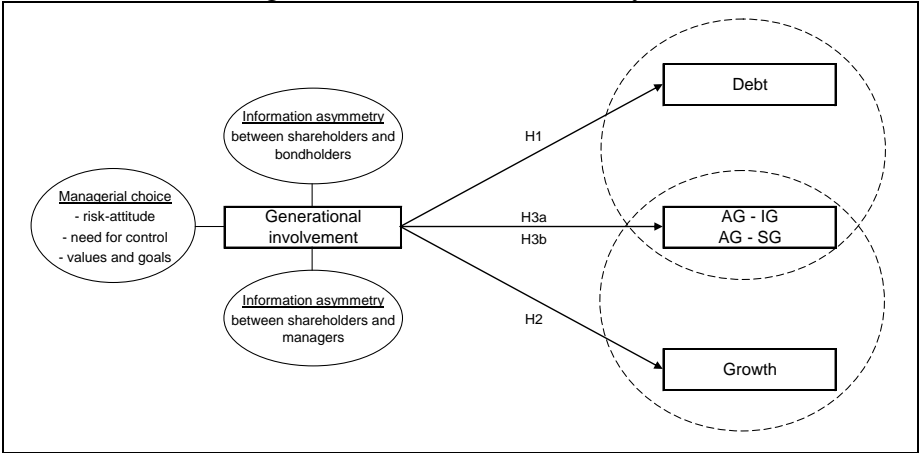
Building on the extant literature, we want to gain insight in whether or not various generations of family firms differ with respect to their level of risk tolerance. For that reason, we will compare the actual growth rates of the companies with their internal and sustainable growth levels. In line with other studies that confirm the increasing risk aversion and fear of losing control as family firms progress from one generation to the next (e.g. Reid et al., 1999; Schulze et al., 2003a; Kaye & Hamilton, 2004), we expect to find that the level of risk

tolerance, measured by the difference between the actual growth rate and the internal/sustainable growth levels respectively will vary across generations. Therefore, we hypothesize with regard to the relation between growth and financing behavior that:

Hypothesis 3a: The level of risk tolerance, measured by the difference between the actual growth rate (AG) and the internal growth rate (IG), in first-generation family firms will be higher compared to second- and third generation family firms.

Hypothesis 3b: The level of risk tolerance, measured by the difference between the actual growth rate (AG) and the sustainable growth rate (SG), in first-generation family firms will be higher compared to second- and third generation family firms.

Figure 3.2: Framework of analysis



The framework of analysis is presented in a graphical way in Figure 3.2. The figure summarizes the hypotheses developed in this chapter regarding the impact of different generations of family firms on the debt level, growth level and the difference between the actual growth and internal/sustainable growth. In addition, the figure shows the main drivers which can explain why generational differences are expected to occur in the growth and financing behavior of family firms based on the empirical literature described above. It

mainly concerns factors such as changing information asymmetries between shareholders and bondholders and between shareholders and managers, as well as changing managerial preferences or choices, where the latter specifically refers to the risk attitude, need for control, and values/goals of the family managers.

3.3 Research methodology

3.3.1 Data

In this study, we will start from our data set of 504 family businesses. Besides the survey information, data on growth rates, debt levels, and other financial information were collected for all the companies in our data set over the period 2000-2005. However, for the purpose of the analyses we omitted 18 respondents from the research population due to the anonymous character of these firms or due to missing information related to the generational situation. Moreover, since financial figures in this study are investigated over the period 2000-2005, 61 family firms were omitted as they were involved in a business transfer from the first- to the second generation or from the second- to the third generation in the period after the year 2000. In this way, clear generational differences can be identified between the firms, without being affected by any spurious effects resulting from a business transfer within the firm on its financial figures in the period of analysis. After these omissions, we obtained a final sample of 425 companies.

Table 3.1 presents the profile of the companies in our sample. A total of 110 companies can be identified as first-generation family firms, 186 as second-generation family firms, and 129 as third- or later generation family firms. In almost all first-generation family firms the founder is still actively involved, whereas in second- and third-generation family firms this involvement drops to 41% and 2% respectively (generational and founder involvement are

measured in 2006). With regard to the firm characteristics age (measured in 2006) and dimension (measured in 2000), we learn that in our sample a rising pattern in the number of years of operation and the size of the company can be identified when comparing different generations of family firms. First generation family firms have been in business on average for 19 years, whereas second- and third generation family firms have 36 and 79 years of operation respectively. With regard to the size of the company measured by means of total assets, we find that the mean figures increase from 1.83 million euro to 4.95 million euro. When looking at industry differences, second- and third-generation family firms seem to be more oriented towards the manufacturing and construction sector, whereas first-generation family firms are more concentrated in the services sector. All these differences in age, size, industry, and founder involvement prove to be statistically significant. We will control for these variables in our analyses.

Table 3.1: Profile of firms

Characteristics	1 st generation Family firm	2 nd generation Family firm	3 rd or later generation Family firm	F value	Chi-square value
Number of firms	110	186	129		
Founder involvement (proportion)	103 (94%)	77 (41%)	3 (2%)		204.8***
Industry (proportion):					
manufacturing	28 (26%)	62 (33%)	43 (33%)		
construction	18 (16%)	42 (23%)	23 (18%)		11.9*
trade	34 (31%)	49 (26%)	46 (36%)		
services	30 (27%)	33 (18%)	17 (13%)		
Company age (mean)	19	36	79	189.4***	
Total assets (mean)	1,830,550	3,654,320	4,950,310	5.5***	

Note: * p < .10; ** p < .05; *** p < .01.

Company age is measured by taking the difference between 2006 and the year of foundation.

Total assets (in euro) is measured in 2000.

3.3.2 Variables

Dependent variables. In order to test our first hypothesis the level of indebtedness represents the proportion of total debt to total assets, averaged over the period 2001-2005.

Total debt was chosen as dependent variable in accordance with the concept of sustainable growth, which takes into account the total level of external financing resulting from financial as well as non-financial debt and short term as well as long term debt. For testing hypothesis 2, which relates to the realized growth rate, average annual growth in total assets over the same five year period is taken into consideration. The choice to measure assets growth instead of sales growth is due to the absence of sufficient sales figures for all firms, as for Belgian SMEs the disclosure of sales figures is voluntary in their financial statements. However, as a robustness check, hypothesis 2 will also be tested based on sales growth using those companies in the sample that voluntarily disclosed their sales figures. Regarding our last two hypotheses 3a and 3b, a third dependent variable measures the difference between the mean annual assets growth and the mean annual internal growth over the period 2001-2005 in the firms growing faster than IG. For the last dependent variable the difference is taken between the mean annual assets growth and the mean annual sustainable growth if the firm realizes a higher growth rate than SG.

Independent variables. In this study, family firms are categorized as first-, second-, or third-generation-managed companies. For this purpose we rely on the questionnaire that assesses which generation at that moment was actively involved in the management of the firm. First-generation family firms are defined as companies managed by the founding generation. In second- and third-generation family firms members of the second-, and the third- or later generation respectively manage the company. By creating two dummy variables, second- and third-generation family firms are compared with their first-generation counterparts. As past studies further suggest that it's important to take into account the influence of the founding family member on family business behavior (e.g. Davis & Harveston, 1998, 1999; Kelly, Athanassiou, & Crittenden, 2000; McConaughy, Matthews, &

Fialko, 2001), information on active founder involvement in the management of the company is also included in our study. The data in Table 3.1 indicate that especially second-generation family firms can be differentiated according to their presence or absence of founder involvement. For this reason, an interaction term that measures the impact of the founder in these family firms is added to our analyses.

In addition, variables revealed by the extant literature as significant drivers for a company's level of indebtedness and (excess) growth are included as control variables. Corresponding to Titman and Wessels (1988), Fama and French (2002), Carpenter and Petersen (2002), and Demirgüç-Kunt and Maksimovic (1998), the following control variables are introduced: earnings before interest, taxes, depreciation and amortization divided by total assets (profitability), fixed assets to total assets (tangibility), annual growth in total assets (assets growth), the standard deviation of cash flows to total assets (variability), and dividend payments to total assets (dividends). With exception of variability, all these variables are averaged over the period 2001-2005. We further use two control variables related to growth objectives and supply side financing constraints based on the survey responses. Growth objectives are measured by means of a 7-point Likert scale variable which identifies to what extent sales growth is one of the firm's main objectives. Financing constraints are measured by using a dummy that takes on value 1 if the bank recently rejected a credit request of the company. The fact that the latter two control variables are measured at the end of the period of analysis (2006), limits the interpretation of the effect of these variables. In that sense, it is more appropriate to talk about associations between the latter two variables and the dependent variables than pure cause-effect relationships.

Finally, referring to the work of e.g. Romano et al. (2001), Harris and Raviv (1991), Titman and Wessels (1988), Evans (1987), and Delmar et al. (2003) we also included some general business characteristics like age, size and industry which could have a significant influence on the variables under study. Firm age is measured by taking the difference between 2006 and the year of foundation. Size is included by means of the natural logarithm of total assets in 2000. With respect to industry, three dummy variables are created based on the Nace-Bel code available in Bel-First. They correspond to the manufacturing, construction, and trade sector. The services sector is used as reference category. Descriptive statistics and Pearson correlations of the variables used in this study are shown in Table 3.2.

Table 3.2: Descriptive statistics and correlations

Variables	Mean	SD	1	2	3	4	5	6	7	8	9	10	11	12	13
1. Total debt/total assets	.65	.22													
2. Assets growth	.08	.13	.16**												
3. Actual – internal growth	.11	.13	.36**	.94**											
4. Actual – sustainable growth	.17	.34	.38**	.33**	.39**										
5. Company age	45.22	35.35	-.26**	-.21**	-.22**	-.17*									
6. Log size	7.53	1.12	-.14**	-.33**	-.37**	-.28**	.30**								
7. Profitability	.15	.09	-.19**	.12*	-.16**	-.10	-.18**	-.13*							
8. Tangibility	.32	.21	.18**	.03	.12	.11	-.18**	-.14**	.22**						
9. Variability	.04	.05	.15**	.14**	.21**	.26**	-.12*	-.21**	-.02	.03					
10. Dividends/total assets	.01	.03	-.17**	-.05	-.12	-.16*	.10	.27**	.40**	-.13*	.05				
11. Financing constraints	.06	.24	.14**	-.05	.01	.05	-.05	-.00	-.11*	-.06	.04	-.02			
12. Growth objectives	1.84	.96	.03	.07	-.02	-.12	-.12*	-.01	.08	.05	-.02	.02	.04		
13. 2 nd vs. 1 st generation dummy	.44	.50	-.07	-.08	-.07	-.06	-.23**	.00	.01	.01	.04	.01	-.08	.02	
14. 3 rd vs. 1 st generation dummy	.30	.46	-.16**	-.15**	-.19**	-.14	.67**	.22**	-.12*	-.09	-.07	.12	-.04	-.12*	-.59**

Note: * $p < .05$; ** $p < .01$.

Total debt/total assets represents the proportion of total debt to total assets averaged over the period 2001-2005. Assets growth represents the average annual growth in total assets over the period 2001-2005. Actual – internal growth measures the difference between the mean annual assets growth and the mean annual internal growth over the period 2001-2005 in the firms growing faster than IG. Actual – sustainable growth measures the difference between the mean annual assets growth and the mean annual sustainable growth over the period 2001-2005 in the firms growing faster than SG. Company age is measured by taking the difference between 2006 and the year of foundation. Log size is the natural logarithm of the 2000 total assets figure. Profitability measures earnings before interest, taxes, depreciation and amortization divided by total assets averaged over the period 2001-2005. Tangibility measures fixed assets to total assets averaged over the period 2001-2005. Variability represents the standard deviation of cash flows to total assets over the period 2001-2005. Dividends/total assets measures dividend payments to total assets averaged over the period 2001-2005. Financing constraints is a dummy variable that takes on value 1 if the bank recently rejected a credit request of the company, and 0 otherwise. Growth objectives are measured by means of a 7-point Likert scale variable which identifies to what extent sales growth is one of the firm's main objectives (from "not at all" to "to a very high extent"). 2nd vs. 1st and 3rd vs. 1st generation are dummy variables that take on value 1 if the company is managed by the second or third generation respectively, and 0 if it is managed by the first generation.

3.3.3 Testing procedures

The hypotheses developed are tested with multivariate regression analysis to identify differences in the financing and growth behavior of first-, second-, and third-generation-managed family firms. The total sample of 425 family firms is taken into consideration for testing hypothesis 1 and 2. However, due to some missing values with regard to variables like company age and log size, a final data set of 377 companies is taken into account for testing hypothesis 1, and 372 companies for testing hypothesis 2. Moreover, since we are particularly interested in companies that experience an external financing need for testing hypothesis 3a and 3b, two sub-samples are derived containing 262 and 163 family firms respectively. The first contains only those firms that grow faster than their internal growth rate, and the second consists of firms that grow faster than their sustainable growth rate. Again, due to some missing values with respect to company age and log size, the final data set used in the analyses consists of 236 and 143 firms respectively. Finally, in order to reduce the influence of outliers in our regression analyses, we excluded the most extreme 1% cases of the dependent variables from further examination⁹.

3.4 Results

3.4.1 Financing behavior

The results of the regression analysis which tests the first hypothesis in relation to the financing behavior of family firms, are provided in Table 3.3. The results indicate that the impact of different generations of family members managing the company on the level of debt is significant. Compared to first-generation firms, second- and third-generation family

⁹ We examined the sensitivity of our results by both including outliers in our analyses, as well as winsorizing extreme values at the 5th and 95th percentiles. The results of these regressions show that similar significant effects can be found with respect to the variables measuring generational involvement.

businesses have a significantly lower debt rate (at the 1% and 10% level respectively) in their capital structure of six to eight percentage points. With respect to founder involvement however, no dissimilarities in financing behavior exist between second-generation firms in which the founder is still actively involved, and those in which the management is solely in hands of the descendants of the founder.

Table 3.3: OLS regression results - dependent variable: total debt/total assets

Independent variables	B	SE	Beta
Constant	.755***	.088	
Controls			
Company age	-.000**	.000	-.152
Log size	.004	.010	.019
Manufacturing	-.089***	.030	-.193
Construction	-.024	.034	-.043
Trade	-.005	.032	-.010
Profitability	-.745***	.117	-.305
Tangibility	.223***	.052	.220
Variability	.367*	.193	.090
Growth	.138	.087	.078
Financing constraints	.088**	.042	.098
Intergenerational differences			
2 nd versus 1 st generation	-.078***	.030	-.178
3 rd versus 1 st generation	-.063*	.036	-.135
Founder * 2 nd generation	.037	.031	.065
R ²	.254		
Adjusted R ²	.227		
F	9.508***		
N	377		

Note: B, unstandardized coefficient; SE, standard error; Beta, standardized coefficient.

* p < .10; ** p < .05; *** p < .01.

Total debt/total assets represents the proportion of total debt to total assets averaged over the period 2001-2005. Company age is measured by taking the difference between 2006 and the year of foundation. Log size is the natural logarithm of the 2000 total assets figure. Manufacturing, construction and trade are three industry dummy variables where the services sector is used as reference category. Profitability measures earnings before interest, taxes, depreciation and amortization divided by total assets averaged over the period 2001-2005. Tangibility measures fixed assets to total assets averaged over the period 2001-2005. Variability represents the standard deviation of cash flows to total assets over the period 2001-2005. Growth represents the average annual growth in total assets over the period 2001-2005. Financing constraints is a dummy variable that takes on value 1 if the bank recently rejected a credit request of the company, and 0 otherwise. 2nd vs. 1st and 3rd vs. 1st generation are dummy variables that take on value 1 if the company is managed by the second or third generation respectively, and 0 if it is managed by the first generation. Founder * 2nd generation measures the interaction effect of the 2nd vs. 1st generation dummy and a dummy measuring active founder involvement in the management of the company.

With regard to the control variables we observe that more profitable firms use less debt finance, which seems quite logical as these firms have a higher capacity to fund their business internally. Also a significant positive effect can be found with respect to the ratio of fixed assets to total assets. The rationale underlying this effect is that tangible assets can serve as collateral, which results in lower agency costs of debt. With respect to cash flow variability, which serves as a proxy for business risk, a significant positive effect is found. Apparently, companies with more volatile cash flows take up higher levels of debt in their capital structure. According to Myers (1977) and Michaelas et al. (1999) this can be explained by the fact that firms with a higher business risk have lower agency costs due to lower underinvestment problems, which increases their ability to attract higher levels of debt. Finally, firms experiencing financing constraints prove to have higher debt levels. This result probably stems from the fact that companies were questioned about this issue at the end of 2006, meaning that their answers are based on their past use of debt, which is exactly measured by the dependent variable in our model. In that sense it is logical that especially highly levered companies experience the highest financing constraints in attracting additional amounts of debt. Overall, the above results provide support for hypothesis 1 stating that next-generation family firms have lower levels of debt in their capital structure and therefore have a more conservative financial behavior compared to first-generation family firms.

3.4.2 Growth behavior

The regression results with regard to our second hypothesis, which relates to the actual growth rate in different generations of family firms, are presented in Table 3.4. The results in the table provide evidence that family firms evolving from the first to the second generation, and subsequently to the third generation, seem to face slower growth in their total assets. A significant effect of four percentage points can be identified between first- and next-

generation-managed family firms, even after controlling for business-related variables. Apart from a significant positive association between growth objectives and the actual growth rate, the data further indicate that founder involvement, the realization of high profit figures, and financing constraints are not significantly related to the realized growth rates in the firms of our sample. Overall, this results in the acceptance of hypothesis 2, which states that first-generation family firms grow faster compared to their next-generation counterparts.

Table 3.4: OLS regression results - dependent variable: actual growth

Independent variables	B	SE	Beta
Constant	.272***	.044	
Controls			
Company age	.000	.000	.020
Log size	-.028***	.005	-.278
Manufacturing	-.010	.016	-.041
Construction	.003	.018	.012
Trade	.003	.017	.011
Profitability	.075	.063	.060
Growth objectives	.014**	.006	.125
Financing constraints	-.031	.023	-.067
Intergenerational differences			
2 nd versus 1 st generation	-.042**	.016	-.184
3 rd versus 1 st generation	-.041**	.020	-.173
Founder * 2 nd generation	.008	.017	.029
R ²	.164		
Adjusted R ²	.138		
F	6.415***		
N	372		

Note: B, unstandardized coefficient; SE, standard error; Beta, standardized coefficient.

* p < .10; ** p < .05; *** p < .01.

Actual growth represents the average annual growth in total assets over the period 2001-2005. Company age is measured by taking the difference between 2006 and the year of foundation. Log size is the natural logarithm of the 2000 total assets figure. Manufacturing, construction and trade are three industry dummy variables where the services sector is used as reference category. Profitability measures earnings before interest, taxes, depreciation and amortization divided by total assets averaged over the period 2001-2005. Growth objectives are measured by means of a 7-point Likert scale variable which identifies to what extent sales growth is one of the firm's main objectives (from "not at all" to "to a very high extent"). Financing constraints is a dummy variable that takes on value 1 if the bank recently rejected a credit request of the company, and 0 otherwise. 2nd vs. 1st and 3rd vs. 1st generation are dummy variables that take on value 1 if the company is managed by the second or third generation respectively, and 0 if it is managed by the first generation. Founder * 2nd generation measures the interaction effect of the 2nd vs. 1st generation dummy and a dummy measuring active founder involvement in the management of the company.

3.4.3 Internal and sustainable growth

In order to investigate the relationship between financing and growth behavior, the concepts of internal and sustainable growth are integrated into our analyses, as they can deliver insights into the risk tolerance of a company, and thus whether the firm is willing or not to increase its debt rate for seeking growth. For this purpose actual, internal and sustainable growth figures are being compared by integrating the differences between these growth rates into a regression analysis. Table 3.5 shows the regression results based on a group of family firms that grow faster than their internal growth rate and a group that grows faster than their sustainable growth rate.

The results of the first model indicate that intergenerational differences are significant in explaining the difference between the actual growth rate and the internal growth rate. For both second- and third-generation family firms that grow faster than their internal growth rate, the extent to which they exceed this internal growth rate, proves to be five percentage points lower compared to first-generation companies. The results further show that also profitability, the ratio of fixed assets to total assets, and dividend payments to total assets significantly influence the dependent variable. Less profitable and more capital-intensive firms, as well as those that pay higher dividends, grow at rates that require them to attract higher amounts of debt finance. With respect to founder involvement no significant effect can be found.

The results of the second model, where the dependent variable is the difference between the actual growth rate and the sustainable growth rate, are also presented in Table 3.5. The results indicate that especially second-generation family firms exceed less their sustainable growth rate compared to first-generation family firms. In third-generation family firms this effect does not prove to be statistically significant. Based on these regressions, we accept

hypotheses 3a and 3b, which state that the level of risk tolerance, measured by the difference between the actual growth rate and the internal/sustainable growth rate differs according to the generation managing the company.

Table 3.5: OLS regression results - dependent variables: actual – internal/sustainable growth

Independent variables	Model 1			Model 2		
	Actual - internal growth			Actual - sustainable growth		
	B	SE	Beta	B	SE	Beta
Constant	.470***	.051		.840***	.229	
Controls						
Company age	.000	.000	.021	-.000	.001	-.005
Log size	-.038***	.006	-.410	-.059**	.029	-.205
Manufacturing	-.031*	.019	-.128	-.103	.075	-.147
Construction	-.040**	.020	-.144	-.166*	.085	-.203
Trade	-.027	.020	-.109	-.143*	.086	-.185
Profitability	-.517***	.087	-.397	-.951**	.438	-.203
Tangibility	.098***	.034	.181	.213	.139	.146
Dividends	.832***	.230	.245	.708	1.418	.046
Intergenerational differences						
2 nd versus 1 st generation	-.047**	.019	-.209	-.147*	.085	-.222
3 rd versus 1 st generation	-.051**	.022	-.209	-.128	.097	-.182
Founder * 2 nd generation	.010	.020	.036	-.006	.082	-.007
R ²	.310			.177		
Adjusted R ²	.276			.108		
F	9.148***			2.565***		
N	236			143		

Note: B, unstandardized coefficient; SE, standard error; Beta, standardized coefficient.

* p < .10; ** p < .05; *** p < .01.

Actual – internal growth measures the difference between the mean annual assets growth and the mean annual internal growth over the period 2001-2005 in the firms growing faster than IG. Actual – sustainable growth measures the difference between the mean annual assets growth and the mean annual sustainable growth over the period 2001-2005 in the firms growing faster than SG. Company age is measured by taking the difference between 2006 and the year of foundation. Log size is the natural logarithm of the 2000 total assets figure. Manufacturing, construction and trade are three industry dummy variables where the services sector is used as reference category. Profitability measures earnings before interest, taxes, depreciation and amortization divided by total assets averaged over the period 2001-2005. Tangibility measures fixed assets to total assets averaged over the period 2001-2005. Dividends measures dividend payments to total assets averaged over the period 2001-2005. 2nd vs. 1st and 3rd vs. 1st generation are dummy variables that take on value 1 if the company is managed by the second or third generation respectively, and 0 if it is managed by the first generation. Founder * 2nd generation measures the interaction effect of the 2nd vs. 1st generation dummy and a dummy measuring active founder involvement in the management of the company.

Overall, the tests of hypothesis 3a and 3b reveal that next-generation family firms have a lower risk tolerance as they allow for further growth in their company (i.e. when $AG > IG$ or $AG > SG$), but to a lower degree than first-generation family firms. Next-generation family

firms are much more inclined to limit their growth in order to avoid irresponsible levels of risk linked to the use of high amounts of debt. This means that next-generation family firms are less prepared to take higher risks, since for this group smaller increases in the use of debt in their capital structure can be identified. If they decide to grow beyond their internal level, they restrict the degree to which this level is surpassed, meaning that they avoid large increases in additional debt financing. By integrating the sustainable growth rate into our analysis, we further find that particularly firms of the second generation, who want to exceed their sustainable growth level, and thus willing to increase the current proportion of debt in their capital structure, go less far in raising their debt proportion and risk of control for funding their growth compared to first-generation family firms.

3.4.4 Robustness tests

To assess the robustness of our results, we carry out several checks which mainly concern the use of alternative measures of the dependent and independent variables (see Appendix 3). In a first step, we start from the idea that succession in a family firm involves two aspects, i.e. ownership and management transition (Le Breton-Miller, Miller, & Steier, 2004). As the moment of transfer of management does not always coincide with the moment of transfer of ownership, and since our results are only based on the analysis of management successions in the family firm, one way of generalizing the results in this study is to investigate the effect of transitions in ownership between generations. For 47 companies in our sample, evidence was found that ownership and management are in hands of a different generation. For this reason we replicate all the analyses (i.e. debt rate, growth rate, internal/sustainable growth rate) by using two dummy variables which compare second- and third-generation owned family firms with companies in which first-generation family members own the shares. Overall, the results of these analyses are quite similar to those presented in Tables 3.3 to 3.5. Especially with

regard to the differences between second- and first-generation family firms, similar significant effects can be identified. When differentiating between third- and first-generation companies similar negative effects are found too, although they only prove to be statistically significant with respect to the difference between the actual growth and the internal growth rate.

In a second step, we use an alternative growth measure for testing hypothesis 2. Instead of growth in total assets, total sales growth is taken into consideration based on a sub sample of 198 companies that disclosed sales figures in their financial statements over the period 2000-2005. The analysis reveals the same significant negative effects of generational involvement on the growth rate of a company. Again we find, after controlling for various firm characteristics, slower growth rates for both second- and third-generation family firms compared to their first-generation counterparts. This, therefore, confirms the acceptance of hypothesis 2. With regard to hypothesis 3a and 3b, we were not able to repeat the analyses based on the difference between the actual sales growth and the internal/sustainable growth due to a lack of observations in our two sub samples.

Another check is included in order to validate the results with regard to the second model in Table 3.5. The high standard error for the independent variable dividend payments to total assets ($se = 1.42$) gives evidence of low precision caused by the small variation in this measure and the reduced size of the sub sample used for testing this model. For this reason, we exclude this variable and re-estimate the model in which the difference between the actual growth rate and the sustainable growth rate serves as dependent variable. The results of the re-estimated model confirm those of the analysis where dividend payments were included, which again leads to the acceptance of hypothesis 3b.

In addition, we are aware that our results could be influenced by a potential bias resulting from “the regression to the mean effect”, which refers to the tendency of firms with large values on the dependent variable at one point in time to have smaller values at a subsequent time. In order to take this potential bias into account, a procedure was followed as suggested by Markus (1979). With respect to the analyses dealing with the firms’ debt rate and growth rate as dependent variables, a two-stage least squares (2SLS) approach was performed, where initial values of the dependent variables (measured in 2000) were included in the regression analyses as control variables based on instruments. Regarding the debt level in 2000, the tangibility, growth and profitability (measured in 2000) were used as instrumental variables, where the latter also served as instrument for the growth level in 2000. However, based on these 2SLS analyses, similar effects could be detected of the variables measuring generational involvement on the dependent variables debt and growth, meaning that “the regression to the mean effect” will not have a major impact on the results found in this chapter.

Finally, a last robustness check refers to a potential multicollinearity problem in our models due to the fairly high correlation of .67 between the age variable and the third- versus first-generation dummy. In order to consider this potential problem of multicollinearity, we calculated the variance inflation factors (VIF) for all the independent variables in our regression models. The highest value in our analyses equaled 3.06, which is far below the commonly accepted value of 10 used to indicate multicollinearity concerns (Hair et al., 2006). We nevertheless replicated our analyses by excluding company age from our regressions. However, estimates show that both generation dummies significantly affect the dependent variables in a way that is very similar to those found in Tables 3.3 to 3.5, which again provides support for all hypotheses formulated in this study.

3.5 Discussion and concluding remarks

Recent studies in family business research suggest that family firms are far from one homogeneous group with equal characteristics and behavior (Klein et al., 2005; Sharma, 2004; Dyer, 2003; Tsang, 2002). This study confirms these recent observations. The results indicate that heterogeneity in family firms is present due to the involvement of different generations and as a result, these differences need to be taken into account in order to explain the financing and growth behavior of small and medium-sized family firms. Although the empirical literature on intergenerational differences is rather scarce, and earlier attempts to study the sustainable and internal growth concepts are rather limited in small business studies, researchers mainly share the view that it makes a difference whether the founder or other generations of family members manage the company for explaining finance and growth patterns of family firms. Evidence is found in this study that this so-called generation effect can't be ignored.

Our results indicate that first-generation family firms have higher debt levels and realize higher growth rates compared to their next-generation counterparts. If a family firm is transferred to the second- or third-generation the share of debt in the firm's capital structure drops with more than six percentage points and the growth rate with more than four percentage points. In addition, the relationship between the financing and growth behavior of family firms was investigated based on the concepts of internal and sustainable growth. By taking the difference between the actual growth rate and the internal and sustainable growth levels respectively, evidence is found that next-generation family firms exceed their internal and sustainable growth rates to a lower degree compared to first-generation companies. Even after controlling for size, industry, age, and other business characteristics, these differences proved to be significant. Since we also control for the existence of supply side financing

constraints in our debt and growth model, we believe that the results in this study are mainly driven by other factors than those mentioned in the research of Anderson, Mansi and Reeb (2003) who bring forward the idea that succession could be harmful to various stakeholders like financing institutions.

In explaining our results we can refer to one of the most unique characteristics of family firms, i.e. their strong preference to maintain ownership and control of the company in the hands of a group of people who share family ties, together with the will to continue doing so in future generations. In that sense, Burkart et al. (2003) point to the non pecuniary benefits of control obtained by the founder or his/her descendants in the family firm. Obviously, the family business owners will prefer more economic profits to less, but in general it can be assumed that the monetary pay off needed to compensate the loss of control, and the loss of non pecuniary benefits is very high. When applying this view to the financing and growth behavior of family firms, debt can be seen as a substitute of equity finance to fund growth with no decision rights as long as the debt obligations are fulfilled. Family firms are thus inclined to use debt finance to sustain their growth without losing control but, at the same time, if the risk is too high, then firms will stop using debt finance because the likelihood of having to transfer the decision rights to the debt holders becomes too high. Family managers will then choose to strengthen their financial position by lowering their debt levels in order to further restrict the influence of external capital suppliers and the constraints imposed by them. That is, family firms will limit their growth to keep risks under control (see e.g. Barton & Matthews, 1989; Hutchinson, 1995; Romano et al., 2001).

When referring to the extant literature on intergenerational differences in family firms, we can assume that the conservative behavior in next-generation family firms results from a

resolute choice of management for creating a healthier capital structure and lower the level of risk in the company. In that sense, our findings correspond to the view of Kaye and Hamilton (2004), Dunn (1995), Cromie et al. (1995), Reid et al. (1999), and Schulze et al. (2003a) who put forward that descendants are less willing to take risk and have a higher fear of losing control compared to their parents. In other words, it is expected that the “family orientation” will further strengthen and that the level of risk tolerance will decrease as family firms are transferred from the first to the next generation. As this evolution seems to directly impact on the financing and growth behavior of these companies, next-generation family firms will grow at a lower rate as they have the tendency of foregoing part of their development rather than losing their independence due to excessive use of “risky” external capital like debt. For this reason, our main conclusion is that next-generation family firms have a lower risk tolerance in their financing and growth behavior in the sense that they adopt lower levels of financial leverage to fund their growth.

The fact that the influence of the generation dummies on most dependent variables together with their corresponding levels of significance, proof to be somewhat lower for third-generation than for second-generation family firms (see Tables 3.3, 3.5 and robustness test), seems to suggest that the financing and growth behavior especially changes when the family firm is transferred from the first- to the second generation. This is partly in line with the view of Schulze, Lubatkin and Dino (2003a) who found that, contrary to the conventional agency model, agency costs together with the degree of risk aversion have a tendency to decrease again from the moment a third- or later generation family firm reaches the cousin consortium stage, which implies a high level of ownership dispersion. Another reason could lie in the absence of the founder’s influence in most third generation family firms. Referring to the work of Davis and Harveston (1999), the shadow cast by the parent-founder can seriously

constrain second-generation successors in their actions, ultimately resulting in a detrimental effect on the firm's development. Although no significant effect was found in this study with regard to active founder involvement in the management of the firm, we could assume that in many second-generation family firms founders will keep on exerting their influence on the business in spite of their absence in the daily operations.

Overall, the main conclusion of this study is that it does make a difference whether first-, second- or third-generation family members manage the company. In that sense we support the insights from researchers like Klein, Astrachan, and Smyrnios (2005), Sharma (2004), Dyer (2003), and Tsang (2002) who bring forward the idea of the heterogeneous character of family businesses. Without claiming that the variety basically lies in the intergenerational differences among family firms, we think that this "generation issue" can play a considerable role in explaining prior conflicting results in the literature and in further attempts to gain more insight into the heterogeneity of the family business.

4. Family business succession and its impact on financial structure and performance¹⁰

4.1 Introduction

Family business succession constitutes a hot topic in organizational literature, as it concerns one of the most important but difficult steps in the life cycle of a family firm. After many years of working and trying to expand the company, a lot of entrepreneurs hope to pass on their lifework to the next generation, giving family members the opportunity to further extend the success of the business. Firm survival is thus a main concern for many family business leaders, given their long-term orientation towards business value (Anderson and Reeb 2003). In fact, it is this preference for continued independent family ownership that researchers often consider as one of the fundamental characteristics of a family business. Given the various definitions that can be found in the literature of what exactly characterizes a family firm, several researchers share the view that a company that is managed and owned by family members and that strives for a transfer of the company to the next generation can be identified as a family firm (Chua et al. 1999; Chrisman, Chua, Litz 2004).

Recently, attention has been drawn to the enormous amount of business transfers that can be expected over the coming decade. One of the explanations behind this evolution lies in the fact that Europe's population is ageing and that many business leaders approach their retirement, which increases the potential for business transfers. Figures published by the European Commission (2003, 2006) show that approximately one third of European enterprises will need to be transferred to the next generation in the coming ten years. This

¹⁰ This chapter is co-authored with Eddy Laveren and Marc Deloof.

comes to an average of 690,000 small and medium-sized enterprises that will change hands each year, potentially affecting 2.8 million jobs.

What's more, the fact that family business succession represents a critical issue confronting many family firms, clearly results from the several statistics that have already been published since the end of the eighties. Based on US figures, Birley (1986), Ward (1987, 1997a) and Kets de Vries (1993) found that about one third of family businesses survive into the second generation, and that 10-15% makes it into the third generation. Referring to the study of Lee, Lim and Lim (2003) these findings to some extent support the popular saying that the third generation dissipates the family's fortune that the first creates and the second helps to maintain, or that most family businesses go from "clogs to clogs in three generations". The authors further make clear that this trend is rather universal and irrespective of the cultural or economic context. In any case, the above facts should make clear that business transfers in general, and family business successions more specifically, are a big challenge for any economy that merits further investigation (Miller, Steier, Le Breton-Miller 2003).

A review of past literature learns that for those companies that have been involved in a family business succession, the influence of this generational transfer on company decisions and behavior is still inconclusive. Current research aims at increasing our knowledge in this field by following a longitudinal approach in studying the effect of intergenerational transitions on company performance and capital structure decisions of family firms. As has been acknowledged by several authors (e.g. Perez-Gonzalez 2006; Bennedsen et al. 2007; Blanco-Mazagatos et al. 2007) a major shortcoming in past empirical studies regarding family business succession, is the fact that they mostly rely on cross-sectional data. In this way the

identification of pure transitional effects is to a large extent disregarded and only indirect evidence is provided of changes in company behavior following a transfer. Our first aim is therefore to investigate post-succession capital structure and performance within the company by relying on panel data analysis in order to identify the direct consequences of a business transfer. In addition, a matching procedure will be followed in our analyses in order to clearly identify changes following succession in family firms by making comparison to a group of founder-controlled family businesses that have not yet experienced a succession (Barber and Lyon 1996). This will allow us to control for a potential mean reversion effect and to evaluate the results relative to an appropriate benchmark.

Secondly, this study will focus on the distinction between family business successions in first-generation family firms and those in next-generation family firms. As several authors have shown that a transfer from the founder to the second generation can be different from that occurring in later generations (e.g. Davis and Harveston 1998, 1999; Schulze, Lubatkin, Dino 2003a; Villalonga and Amit 2006) we will investigate whether the effect of a succession from the first to the second generation on company decisions and behavior, differs from a succession between later generations. In this way, we go beyond the more rigid distinction between founder- and descendant-managed family firms as often found in past studies.

Finally, this chapter aims at studying family business successions in a context of private small- and medium-sized enterprises. As past literature shows that studies have mostly been oriented towards the impact of management turnovers and/or changes in CEO-status on the behavior of listed companies (e.g. Huson et al. 2004; Sraer and Thesmar 2007), little is known on the implications of succession on the behavior of small- and medium-sized family firms. In this way we hope to contribute to a better understanding for both academics and practitioners

of the impact of one of the most important events in the life cycle of a family firm on their financial structure and performance.

This chapter is structured as follows. In a first step an overview is given of the literature on the impact of succession on the financial structure and performance of a family business. This will result in the formulation of testable hypotheses. The following section provides information on the data and discusses the statistical methodology used in this study. In the fourth section the empirical results are presented. A conclusion containing the main implications of our study is included in the last section.

4.2 Literature review and formulation of hypotheses

When a family business leader takes the decision to be no longer actively involved in the organization, the two most basic alternatives regarding the transfer of the company are that she either hands it over to the next generation of family members, or sells the business to outsiders. A third option considers the choice of separating family ownership from management, which implies the appointment of a non-family member to a senior management position. Several studies seem to suggest that especially the first exit route is being preferred by many family business owners (Emling, 2000; Bjuggren and Sund 2001; Westhead 2003).

In the literature, a great deal of research on business transfers focuses on identifying differences in company behavior and performance between a family succession and a leadership/ownership transfer to outsiders. Apart from some disadvantages related to a family business succession like the inability and lack of competencies of the successor (e.g. Royer et al. 2008), several advantages are brought forward of keeping control within the family. Researchers like Smith, Amoako-Adu (1999) and Bjuggren, Sund (2001, 2002) point to the

excellent knowledge of the business in the hands of family members, given their ability to learn by watching and doing when growing up within the family firm. In correspondence with Anderson and Reeb (2003), they also mention the high level of loyalty of family members and their special interest in the company's success and reputation given that their family name is at stake. Burkart, Panunzi and Shleifer (2003) further suggest that also "amenity potential" can be a main benefit of preserving family control. Here they refer to all the nonpecuniary benefits that can come forth out of family control without harming firm profitability. Family members will therefore try to keep the business within the family, especially if this potential is large. Given this explicit preference of family owners to keep control of the firm in the family, together with the many advantages resulting from this choice, it is valuable to investigate the impact of a generational transfer on the family firm's decisions and behavior. In what follows, we will focus on the literature regarding the effect of a family business succession on the financial structure and performance of a company.

4.2.1 Impact of succession on financial structure

In studying the impact of succession on the financial structure of family firms, the existing literature shows that there is a lack of studies following a longitudinal approach in analyzing this relationship. Insights are mainly based on cross-sectional data, which mainly leads to the identification of capital structure differences between founder- and descendant-controlled family firms. Moreover, as the following overview will show, opposite conclusions can be found with respect to the expected sign of the succession effect.

Several studies are related to Jensen and Meckling's agency theory (1976), which states that agency costs can arise due to asymmetric information between shareholders and bondholders. Anderson, Mansi and Reeb (2003) e.g. found evidence that bondholders can

consider family business succession from the founder to the next generation as harmful to their wealth. The main reason is that an intra-family transfer of the firm can involve less qualified founder-descendants to lead the company, if the selection of a candidate is solely based on the existence of family ties instead of qualifications, resulting in a detrimental effect on the company. Other authors point to the fact that succession usually increases the amount of family members involved in the business. Gersick et al. (1997) e.g. describe the development of a family firm over time from the founding owner or couple, to a sibling partnership, and finally to a cousin consortium in which ownership can be widely dispersed among third and later generation family members. Schwass (2005) e.g. states that an increase in the number of active and passive shareholders can be expected after succession, leading to higher dividend payout ratios and less attention for reinvesting retained earnings. In addition, Davis and Harveston (1999), and Harvey and Evans (1995) show that intra-family conflicts and rivalry can arise as more persons like brothers and sisters, aunts and uncles, cousins and in-laws get involved in the business. Based on these ideas, it is expected that debt holders are likely to provide less capital to descendant-controlled family firms, unless higher interest yields can be incurred.

Next to these findings, other studies start from the idea of a changing “risk-attitude” as family firms progress from one generation to the next, leading to a decrease in the demand for debt financing. According to de Visscher, Aronoff, and Ward (1995), funding is one of the key concerns of family businesses given that many fail due to insufficient capital and liquidity. Transitions can intensify these problems because next-generation family members may not have the same goals as the founding generation. Ward (1987, 1997a) e.g. finds evidence that family firms are not homogeneous in nature, given the change in their goals and priorities over time. As a result, one can discriminate between family firms where the

business rather serves the family (family-first companies), and family firms where the family rather serves the business (business-first companies). Based on these insights, Reid et al. (1999) find that family goals (family orientation) become more important as family firms develop over generations, and that family oriented firms are more reluctant to use external sources of capital as family control can dilute. They further point to the fact that these firms will finance their activities rather from internal than “risky” external sources of finance like debt or venture capital.

Related to this view, Shepherd and Zacharakis (2000) find that descendants consider financial sunk costs in their decision making. As they usually have invested large amounts of capital for buying themselves into the company, they are less willing to undertake risky activities. Also Kaye and Hamilton (2004) identified that descendants usually have a lower willingness to take risks compared to their parents. As they usually have a stronger preference for wealth-preservation instead of further wealth-creation, they try to avoid a highly leveraged capital structure. This reluctance of most owners of smaller family firms to use excessive amounts of debt in their capital structure (e.g. Ward 1997a; Miller and Le Breton Miller 2005) supports the family’s strong desire to successfully transfer a healthy company over different generations, as a way of safeguarding the family’s name and the lifework created by the founder. For this reason, Miller and Le Breton-Miller (2006) already expect to find a healthier capital structure in the company just before the transition to the next generation of family members.

Also Schulze, Lubatkin and Dino (2003a) describe the changing risk-attitude in private family firms over generations, although they find evidence of a u-shaped relationship between ownership dispersion and the use of debt financing. They assume that there is a high chance

of equity ownership becoming more diffuse with each transition in a family firm to the next generation. As this can result in a divergence of interests between shareholders who serve on the boards of these closely-held firms, they will prefer to reduce financial leverage, as increased risk has a direct effect on the safety of their personal investments. However, they further state that in a cousin consortium, mostly found in third- and later generations, there is again an increased chance for alignment of interests and reduced agency costs due to a high degree of ownership dispersion. In this stage, risk preferences of family owners will be more in line with those of institutional investors and shareholders of public firms, which will lead to a higher willingness to take the risk of using debt financing. Consequently, their results show that family boards are more eager for using debt when ownership is either concentrated in the hands of a controlling owner or dispersed into the hands of many owners like in a cousin consortium.

Contrary to the above mentioned studies which mainly assume a negative relationship between intergenerational succession and the level of debt in the company, other authors come to opposite conclusions. Blanco-Mazagatos et al. (2007) point to the increasing weakness of family ties and problems of opportunism and altruism over the course of generations. According to them, family members who run the firm are able to enjoy excessive salaries and perks, or to take decisions in their own interest, which can put family members who are not actively involved in the business at a disadvantage. The latter group of stakeholders will therefore enforce the use of higher amounts of debt financing in the company, because leverage can serve as a governance mechanism that reduces agency costs resulting from managerial opportunism. In this way, higher debt levels can be expected in next-generation family firms compared to their first-generation counterparts.

Next to these findings, Le Breton-Miller, Miller (2006) and Gersick et al. (1997) point to the importance of long-term relationships that exist between family firms and external stakeholders like financing institutions. If family firms evolve over generations and if transitions are managed successfully, next-generation family members could experience better conditions in seeking debt finance from banks. The main idea behind this reasoning is that these descendant-controlled companies can build on long-term and solid relationships with their banks, awarding them with the status of more reliable debtors. Given that the family name is at stake in these companies, they have higher incentives to meet current and future obligations. One could therefore expect that banks are willing to supply higher amounts of debt to next-generation family firms.

Another idea is brought forward by De Massis, Chua, and Chrisman (2008). As a management transition usually goes together with a transfer in ownership, the tax burden resulting from this succession can put a serious strain on the family's resources. Moreover, as not all family descendants will be interested to stay involved in the business, the purchase of the shares of these family members can also increase the need of seeking external financing. This corresponds to the findings of Bjuggren and Sund (2001, 2005). In their study on the organization of business successions in Swedish family SMEs, they describe several transfer arrangements, among which the selling of the business to next-generation family members. According to the authors, successors often need to attract loans to buy the shares of the company. Given the relatively high amounts of capital associated with such business transfers, this requires successors to draw money out of the business through higher salaries or dividend payments in order to pay off their mortgages and interests. A logical consequence is that these cash withdrawals lead to lower amounts of internal financial means available in

the company, meaning that next-generation family firms are expected to rely more heavily on debt financing.

Taken together, the above literature overview clearly shows that one can expect a significant impact of succession on the capital structure of family firms. Evidence is found of both positive and negative effects of a generational transfer on the level of indebtedness. However, the idea of a negative effect seems to prevail, meaning that a succession will generally reduce the leverage of the firm. On the other hand, previous research further shows that a transfer from the first- to the second generation will not necessarily be the same as a succession occurring in later generations. This can be attributed to an increased level of ownership dispersion as well as a higher need for seeking external financing to fund the transition; where both issues will probably be more severe in third- or later generation successions. In this way, it can be expected that the negative impact of succession on leverage when a family firm is handed over from the first- to the second generation, will be partly neutralized or even reversed to a positive effect for transfers occurring between later generations of family members. Based on these insights, we therefore hypothesize that:

Hypothesis 1a: A family business transfer in first-generation family firms will lead to a negative effect on the debt level of the company.

Hypothesis 1b: A family business transfer in next-generation family firms will lead to a neutral to positive effect on the debt level of the company.

4.2.2 Impact of succession on performance

When reviewing the literature on the impact of a generational transfer on the performance of a family firm, some authors start from a longitudinal setting in their analyses, although the emphasis in many studies lies on a cross-sectional comparison of first- versus next-generation family firms. Furthermore, the following outline of past research will show that the evidence regarding post-succession performance is still inconclusive.

Several studies are based on the idea that family firms experience a change in their goal setting and often become more conservative over generations, which can negatively impact on the family business' performance. Referring to Ward's work (1987, 1997a), evidence is found that first-generation family firms are more business oriented in comparison with subsequent generations, and that firms with a business orientation have a higher capacity to grow (Dunn 1995; Cromie et al. 1995). This corresponds to the research of Reid, Dunn, Cromie and Adams (1999) who suggest that first-generation family firms grow at a faster rate compared to subsequent generations, as the latter type of firms often become more family oriented than first-generation companies. Similarly, Martin and Lumpkin (2004) find that in successive generations entrepreneurial orientation tends to diminish and give way to family orientation, as stability and inheritance concerns become the business' principal drivers. Related to this idea, Okoroafo (1999) describes the degree of internationalization of family firms in the US, where he comes to the conclusion that first generation family owners have a higher interest in foreign markets compared to subsequent generations of family members. If the former do not engage in foreign contracts, family firms will have a poor chance of doing so in later generations. Finally, referring to the study of Schulze, Lubatkin and Dino (2003a), evidence is found that an increased level of ownership dispersion in sibling partnerships can result in more risk averse behavior, leading to a reduction of financial leverage and a limitation of the

growth rate of the firm. However, they further suggest that this effect is being reversed in a cousin consortium, as in this stage family owners will again have a higher willingness to take risks as well as a higher focus on growth.

Besides the above insights, other studies attribute the decrease in family business performance after succession to the descendants' lack of competences and managerial skills, as the alternative of hiring a better and more experienced external manager is often disregarded. Smith and Amoako-Adu (1999) e.g. investigated abnormal stock returns of Canadian public family firms around management successions. Their results show that companies that appoint family successors experience negative returns surrounding the announcement of the family business succession. In explaining this evolution they point to the younger age of these family successors, which increases the uncertainty over their management quality among investors. They also mention the fact that family firms often don't consider individuals who are more competent than the chosen family member in assigning senior management posts. As this can lead to suboptimal decision making in the company, and a lower motivation for non-family managers given the limited opportunities for promotion, a negative impact on the value of the firm is expected. This corresponds to the study of Morck and Yeung (2003) which brings forward the idea of creative self-destruction. According to the authors lower growth can be expected in firms controlled by descendants as the latter might be less hard-working and less able compared to the founder as real entrepreneur.

Similar conclusions can be drawn from the studies of Bennedsen et al. (2007), Villalonga and Amit (2006), Pérez-González (2006) and Cucculelli and Micucci (2008). Bennedsen et al. (2007) e.g. find evidence of a negative correlation between the succession event and firm

profitability. They too explain this result by pointing to the lower quality and competences of family descendants compared to unrelated CEOs. Cucculelli and Micucci (2008) come to the same conclusion based on a sample of small-and medium-sized Italian firms. Their results show that keeping the control of the company within the family significantly hurts performance, mainly due to the heir's lower talent. Starting from a sample of listed firms in the US, Villalonga and Amit (2006) examine the impact of family ownership, control, and management on firm value. Their results clearly show that a non-monotonic effect can be identified between generation and firm value. Apparently, descendant-CEOs seem to exert a negative effect on firm value which is totally attributable to second-generation family firms. On the other hand, the analysis of the incremental contribution of third-generation family businesses to firm value gives evidence of a significant positive effect. This contrasts with the findings of Pérez-González (2006), who observes that especially third-generation family firms are less profitable in running their business, given the significant declines in return on assets of these companies compared to family firms in which control is handed over from the first- to the second generation. Overall, the author comes to the conclusion that promoting family CEOs in publicly traded corporations can significantly hurt performance due to the lower talent of family descendants.

Next to these findings, also Miller and Le Breton-Miller (2006) state that financial performance is reduced as a family firm is transferred over generations. However, they explain this negative effect through the increasing demand for dividends as family businesses enter second or later generations, which results in a serious reduction of available financial means strongly needed to support the firm's development and growth. The same logic can be found in the research of Bjuggren and Sund (2005) and Upton and Petty (2000), although they focus on the financing of the transition process itself. If a family business owner wants to

hand over the company to the next generation, a frequently used exit route implies the sale of the shares to the successors. The authors show that these transactions are often financed from the firm's operating cash flows by means of increased salaries or dividend payments. They further make clear that such cash withdrawals can become very costly for the family firm due to taxation, and that the use of these funds come at the expense of the firm's future growth.

Another idea is brought forward by Schulze et al. (2003b) and Blanco-Mazagatos et al. (2007), who state that a serious increase in information asymmetries between owners and managers can be identified in next-generation family firms due to a multiplication of the number of involved family members, resulting in a high level of conflict, rivalry and managerial opportunism in the company. According to Ward (1997b) these conflicts among family members can be seen as one of the main reasons behind the stagnation of a family business. Also Mishra, Randøy, and Jenssen (2001) support this idea as they find that family ownership in younger firms has a higher positive effect on firm value compared to later generations of family firms, mainly due to the weakening of family ties and lower cohesiveness among family members over generations. Related to this view, Davis and Harveston (1998, 1999) introduced the idea of "generational shadow". This term refers to those successions which prove to be incomplete due to the continuing influence of older generation family members who no longer directly control the company. As this behavior can constrain successors and increase the chance of conflicts, a dysfunctional effect on the company can be expected. Besides the overall pattern of rising conflict over generations, the authors show that the generational shadow cast by the founder is much greater than the generational shadow cast by subsequent generations. They also point to the effect of organizational learning that occurs in companies that have already experienced a succession. Family firms that have been involved in one or more succession events will probably have

their own standard practices that work best for them. In this way, they state that the transition between the founder and the second generation can often be seen as the most difficult and turbulent one. Similarly, Bjuggren and Sund (2001, 2002) mention the fact that in family firms that survive from the first to the second generation, there is an increasing chance that they will also survive the subsequent successions. Again, the authors attribute this increasing survival rate to the experiences acquired from earlier intergenerational successions.

Contrary to the above literature which mainly comes to the conclusion that family business succession harms firm performance, other studies find opposite results. Based on a sample of family firms in the US, Zahra (2005) finds that the presence of multiple generations of actively involved family members in the firm leads to a higher focus on wealth increase and strategic renewal. The explanation given by the author is based on the idea that with each succession in a firm, new family members bring fresh knowledge and insights into the company, positively affecting the incentive to innovate and grow. In line with this view, Fernández and Nieto (2005), show that a positive influence can be identified between the evolution in family firms over generations and the decision to internationalize. Again, new ideas, new strategies, and better prepared family members are mentioned as main motive behind this evolution. Other insights result from the study of McConaughy and Phillips (1999). They find evidence that descendant-controlled family firms are more profitable than family firms controlled by the founder, meaning that succession can lead to an enhancement of firm performance. Although founder-controlled firms have a higher capacity to grow, family firms managed by descendants can generate higher profits as they are able to reap the benefits of earlier investments in capital assets and R&D made by the founder. Also Diwisch et al. (2007) identify a significant positive effect of past succession on the performance of Austrian SMEs. As succession seems to positively impact on the firm's employment growth,

they reject the idea of a “shadow of succession” effect. Finally, the study of Sraer and Thesmar (2007) reveals that no association can be identified between performance and generational renewal in family businesses. Starting from a sample of listed family firms in France, they do not find a significant difference in firm performance between founder- and descendant-controlled firms. According to the authors, both founder and descendant CEOs are associated with better performance compared to companies managed by non-family-related CEOs.

Overall, it should be clear from the previous literature overview that most studies find evidence of a change in the performance of family firms after an intergenerational transfer takes place. Although both positive and negative effects have been identified, the conclusion that a generational transfer lowers firm performance prevails. However, referring to the past studies which find evidence of a learning effect, differing degrees of ownership dispersion, and the presence of “founder’s shadow”, it is expected that the negative impact of succession on performance will be especially visible in the transfer from the first- to the second generation. In transfers between later generations of family firms we expect that this negative effect could be neutralized or could even be reversed to a positive effect. For this reason we hypothesize that:

Hypothesis 2a: A family business transfer in first-generation family firms will lead to a negative effect on the growth level of the company.

Hypothesis 2b: A family business transfer in next-generation family firms will lead to a neutral to positive effect on the growth level of the company.

Moreover, as the above literature overview on performance discussed both changes in the growth level of the company as well as variations in firm profitability, and since authors like Lumpkin and Dess (1996) point to the multidimensional nature of firm performance, the following two hypotheses can further be formulated:

Hypothesis 2c: A family business transfer in first-generation family firms will lead to a negative effect on the profitability of the company.

Hypothesis 2d: A family business transfer in next-generation family firms will lead to a neutral to positive effect on the profitability of the company.

4.3 Research methodology

4.3.1 Data

In this study, we will start from our data set of 504 family businesses. However, as has been outlined in the beginning of this chapter, a longitudinal approach will be followed for studying the effect of a generational transition on the performance and capital structure decisions of family firms. For this reason, publicly available archival data were gathered for the period 1991-2006 in the form of balance sheet and profit and loss account figures from the Bel-first database and data provided by the National Bank of Belgium. Only companies were selected that, in the period of analysis, experienced their first succession (i.e. from the first to the second generation) or that were handed over between later generations of family members. As we further required that each company in the sample had financial information available for at least one year preceding and one year following the transfer, all successions took place between 1992 and 2005. This resulted in a subgroup of 152 family business successions.

Since some of these companies are founded after 1990, and thus have no financial information available for the whole period of analysis, our sample concerns an unbalanced panel data set of more than 2,000 firm-year observations across this 16-year period (1991-2006). Additionally, 110 first-generation family firms that have not yet experienced a succession are also included in the analysis as a control group. Besides these 152 companies experiencing succession and our control group of 110 first-generation family businesses, the remaining firms in our total data set of 504 companies were neglected in this study as they mainly concern next-generation companies that did not went through a transfer in the period of analysis, or did not respond to the questions in the survey related to the generation managing the company or the year of the transfer in management.

Table 4.1 gives an overview of the profile of the companies in our sample. Apart from the 110 first-generation family firms which are only used as a control group, 57% of all family business successions in this study occur between the first and the second generation. The other 66 firms are thus family businesses that have already experienced a succession in the past, as they are transferred between the second and third, or between later generations in the period of analysis. We further learn that, in the year of succession, first generation family firms that are transferred to the second generation have been in business on average for 26 years, whereas second- and later generation family firms have on average 71 years of operation at the moment of succession. With regard to the size of the companies experiencing succession, we find that the mean total assets figure reaches values of 4.1 million euro to 4.5 million euro. Finally, when looking at industry differences between the companies that are involved in a family business transfer, more or less the same distribution can be found among the various sectors.

Table 4.1: Profile of companies in the sample

Characteristics	Family firms transferred from 1 st to 2 nd generation	Family firms transferred between later generations	Control group: 1 st generation family firms
Number of firms	86 (57%)	66 (43%)	110
Sector (proportion):			
manufacturing	30 (35%)	24 (36%)	28 (26%)
construction	22 (26%)	10 (15%)	18 (16%)
trade	18 (21%)	21 (32%)	34 (31%)
services	16 (18%)	11 (17%)	30 (27%)
Company age (mean)	26	71	19
Total assets (mean)	4,070,994	4,499,901	2,613,480

Note: Company age is measured in the year of succession. For 1st generation companies (control group) age is measured in 2006. Total assets (in euro) is measured in the year of succession. For 1st generation companies (control group) total assets is measured in 2006.

4.3.2 Variables

Dependent variables. In order to test our first two hypotheses which are related to the capital structure of the company, leverage is measured by taking the total amount of debt scaled by total assets¹¹. With respect to the other hypotheses, we analyze firm performance first of all by looking at the growth rate of the company. For this purpose, growth in total assets is taken into consideration. The choice to measure assets growth instead of sales growth is due to the absence of sufficient sales figures for all firms, as for Belgian SMEs the disclosure of sales figures is voluntary in their financial statements. Finally, profitability is measured by means of the operating return on assets (OROA). This is in line with the work of Perez-Gonzalez (2006), Huson et al. (2004), and Denis and Denis (1995), where OROA is calculated by taking the operating profit to total assets.

¹¹ With regard to the capital structure, a further distinction was made according to the debt maturity structure (long term versus short term debt) and between financial versus non-financial debt. However, no clear indication was found that the results in this study can be attributed to a specific type of leverage, meaning that a combination of both long term versus short term debt and financial versus non-financial debt is responsible for our findings.

Independent variables. In this chapter, the effect of a generational transfer on company performance and capital structure is analyzed by using two dummy variables. In accordance with the hypotheses, they measure the permanent change in the dependent variables following a transfer from the first- to the second generation and between next-generation family members respectively. For this purpose we relied on the questionnaire containing information with respect to the year in which the most recent transfer in management occurred. The two variables (TransferFirst, TransferNext) take on value 1 in the year after succession and the following years onward, and 0 otherwise.

Corresponding to the work of Harris and Raviv (1991), Rajan and Zingales (1995), and Fama and French (2002), we further include some other determinants in analyzing a company's level of indebtedness. Tangibility, calculated as fixed assets to total assets, is used as a measure of the collateral value of the firm. It is expected that large proportions of tangible assets in the balance structure, will lead to a higher willingness of lenders to supply debt to the company. We also use the assets growth rate in our analysis on the level of debt as a measure of current investments, which is supposed to be positively related to leverage. We further include another measure of firm profitability by taking earnings before interest, taxes, depreciation and amortization divided by total assets (gross return on assets). It differs from the OROA since it takes into account the effect of depreciation and amortization on the firm's profit. As this variable is a measure of the internal financing capacity of the firm, a negative impact can be expected on the level of debt, given that many owners/managers prefer to finance their activities with internal funds rather than debt. With respect to the regression on assets growth, gross return on assets will be included as a control variable, as it incorporates the finding of Carpenter and Petersen (2002) that the growth rate of small firms is often constrained by the availability of internal financial means. Finally, in analyzing the firm's

OROA, debt will be used as an independent variable corresponding to the work of Anderson and Reeb (2003), and Sraer and Thesmar (2007).

In all our analyses, we will also integrate general business characteristics like age and size. Company age is measured by looking at the number of years since incorporation. Size is calculated by means of the logarithm of total assets. In addition, year indicators are included in order to control for macroeconomic factors. Descriptive statistics and Pearson correlations of the variables¹² used in this study are shown in Table 4.2.

Table 4.2: Descriptive statistics of dependent and explanatory variables

Variables	Mean	SD	1	2	3	4	5	6	7	8
1. Total debt to total assets	.63	.23								
2. Assets growth	.08	.21	.11**							
3. OROA	.06	.09	-.18**	-.01						
4. Company age	44.62	39.10	-.16**	-.02	-.05*					
5. Log size	7.54	1.12	-.03	.09**	.17**	.22**				
6. Gross return on assets	.16	.11	-.16**	.07**	.69**	-.16**	-.04			
7. Tangibility	.31	.22	.06**	.01	-.14**	-.19**	-.20**	.22**		
8. Transfer 1 st to 2 nd generation (dummy)	.22	.42	-.05*	.01	.00	-.21**	.07**	-.01	-.00	
9. Transfer between later generations (dummy)	.20	.40	-.10**	-.04	.06**	.38**	.19**	-.04*	-.10**	-.27**

Note: * $p < .05$; ** $p < .01$.

Total debt to total assets is the total amount of debt scaled by total assets. Assets growth measures the growth rate in total assets. OROA measures the operating return on assets. Company age measures the number of years since incorporation. Log size represents the logarithm of the total assets figure. Gross return on assets measures earnings before interest, taxes, depreciation and amortization divided by total assets. Tangibility measures fixed assets to total assets. Transfer 1st to 2nd generation and Transfer between later generations are dummy variables that take on value 1 in the year after succession and the following years onward, and 0 otherwise, for a transfer from the first- to the second generation and between later generations respectively.

4.3.3 Empirical models

Previous studies that analyzed the effect of a generational transition on firm behavior based on cross-sectional analysis have some limitations that can be eliminated using panel

¹² The results in this study are being checked for their robustness against outliers in the sample by removing the most extreme 1% cases of the dependent variables in our analyses.

data methodology (Perez-Gonzalez 2006; Bennedsen et al. 2007; Blanco-Mazagatos et al. 2007). Cross-sectional analysis e.g. does not allow controlling for all time-invariant characteristics that might have an impact on the firm's financial structure or performance. In addition, it only gives indirect evidence of the impact of succession, making it less suited to study dynamics of change in a company or to indicate causal effects. For this reason, we start in this study from a longitudinal setting in order to more accurately identify the pure succession outcomes in a company. Moreover, by following a fixed-effects approach, the within-firm variation in capital structure and performance due to succession will be analyzed by controlling for time-invariant characteristics which are often difficult to observe or measure (e.g. the family business' history or culture). These characteristics vary across firms but are assumed to be constant for each individual firm. They also capture time-invariant effects that are specific to the industry in which the firm operates¹³. The following regression models will be tested based on fixed effects panel data analysis:

$$\text{Debt}_{i,t} = \alpha_i + \alpha_1 \text{Age}_{i,t} + \alpha_2 \text{Logsize}_{i,t} + \alpha_3 \text{Tangibility}_{i,t} + \alpha_4 \text{GrossROA}_{i,t} + \alpha_5 \text{Growth}_{i,t} + \alpha_6 \text{TransferFirst}_{i,t} + \alpha_7 \text{TransferNext}_{i,t} + \alpha_t \text{Year}_t + \varepsilon_{i,t}$$

$$\text{Growth}_{i,t} = \alpha_i + \alpha_1 \text{Age}_{i,t} + \alpha_2 \text{Logsize}_{i,t} + \alpha_3 \text{GrossROA}_{i,t} + \alpha_4 \text{TransferFirst}_{i,t} + \alpha_5 \text{TransferNext}_{i,t} + \alpha_t \text{Year}_t + \varepsilon_{i,t}$$

$$\text{OROA}_{i,t} = \alpha_i + \alpha_1 \text{Age}_{i,t} + \alpha_2 \text{Logsize}_{i,t} + \alpha_3 \text{Debt}_{i,t} + \alpha_4 \text{TransferFirst}_{i,t} + \alpha_5 \text{TransferNext}_{i,t} + \alpha_t \text{Year}_t + \varepsilon_{i,t}$$

where α_i represents the time-invariant unobservable firm and/or industry-specific effects and α_t the firm-invariant time-specific effects as represented by the year indicators.

¹³ Fixed effects panel data analysis does not allow using industry dummies in the regression models since industry is expected to be time-invariant and therefore it is included in the firm's intercept α_i .

In what follows, we will use a two-step approach in testing our hypotheses. Firstly, we will analyze the post-succession capital structure and performance of the family firms in our sample that experience a succession in the period of analysis, corresponding to the models presented above. However, in a second step, we will replicate our analyses based on the insights of Barber and Lyon (1996), who suggest the use of a control group-matching method for measuring changes in accounting data following an event. In order to control for a potential mean reversion effect and in order to evaluate the results relative to an appropriate benchmark, we matched each of the family firms that experienced a succession in the period of analysis to a similar family firm from the first generation that had not yet been involved in a succession. For every sample firm we looked for a control firm within the same industry and with a similar pre-event capital structure, growth and profitability figure respectively. The one-to-one matching procedure was performed as follows: for each sample firm experiencing succession, one out of the 110 first-generation family firms was selected from the same industry based on the one-digit Nace-bel code, which also had a capital structure, growth and profitability figure respectively in the year before succession that was closest to that of the sample firm, but that fell within $\pm 20\%$ of the sample firm's figure. If there were no matched firms based on these criteria, the procedure was repeated regardless of the firm's industry. This means that, in this step, we only looked for a control firm with a similar capital structure, growth and profitability figure respectively in the year before succession that fell within $\pm 20\%$ of the sample firm's figure. However, if still no control firm could be selected, a last step involved the selection of a firm with a similar capital structure, growth and profitability figure respectively, but that fell out of the $\pm 20\%$ range. When performing this procedure with respect to the analysis on capital structure, for 95% of the firms experiencing succession a comparative firm was found in the group of first-generation family firms with a similar debt

level (within $\pm 20\%$ range), where a majority of them also met the industry criterion. Regarding the analysis on firm growth and profitability, a control firm was found according to one or both of the criteria (similar growth/profitability and industry) for 90% and 86% of the cases respectively. In this way, by taking the difference between the sample and control firm's accounting data, we are better able to isolate the pure impact of the succession event based on adjusted debt, growth and profitability figures.

4.4 Research results

4.4.1 Financial structure

In this section we discuss the results of the regression analyses regarding the impact of succession on the financial structure of family firms. The first regression in Table 4.3 shows the effect of a management transition on the company's level of indebtedness. Both the effects of a transfer from the first- to the second generation and a transfer between later generations of family members are presented. As mentioned before, the impact of a succession is measured starting from one year after the transfer to the following years onward.

The results indicate that after controlling for several firm characteristics a significant effect can be found for both transfer dummies. If a company is transferred from the first to the second generation, one can observe a significant decrease in the debt level of three percentage points. However, if we turn to successions in next-generation family firms, the opposite conclusion holds true. Here, a significant increase in the firm's leverage of three percentage points is found after the transition in management. Apparently, the effect that can be identified in family firms experiencing their first succession is being reversed in firms that are handed over between later generations. With respect to the other independent variables, also size, profitability and growth have a significant impact on the level of debt in the company.

The results show that larger firms are more indebted than smaller ones, but that especially in firms of a smaller size the use of debt financing rises sharply. Also with respect to the growth rate of the firm a positive effect can be found. The figure suggests that companies that grow faster need to attract higher amounts of debt for funding their investments. On the other hand, profitability exerts a negative influence on the use of debt. This seems logical, as firms that are able to generate larger amounts of internal financial means, are less dependent on debt financing for funding their activities.

Table 4.3: Regression analyses: financial structure

Independent variables	(1) Debt		(2) Adjusted debt	
	Coef.	SE	Coef.	SE
Controls				
Company age	.008	.007	.003	.005
Log size	.102***	.014	.121***	.017
Tangibility	-.002	.035	-.135***	.047
Gross return on assets	-.243***	.041	-.322***	.063
Growth	.034***	.012	.013	.016
Intergenerational succession				
Transfer from 1 st to 2 nd generation (dummy)	-.030***	.010	-.032**	.016
Transfer between later generations (dummy)	.030***	.010	.055***	.015
Year (0, 1) indicators	Yes		Yes	
R ²	.150		.111	
F	9.520***		9.680***	
Number of observations	2,022		1,887	
Number of firms	144		144	

Note: SE, Robust standard errors.

***, ** and * indicate significance at the 1, 5 and 10% level, respectively.

Debt is the total amount of debt scaled by total assets. Adjusted debt is calculated by means of a capital structure-based control group-matching method: it is measured by taking the difference between the debt rate of the sample firm and the debt rate of a control firm within the same industry and with a similar pre-succession capital structure. Company age measures the number of years since incorporation. Log size represents the logarithm of the total assets figure. Tangibility measures fixed assets to total assets. Gross return on assets measures earnings before interest, taxes, depreciation and amortization divided by total assets. Growth measures the growth rate in total assets. Transfer 1st to 2nd generation and Transfer between later generations are dummy variables that take on value 1 in the year after succession and the following years onward, and 0 otherwise, for a transfer from the first- to the second generation and between later generations respectively. Year and firm fixed-effects are included.

Even though the above regression results already give some indication of the effect of an intergenerational transfer on the level of debt in the company, one needs to be cautious as these results are solely based on a sample of firms that went through a succession. In order to

rule out any change in leverage due to luck or due to a reverting trend towards the mean, we will further relate the found effects to a control group of first-generation family firms that has not yet been involved in a transfer between generations. For this reason, we subject our analysis to the approach suggested by Barber and Lyon (1996), where the regression model is replicated by starting from the firms' industry- and debt adjusted capital structure figures for testing hypothesis 1a and 1b. The results are presented in the second regression of Table 4.3.

The table shows that similar conclusions can be drawn based on the sample firms' adjusted debt figures. The model gives evidence of a significant negative effect of succession on the firm's leverage in first-generation family firms, as the adjusted level of indebtedness seems to decrease by three percentage points. With respect to successions in next-generation family firms, again the opposite conclusion holds true, as the regression identifies a significant increase of more than five percentage points in the adjusted debt level of the company, meaning that even a larger effect can be detected compared to our findings of the first regression in Table 4.3. These results thus confirm what we already suggested, namely, that a family business transfer in first-generation family firms will lead to a negative effect on the debt level of the company and that a family business transfer in next-generation family firms will result in a neutral to positive effect on the firm's debt level. Therefore, hypothesis 1a and 1b are accepted.

4.4.2 Performance

Besides the effect of succession on the capital structure, we also analyze the impact on firm performance, as presented in Table 4.4. The first regression in Table 4.4 describes the results with regard to the growth of the company, and the second regression shows the analysis related to firm profitability. In testing hypothesis 2a and 2b, the first transfer dummy

in Table 4.4 shows that a succession from the first- to the second generation leads to a decline in the growth rate of the company of almost three percentage points, although the effect is not significant. If we further look at the second transfer dummy, a small positive effect is found of a management succession on the growth rate in next-generation family firms. Again, this result lacks statistical significance. Apparently, the first regression in Table 4.4 is not able to give clear evidence of an impact of succession on the firm's growth rate. Regarding the other independent variables, the table further shows a significant negative effect of age on the growth rate of the company, meaning that younger firms in general realize higher growth rates compared to older companies. On the other hand, we find that the logarithm of size is significantly positively related to the growth rate of the company, which leads to the conclusion that growth increases strongly particularly in smaller firms and that this rise in the growth rate gradually decreases in larger companies. With respect to the impact of gross return on assets on the growth rate, the effect is not significant, although the positive coefficient to some extent suggests that firms realizing high amounts of internal financial means have a higher capacity to grow.

The regression results with regard to hypothesis 2c and 2d, which relate to the impact of succession on firm profitability, are presented in the second regression of Table 4.4. The model shows that a management transition between next generation family members positively impacts on the profitability of the firm, given the increase of almost two percentage points in the OROA. However, no evidence is found of a change in profitability when a firm evolves from the first- to the second generation. Apparently, only the transfer in next-generation family firms exerts an influence on the OROA of the firm. The data further indicate that also company age, size and leverage have a significant effect on the firm's profitability. Younger firms seem to realize higher profit figures compared to older ones, and

particularly in smaller firms profitability increases strongly with size. These results correspond to our findings in the analysis on growth. Finally, with regard to debt as a control variable, the table makes clear that leverage has a significant negative effect on OROA. A possible explanation could lie in the fact that existing leverage may limit the firm's ability to raise new debt, which consequently forces the firm to pass up valuable investment opportunities.

Table 4.4: Regression analyses: performance

Independent variables	(1) Growth		(2) OROA		(3) Adjusted growth		(4) Adjusted OROA	
	Coef.	SE	Coef.	SE	Coef.	SE	Coef.	SE
Controls								
Company age	-.015**	.007	-.002***	.001	-.004	.004	-.002**	.001
Log size	.212***	.019	.027***	.006	.204***	.033	.026***	.010
Gross return on assets	.116	.078			.081	.107		
Debt			-.130***	.018			-.138***	.024
Intergenerational succession								
Transfer from 1 st to 2 nd generation (dummy)	-.026	.020	-.002	.006	-.062**	.031	-.002	.008
Transfer between later generations (dummy)	.014	.020	.017***	.006	.004	.031	.010	.009
Year (0, 1) indicators	Yes		Yes		Yes		Yes	
R ²	.104		.054		.054		.040	
F	9.540***		3.900***		3.900***		2.880***	
Number of observations	1,838		2,201		1,654		2,000	
Number of firms	132		145		132		145	

Note: SE, Robust standard errors.

***, ** and * indicate significance at the 1, 5 and 10% level, respectively.

Growth measures the growth rate in total assets. OROA measures the operating return on assets. Adjusted growth is calculated by means of a performance-based control group-matching method: it is measured by taking the difference between the growth rate of the sample firm and the growth rate of a control firm within the same industry and with a similar pre-succession growth. Adjusted OROA is calculated by means of a performance-based control group-matching method: it is measured by taking the difference between the OROA of the sample firm and the OROA of a control firm within the same industry and with a similar pre-succession OROA. Company age measures the number of years since incorporation. Log size represents the logarithm of the total assets figure. Gross return on assets measures earnings before interest, taxes, depreciation and amortization divided by total assets. Debt is the total amount of debt scaled by total assets. Transfer 1st to 2nd generation and Transfer between later generations are dummy variables that take on value 1 in the year after succession and the following years onward, and 0 otherwise, for a transfer from the first- to the second generation and between later generations respectively. Year and firm fixed-effects are included.

Although the above results already give some indication of the impact of succession on the performance of a company, findings are only based on our sample of family firms experiencing succession. From the previous discussion it should be clear that this approach

can lead to inaccurate conclusions as no benchmark is taken into consideration with which we can compare the changes in performance. For this reason, we again used the matching method of Barber and Lyon (1996) by starting from the group of 110 family firms from the first generation that has not yet experienced a succession. These companies allow us to calculate industry and performance-adjusted figures, which are used as dependent variables in our regressions for testing the hypotheses on the impact of succession on the growth rate and profitability of the firm. The results are presented in the third and fourth regression of Table 4.4 respectively.

With respect to the adjusted growth rate, a stronger succession effect can be detected compared to the results of the first regression in Table 4.4. The regression results based on adjusted growth figures clearly indicate that the negative impact of succession from the first to the second generation has become much sharper, given the significant decrease of six percentage points in the assets growth rate. This makes clear that in family firms experiencing their first succession, growth will slow down after the transfer of the company compared to first-generation family firms, which leads to the acceptance of hypothesis 2a. However, regarding successions in next-generation family firms, again no significant changes in the growth rate can be identified, meaning that hypothesis 2b needs to be rejected.

When we turn to the analysis on the adjusted OROA, the last regression in Table 4.4 again shows that a succession from the first to the second generation has no impact on the firm's profitability. In that sense, succession cannot be considered as a profit destroying event. On the other hand, when we look at the second transfer dummy which measures the effect of succession on profitability in next-generation family firms, the significant effect that was found in the second regression of Table 4.4 has disappeared. Apparently, compared to

companies that have not yet been involved in an intergenerational transfer, succession in next-generation family firms does not lead to an enhancement of the firm's profitability. Overall, as no evidence is found of a change in profitability when a family firm is transferred over generations, hypothesis 2c and 2d need to be rejected.

4.4.3 Robustness tests

In order to assess the validity of our results we applied some robustness tests which mainly concern the use of alternative measures with respect to our analysis on firm profitability, together with an assessment of the influence of mergers and acquisitions on our results (see Appendix 4). Apart from the OROA, also return on equity and gross return on assets were taken into consideration in this study, where the latter differs from the OROA as it takes into account the effect of depreciation and amortization on the firm's profit. In this way, we were able to test our analyses based on these alternative profit measures, including the models based on adjusted figures following Barber and Lyon's matching approach (1996). However, in correspondence with our previous findings, no significant effect of succession on the firm's adjusted profitability could be detected, which again confirms that hypothesis 2c and 2d need to be rejected.

The second robustness check refers to the potential influence of mergers and acquisitions which could potentially distort the results in our analyses. Given the long time span of 16 years (1991-2006) used in this study, some of the found effects could be attributed to the occurrence of a merger or acquisition in the company during the period of analysis. We therefore screened all the firms in our sample for their involvement in such a transaction, where it was found that in only two companies of the 152 that experienced a succession a merger or acquisition occurred within a period of five years before/after the intergenerational

transfer. As in these firms changes in our dependent variables could result from the merger/acquisition event, they were excluded from our analyses. However, even after ignoring these firms, similar results were obtained as before, which again provides support for the findings in this study.

4.5 Discussion and concluding remarks

The idea that a family business succession can have an impact on the financial structure and performance of a firm, has to some extent been proven in this study. This should be no surprise given that a business transfer is by large one of the most important and critical events in the life cycle of any family firm. In fact, many companies seem to be unsuccessful in overcoming the difficulties surrounding a succession, as has clearly been demonstrated by the various statistics showing the limited survival rates of family firms over generations. Moreover, successions will gradually gain more importance in the next coming years due to the retirement of a substantial amount of business leaders from the baby boom generation. It is therefore important to broaden our knowledge related to this topic, as both academics and practitioners can benefit from it. Particularly, the study of business transfers can lead to more insights into best practices how to carry out a succession and on the way in which the business can change due to the transition event. And finally, paying attention to this theme can increase the awareness among potential entrepreneurs in the business family that taking over the firm can be a valuable alternative to starting one's own business from scratch.

Although quite some research papers already investigated the impact of a family business succession on company decisions and behavior, they are mainly restricted to the study of large public firms or purely based on cross-sectional analysis. Current research seeks to overcome these limitations by analyzing transitions in small- to medium-sized family firms

starting from a panel data setting. There is no doubt that SMEs can be seen as one of the most important business sectors in the world economy, especially when it comes to their total share in the business population and the amount of people they employ. This makes of them an interesting unit of analysis. Moreover, the focus on a longitudinal study of succession in these firms allows us to provide direct evidence on the consequences of a transition as both pre- and post-succession data are analyzed. In this way, our research contributes to the existing knowledge resulting from previous studies.

The main finding of this study can be summarized by stating that succession indeed results in changes of a firm's capital structure and performance. What's more, both literature and empirical results indicate that the impact of transitions in first-generation family firms can differ from those occurring in later generations. As shown by our analyses, the transfer from the first- to the second generation seems to negatively influence the leverage of the company. However, in later generations of family firms this effect is being reversed, given the significant rise in the level of indebtedness. This resulted in the acceptance of hypothesis 1a and 1b. A possible explanation for these results can be found in the work of Reid et al. (1999) and Kaye and Hamilton (2004) who describe the idea that family firms often become more risk averse after succession, which can lead to lower debt levels in the company. The fact that an opposite effect can be identified in later generation successions could be attributed to the findings of Schulze, Lubatkin, and Dino (2003a), who indicate the existence of a U-shaped relationship between ownership dispersion over generations and the level of indebtedness. Given that with each transition to the next generation there is a high chance of equity ownership becoming more diffuse, the stronger alignment of the shareholders' interests and reduced agency costs in a cousin consortium, as often found in third-generation family firms, can result in a higher willingness to increase debt financing compared to sibling partnerships.

Another reason for finding a reversed effect of next-generation transitions on leverage corresponds to the studies of De Massis, Chua, and Chrisman (2008) and Bjuggren and Sund (2001, 2005), who point to the fact that successors often have to buy the shares from the older generation or from family descendants that are not interested to stay involved in the business. For this reason, the passing over of the business, and especially the financing issues related to this process, could seriously increase the need for seeking external financing. Moreover, as most next-generation family firms have already grown to a sizeable dimension and firm value, it is expected that especially firms of the third- or later generation will need to rely more heavily on debt financing for funding the business transition.

When turning to the hypotheses on performance, additional conclusions can be drawn. Regression analyses based on adjusted figures show that in first-generation family firms also the growth rate decreases significantly when a family firm is transferred from the first- to the second generation. However, in next-generation family firms, no significant effect of succession on the growth level can be identified. We therefore accepted hypothesis 2a and rejected hypothesis 2b. Referring to the work of Dunn (1995), Cromie et al. (1995), and Reid et al. (1999), the above results could again be explained by the changing level of conservatism/risk aversion if a family firm is transferred from the founder to the children. As the latter are often more oriented towards the family, they will go less far in realizing company growth. However, if the family firm is further transferred to next-generation family members the increasing chance for ownership dispersion can result in a lower level of risk aversion, given that the shares are now distributed among more parties (Schulze, Lubatkin, Dino 2003a). This can be an incentive for next-generation family business leaders to extend again their focus on the firm's expansion. Our results further correspond to Davis and Harveston's view (1998, 1999) that the transition between the founder and the second

generation can be regarded as the most turbulent one. As next-generation family firms are less vulnerable to conflicts resulting from the founder's shadow, and because family managers already have a broad experience with the transition process from earlier successions, it is expected that the transfer in management between later generation family members can be settled more smoothly without harming the company's development.

With regard to firm profitability, hypothesis 2c and 2d were rejected given that a family firm's adjusted profit figures are not influenced by succession. In this way, our results correspond to the study of Sraer and Thesmar (2007) who found no association between performance and generational renewal in family businesses. One of the reasons of identifying changes in growth but not in profitability when a first-generation family firm is transferred to the second generation, could lie in the explanation given by McConaughy and Phillips (1999). Although descendant-controlled family firms have a lower capacity to grow, their profitability is not negatively affected as they are able to reap the benefits of earlier investments in capital assets and R&D made by the founder. Finally, the fact that no evidence is found of a negative impact of an intergenerational transfer on the performance of next-generation family firms can lead to the conclusion that a transfer should not necessarily be seen as a negative event in the life cycle of a family business.

5. Summary and conclusion

Family firms comprise a very significant proportion of businesses throughout the world. Besides their importance for the economy, the fact that the decision making and operations of these firms are influenced by an owning family have aroused the interest of many researchers to explore their behavior and to investigate why these organizations differ from those that lack any form of family involvement. In that sense, the high attention that has been paid to this field of study has made family business research more rigorous and increasingly important.

One of the main issues that frequently appeared in past literature was related to the development of a uniform family firm definition. However, after several years of research, one has come to recognize that the characteristics of a family firm can not be grasped within a single definition given the diverse ways in which a family can have an impact on a business (Klein, Astrachan, Smyrniotis, 2005). Taking into account these considerations, researchers have pointed to the importance of studying the heterogeneous character of the family business in order to gain more insight into the distinguishing characteristics of these firms (Chrisman, Sharma, Taggar, 2007). Even though several studies have already been developed in this direction, more work still needs to be done in order to better understand this most common form of business organization.

The overall aim of current doctoral research was to increase our knowledge on the differences between family firms by adopting a heterogeneity approach in analyzing these businesses. The focus more specifically lied on the study of family firm diversity by taking into account the degree of family and business orientation of the company as well as the succession of the family firm over generations. Evidence was found that the extent to which

family and business goals are being pursued in the family firm and whether the company has been transferred from one generation to the next, have a significant impact on family business behavior. In that way, current doctoral research hopes to extend the insights in family business literature and tries to contribute to an interesting field of study that will undoubtedly gain even more importance in the future.

5.1 The impact of family business goal orientation

Chapter 2 was oriented towards the investigation of the goal setting of a family business. By starting from the agency theory, stewardship theory, and the concept of altruism, it was brought forward that family businesses aren't exclusively profit maximizing organizations, but also strive for non-financial benefits and the well-being of the family. They usually try to take the needs of the business as well as the family into consideration, meaning that they rather pursue the maximization of a utility function that is made up of economic and non-economic goals. Therefore, a distinction was made between a family and a business orientation by measuring the degree to which family goals and business goals respectively were being pursued in the companies of our sample.

In line with the work of Leenders and Waarts (2003), we then tried to categorize family firms based on various combinations of a family and a business orientation. This allowed us to differentiate between four types of family firms. Type 1 family firms are those companies that have a high business orientation and a low family orientation, type 2 family firms have a low business orientation and a high family orientation, type 3 family firms have a low business orientation and a low family orientation, and finally type 4 family firms have a high business orientation and a high family orientation.

In addition, we linked several family influence variables to the goal orientation of a family business. We found that a transfer of the company to the next-generation is positively related to the degree to which family goals are being pursued. In addition, family firms where all shares are in hands of the family and where the management team consists of a high proportion of family members also attach more importance to family goals. On the other hand, no association could be detected between these variables and the importance attached to business goals in the company. By further analyzing the link between the various family influence variables and the developed family firm typology, evidence was found that the family influence variables are not able to explain why a certain family business belongs to a specific family firm type and not to the other three types, meaning that a family firm has some opportunity of moving from one type to the other by altering the importance attached to family and/or business goals.

Finally, based on the study of the link between the developed family firm typology and subjective performance measures, results further showed that the perceived performance of a family business significantly increases when the firm strongly pursues both family and business goals. In other words, the companies that are able to combine a strong family and a strong business orientation (type 4 family firms) attain the highest levels of overall satisfaction as they create a setting where both the family and the business can flourish.

Our analyses and findings in chapter 2 contribute to the literature in several ways. We firstly demonstrate that agency theory should be supplemented with other theoretical frameworks like stewardship theory in order to get a more comprehensive view of the family business. This can help family business researchers in the future to develop a general theory of the family firm. Secondly, by integrating several measures of family involvement in our

analyses, we try to fill the gap in literature on the association between various aspects of family influence in a company and a firm's goal setting. Thirdly, our work adds to the scarce literature on family firm typologies and goes beyond existing empirical taxonomies by taking into account a theoretical framework in differentiating between several types of family businesses. Finally, we try to respond to the often found conflicting results in past empirical research regarding organizational performance by showing that the differences in the goal orientation of a family firm should be seen as a valuable way for better understanding the perceived performance of family businesses.

5.2 The impact of family business succession

In chapters 3 and 4 we focused on the differences between family firms by taking into account the transfer of the family firm over generations. Two distinct approaches were being followed in order to improve our understanding on this issue.

5.2.1 Intergenerational differences

Chapter 3 dealt with the analysis of intergenerational differences in family firms by studying to what extent the generational situation has an influence on the financing and growth behavior of the family firm. Evidence was found that it does make a difference whether the founder or other generations of family members are in charge of the family firm in order to explain the finance and growth patterns of these companies.

Results indicated that second- and third-generation family businesses have a significant lower debt rate in their capital structure compared to first-generation firms. In addition, analyses showed that family firms of the second- and third generation also realize lower growth rates in terms of their total assets than their first-generation counterparts. By further

investigating the relationship between the firm's financing and growth behavior based on the concepts of internal and sustainable growth (Higgins, 1977; Kyd, 1981; Demirgüç-Kunt, Maksimovic, 1998) additional findings resulted, as these concepts allowed us to gain more insight into the risk tolerance of a company. It was found that second- and third-generation family firms that grow faster than their internal growth rate, exceed this internal level to a lower degree compared to first-generation companies. With respect to the sustainable growth rate, similar conclusions could be drawn since especially second-generation family firms were found to go less far in exceeding their sustainable growth level compared to first-generation family firms.

In explaining these results, several ideas were brought forward among which the changing level of risk tolerance and family orientation when family firms evolve over generations. Since descendants are expected to take less risk and have a higher fear of losing control compared to founders, they attract lower levels of debt to fund the growth of their companies in order to safeguard the family's control and independence. To some extent, this view corresponds to one of the results described in chapter 2, where it was found that next-generation family firms are indeed characterized by a higher family orientation as they attach more importance to family oriented goals compared to their first-generation counterparts. The fact that no association could be detected in chapter 2 between the generational situation and the pursuit of business goals in some way demonstrates that next-generation family members still care about the growth of their business, although they go less far and take less risk in attaining that growth since they try to accommodate their firm's development to the availability of financial means in order to maintain control within the family.

Overall, the findings of chapter 3 add to the literature in four ways. We firstly contribute to the central idea in family business studies on the heterogeneous character of the family business by distinguishing between different generations of family firms and by indicating that the generational situation has an influence on family business behavior. Next, we improve our general knowledge on the intergenerational differences in the family firm, as the literature proves to be rather scarce with regard to this topic. Thirdly, we try to provide a better understanding of the capital structure and growth behavior of family firms and to shed more light on the opposite results that can be found in past empirical studies. Finally, through our work we contribute to the extant business transfer literature by providing indirect evidence of the effects of an intergenerational succession on the financing and growth behavior of a family business.

5.2.2 Succession effects

In chapter 4 we adopted a different approach in analyzing the transfer of a family business. By taking the succession event itself into consideration and by starting from a panel data setting, we were able to identify the direct consequences of a transition on a firm's capital structure and financial performance. Since we further distinguished between family business successions in first-generation family firms versus those that occurred in next-generation companies, we were partly able to validate some of the results found in chapter 3 and to further extend our findings that resulted from the cross-sectional comparison of different generations of family firms.

A matching procedure was used in order to make a clear comparison between companies that had not yet experienced a business transfer and firms that were involved in a succession (Barber and Lyon, 1996). Our results showed that a firm's capital structure is indeed affected

by the succession event, as a family business transfer from the first- to the second generation negatively influenced the total debt level of the company. On the other hand, in later generations of family firms this negative effect was being reversed, given the significant rise in the level of indebtedness that was identified in these firms after the succession. With respect to the growth of the firm, it was found that in first-generation family firms also the growth rate decreases significantly when a family firm is transferred to the following generation. In next-generation family firms however, no such effect of succession on the growth level could be detected. In a last step, we also investigated the impact of succession on firm profitability. It was shown that a succession from the first to the second generation as well as a succession in next-generation family businesses has no significant impact on the profitability of the company.

The fact that a firm's debt level and growth rate significantly decrease from the moment a family business is handed over from the first- to the second generation, largely corresponds to the findings and the ideas brought forward in chapter 3, which described the changing risk attitude if family firms evolve over generations. However, the opposite effect that was identified with respect to the firm's level of indebtedness when it is transferred to later generations of family members, could be attributed to the financing of the business transition itself or an increased level of ownership dispersion in the company. Finally, as no effect was found of intergenerational succession on firm profitability, we concluded that a family business transfer should not necessarily be regarded as a value decreasing event in the life cycle of a family business.

Through this research, we contribute to the existing literature in several ways. Our study firstly enables us to broaden our knowledge on the influence of a business succession on

company decisions and behavior, since the literature is still inconclusive with respect to this matter. We secondly manage to overcome one of the shortcomings in past empirical studies by following a longitudinal approach instead of using cross-sectional data in analyzing the impact of a family business transfer. Thirdly, we extend the traditional view of differentiating between founder- and descendant-managed family firms as often found in past studies, by making a further distinction between a transfer from the founder to the second generation and a succession occurring in later generations. Finally, our focus on the impact of succession in the context of private small- and medium-sized enterprises, adds to the literature since past studies mainly investigated leadership transitions in large publicly listed firms.

5.3 Limitations and directions for future research

The purpose of this doctoral research was to investigate the heterogeneous character of family firms by taking into account the influence of family business goal orientation as well as the impact of intergenerational succession on the behavior of these companies. Although interesting conclusions could be derived from our analyses and results, we nevertheless have to mention a few shortcomings in current doctoral study together with some suggestions for future research.

In this work we started from a questionnaire that was sent to the managing directors of 2,500 companies in Flanders. This means that we only addressed the main family owner/manager of the family business. However, since differences in perceptions are expected to occur between various family members in a family firm, we were not fully able in chapter 2 to get a clear view on the culture and goals of the family firm. Instead, we could have used a multi-respondent data collection method which incorporates the opinion of several family members in the firm by sending out a number of questionnaires to the same

company (Sharma, 2004). Although such an approach would certainly result in a significant lower response rate, it could lead to more accurate information on the intentions of the family and the extent to which family members attach importance to family and/or business needs.

In addition, some limitation also lies in the procedure followed in chapter 2 based on the categorization of family firms. Even though the developed typology is intuitively appealing, it to some extent weakens the data that are available in this research. More specifically, by dichotomizing the variables family orientation and business orientation, some information is lost since these variables appear to have a broad range of values available. In that sense, future research should further focus on this issue by analyzing the impact of family business goal orientation on perceived performance by integrating continuous predictor variables into the model.

Another shortcoming is related to the cross-sectional nature of our analyses in chapters 2 and 3. As this method only provides a snapshot of the organization, one can not automatically assume causal relations. Especially in our study on intergenerational differences in chapter 3 we need to be cautious with respect to some variables (e.g. financing constraints, growth objectives) as they are measured at the end of the period of analysis. In that sense, it would be more appropriate to talk about associations between the variables than pure cause-effect relationships. Nevertheless, based on our longitudinal analysis of intergenerational succession in chapter 4, we were partly able to validate our findings resulting from the cross-sectional comparison of different generations of family firms.

On the other hand, chapter 3 tried to draw some conclusions with regard to the risk tolerance in different generations of family firms by using the concepts of internal and

sustainable growth. However, in our survey no direct information was available regarding the risk sensitivity of family members involved in the management/ownership of the firm. Therefore, a useful extension of this study would be to gather further data on the changing patterns of risk preferences in family firms managed/owned by various generations of family members. In that sense, also other measures of risk-taking behavior could be used as described by Zahra (2005), as they could bring additional insights to our findings.

Finally, the fact that no significant succession effect on family business profitability could be detected in chapter 4 mainly suggests that additional factors need to be included in order to better understand this relationship. Given the great complexity that usually goes together with the transition of the family firm, it can be expected that not all companies will remain successful after the succession. In this respect, we could refer to several issues related to the family business transfer such as the level of intra-family conflicts, the quality and competences of family descendants, the degree of succession planning, the extent to which the succession was forced due to the sudden illness or death of the family business leader, etc. Even though all these factors will probably have an influence on the relationship between the succession event and firm profitability, they could not be integrated in current research due to the unavailability of data with respect to these topics. In the same sense, additional data on family businesses that are transferred to non-family members could deliver further insights into the effect of a business transfer. Therefore, future studies should focus on these issues to allow a more precise analysis of the longitudinal effects of a family business succession. Moreover, a further necessary extension concerns the analysis of the impact of succession on the non-financial performance of family businesses. Given that family owners and managers need to deal with both economic and non-economic considerations when making decisions, future research should try to take into account other than traditional financial performance

measures in order to get a full view on the consequences of a family business succession on the firm's performance.

5.4 Practical implications of current doctoral research

There is no doubt that family firms are complex organizations whose behaviour is difficult to grasp and explain. In spite of the fact that these companies all share the general characteristic that the decision making and operations of the firm are influenced by the owning family, this family involvement can manifest itself in a variety of ways making the family business a heterogeneous group of organizations. This idea has extensively been demonstrated in current doctoral research, where it was found that the goals that are being pursued in the firm as well as the succession from one generation to the next can have a significant impact on family business behavior. We therefore want to encourage family business researchers to make further efforts towards studying the differing characteristics of family firms. Only then more useful and better attempts can be made towards investigating to what extent these organizations are distinct from those that lack any form of family involvement.

However, not only for researchers, but also for policy makers and business advisors, having more insight into the heterogeneity of family firms is of importance in order to better respond to the exact needs of this type of organization. In this respect, several lessons can be learned from our work for practitioners and governmental institutions. First of all, family business leaders should be aware that paying high attention to the needs of the family in running their business will not necessarily lead to inefficiencies. All too often, the influence of the family is regarded in a negative sense as it engenders conflicts, rivalry and emotions which seriously harm the company. Although these feelings can indeed occur in a business,

the positive impact that a family can bring to a business should not be underestimated. Especially if the family's desires are brought in harmony with the further economic development of the business, a positive setting can be created where the business fulfils the needs of the family and the family contributes to the expansion of the business. In that sense, family business leaders should try to combine a strong family orientation with a strong business orientation in order to create a competitive advantage that is hard to imitate for companies lacking any degree of family involvement.

With regard to our analyses on the intergenerational succession of the family business, the idea brought forward that next-generation family firms are somewhat characterized by a conservative financial behavior, could lead to the conclusion that some growth potential of these firms remains unanswered. On the one hand, this could result in the advice to family business founders not to teach their children to shy away from risk in order to preserve the wealth they inherited, but to stimulate the new business leaders of the following generation to increase their entrepreneurial spirit to work towards the further growth of their business. On the other hand, this conservative behavior should not be detrimental as such. Similar to the risk profile of investors in general, family business owners are free to take decisions in accordance with their degree of risk tolerance. What's more, especially in times of economic crisis, this behavior allows family firms to survive some of their competitors that were too eager for gaining short term profits and growth by investing in high risk projects, and enables them to create stability for an economy as a whole.

Moreover, some lessons can be learned for the government as well. The strong reliance on internally generated funds of many family businesses, and especially of next-generation companies, calls for the development of specific measures focused on the equal tax treatment

of debt and equity capital. Since interest payments resulting from debt financing are tax deductible, the government could take some steps towards granting a tax allowance for companies using their own resources to fund their growth as well. In this respect, an interesting example in the international tax law concerns the notional interest deduction, which was launched in Belgium in 2006. As this system allows Belgian companies to deduct a fictitious interest on their shareholder's equity from their taxable income, the discrimination between debt financing and equity financing can be reduced.

In addition, governmental institutions could stimulate potential entrepreneurs in the business family to take over the firm, as no indication was found in current doctoral research that succession harms the profitability of the firm, meaning that it is a valuable alternative to starting one's own business from scratch. Entrepreneurship is not only about new venture creation, but even more about extending the unique strength of a long family tradition in an existing organization. In that sense, initiatives should be developed and continued which further facilitate family business transfers. An interesting measure e.g. lies in the introduction of multiple voting rights, as often found in Scandinavian countries. The abandonment of the principle of one vote for one share could considerably lower the financial needs of family members that are interested in expanding the company's success while keeping control in family's hands. Another measure refers to the reduction of taxation related to a family business transfer. Although several countries already took some steps in this direction (e.g. Austria, Sweden etc.) more work still needs to be done in order to further limit/abolish the financial burden and conditions related to an inheritance or gift of the firm. A final example of governmental support can be found in several initiatives that increase the awareness of the problems and possibilities related to a transfer. Entrepreneurs close to their retirement age could e.g. be actively approached in order to support them with advice regarding the planning

of the business transfer (e.g. in The Netherlands), or potential successors could be trained and coached to take up their future role as family business leader through transparent, well-structured and coordinated programmes or workshops.

On the other hand, many family businesses are often in a situation which makes it very difficult to hand over the company to the next generation. If there is too much conflict or rivalry in the family business, or if no competent successors can be found in the family, a transfer to external owners/managers should be considered. Of course, it will always be most unfortunate to see successful family businesses disappear in our economic landscape due to the sale of their activities to large (international) organizations or investors, but if the option of keeping the business in the family is not feasible, the further development and growth of the company can be safeguarded in hands of external parties as well. Nevertheless, when family business succession does not occur because of excessive regulation and/or taxation which discourages potential successors from becoming an entrepreneur, the creation of a business friendly climate by the government will be the best chance to help potential family business successors to take that step towards the continuation of the family firm over several generations.

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Appendix 1: Questionnaire

Company identification

Company name:	
Street:	City:
Phone:	E-mail:
Your name:	Your position:

- In what year was the company founded?
- Do you consider your company a family business? Yes No
- Is your company part of a holding structure/business group? Yes No

Family involvement in the company

→ *Family* is regarded as: blood-related and in-law family members.
→ *The founding generation* needs to be considered as the first generation.

- How is the ownership of the firm's shares divided between family- and non-family members:
Family % Non-family %

- How many family members are actively involved in the company?
..... Family members

(Family members are actively involved if they substantially contribute to the company, e.g. employees, shareholders or directors.)

- How many members does the management count (incl. managing directors) in your company? Members
Of which Family members

- Which generation(s) of family members manage(s) the company? Generation

- In what year did the most recent management transfer occur from generation to generation?
..... Don't know

- Which generation(s) of family members own(s) the company? Generation

- In what year did the most recent ownership transfer occur from generation to generation?
..... Don't know

- Is (are) the founder(s) of the company still actively involved in the management?
Yes No

Corporate governance in the company

- Does the company have a Board of Directors? Yes No
- If yes, how many members does this board count? Members
Of which Family members
- If yes, how often does the Board of Directors meet? Times per year
- If yes, which generation(s) of family members is (are) member of the Board of Directors?
..... Generation
- Does the company have a written strategic plan? Yes No
- Does the company have a family forum? Yes No

(A family forum is an official meeting at which the family members regularly discuss the relationship between the family and the company and where all issues/conflicts of the family related to the family business are dealt with.)

- Does the company have a family charter? Yes No

(A charter describes the rules that guide family members in the family business. E.g.: family values and vision, careers in the family business, role of non-family members in the family business.)

Characteristics of the shareholder(s) / managing director(s)

- How many shareholders (owners) does the company have? Shareholders
Of which Family shareholders
- If more than one family shareholder, please indicate their relationship. (E.g.: the shareholders are spouses, brothers, father and daughter, cousin and niece,...)
.....
.....
.....
.....
- How many of these family shareholders do not have a position as employee, managing director or board member?
- How many managing directors does the company have? Managing directors

	<u>Managing director 1</u>		<u>Managing director 2</u>		<u>Managing director 3</u>	
<u>Age:</u> Years	 Years	 Years	
<u>Sex:</u>	Male	Female	Male	Female	Male	Female
<u>Are you shareholder?</u>	Yes	No	Yes	No	Yes	No

<u>For how many years have you led the company?</u> Years	 Years	 Years	
	Yes	No	Yes	No	Yes	No
<u>Are you a member of the family/family in law?</u>						
If yes:						
• <u>Of which generation?</u>	•	Generation	•	Generation	•	Generation
• <u>Number of children?</u>	•	Children	•	Children	•	Children
• <u>Age of eldest child?</u>	•	Years	•	Years	•	Years
• <u>How many children are actively involved in the company?</u>	•	Children	•	Children	•	Children
• <u>Do you already think about succession?</u>	• Yes	No	• Yes	No	• Yes	No
• <u>In how many years do you expect to retire from the company?</u>	• 0-5	6-10	• 0-5	6-10	• 0-5	6-10
	> 10	unknown	> 10	unknown	> 10	unknown

Family business culture

To what extent do you agree with the following propositions?

Totally disagree	-3	-2	-1	0	+1	+2	+3	Totally agree
Your family and your company <u>share the same values</u> .	-3	-2	-1	0	+1	+2	+3	
Your family members <u>feel committed</u> to the company.	-3	-2	-1	0	+1	+2	+3	
Your family members <u>support the company</u> in discussions with friends, employees and other family members.	-3	-2	-1	0	+1	+2	+3	
Your family members are <u>proud</u> to be part of the company.	-3	-2	-1	0	+1	+2	+3	
Your family members are very <u>concerned about the fate</u> of the family business.	-3	-2	-1	0	+1	+2	+3	
Your family members <u>agree with the policy, the plans and the goals</u> of the company.	-3	-2	-1	0	+1	+2	+3	
Your family <u>understands and supports the decisions taken</u> with regard to the <u>future</u> of the company.	-3	-2	-1	0	+1	+2	+3	
Your family members are willing to make <u>extra efforts</u> compared to other employees to guarantee the <u>success</u> of the company.	-3	-2	-1	0	+1	+2	+3	
Your company contributes to <u>servicing the interests and needs</u> of the family.	-3	-2	-1	0	+1	+2	+3	
Your family contributes to <u>realizing the goals of the company</u> .	-3	-2	-1	0	+1	+2	+3	

Family business goals

To what extent can the following goals be considered as one of the main goals of the company:

Not at all	-3	-2	-1	0	+1	+2	+3	To a very high extent
The <u>increase</u> of the <u>financial value</u> of the company.	-3	-2	-1	0	+1	+2	+3	
The <u>growth</u> of the <u>sales figure</u> of the company.	-3	-2	-1	0	+1	+2	+3	
The <u>maximization</u> of <u>profit</u> .	-3	-2	-1	0	+1	+2	+3	
The <u>increase</u> of the <u>market share</u> of the company.	-3	-2	-1	0	+1	+2	+3	
The pursuit of <u>innovation</u> and the identification of <u>opportunities</u> .	-3	-2	-1	0	+1	+2	+3	
The creation of a high degree of <u>customer satisfaction</u> .	-3	-2	-1	0	+1	+2	+3	
The creation of <u>job security</u> for employees.	-3	-2	-1	0	+1	+2	+3	
The full <u>separation of family and business matters</u> .	-3	-2	-1	0	+1	+2	+3	
The <u>growth</u> of the <u>family wealth</u> .	-3	-2	-1	0	+1	+2	+3	
The <u>creation</u> of <u>value over generations</u> .	-3	-2	-1	0	+1	+2	+3	
The <u>preservation/improvement</u> of the <u>standard of living</u> of the family owner(s).	-3	-2	-1	0	+1	+2	+3	
A <u>successful business transfer</u> to the next generation.	-3	-2	-1	0	+1	+2	+3	
The <u>preservation</u> of the <u>family control and independence</u> .	-3	-2	-1	0	+1	+2	+3	
The <u>minimization of conflicts</u> between family members.	-3	-2	-1	0	+1	+2	+3	
The <u>supply of work</u> to family members.	-3	-2	-1	0	+1	+2	+3	
The <u>creation of reputation and status</u> in the environment.	-3	-2	-1	0	+1	+2	+3	

Performance of the company

To what extent are you satisfied with the achievement of the following goals:

Totally dissatisfied	-3	-2	-1	0	+1	+2	+3	Totally satisfied
The <u>increase</u> of the <u>financial value</u> of the company.	-3	-2	-1	0	+1	+2	+3	
The <u>growth</u> of the <u>sales figure</u> of the company.	-3	-2	-1	0	+1	+2	+3	
The <u>maximization</u> of <u>profit</u> .	-3	-2	-1	0	+1	+2	+3	
The <u>increase</u> of the <u>market share</u> of the company.	-3	-2	-1	0	+1	+2	+3	
The pursuit of <u>innovation</u> and the identification of <u>opportunities</u> .	-3	-2	-1	0	+1	+2	+3	
The creation of a high degree of <u>customer satisfaction</u> .	-3	-2	-1	0	+1	+2	+3	
The creation of <u>job security</u> for employees.	-3	-2	-1	0	+1	+2	+3	
The full <u>separation of family and business matters</u> .	-3	-2	-1	0	+1	+2	+3	
The <u>growth</u> of the <u>family wealth</u> .	-3	-2	-1	0	+1	+2	+3	
The <u>creation</u> of <u>value over generations</u> .	-3	-2	-1	0	+1	+2	+3	

The <u>preservation/improvement</u> of the <u>standard of living</u> of the family owner(s).	-3	-2	-1	0	+1	+2	+3
A <u>successful business transfer</u> to the next generation.	-3	-2	-1	0	+1	+2	+3
The <u>preservation</u> of the <u>family control and independence</u> .	-3	-2	-1	0	+1	+2	+3
The <u>minimization of conflicts</u> between family members.	-3	-2	-1	0	+1	+2	+3
The <u>supply of work</u> to family members.	-3	-2	-1	0	+1	+2	+3
The <u>creation of reputation and status</u> in the environment.	-3	-2	-1	0	+1	+2	+3

Financing of the company

• To what extent does your company experience constraints in attracting external financial means (e.g. bank financing,...) for supporting the survival/growth of your company?

Not at all -3 -2 -1 0 +1 +2 +3 To a very high extent

• Did the bank recently reject financing requests of the company? Yes No

• If yes, for what reasons (e.g. industry outlook, limited reimbursement capacity/equity, etc.)?

• Did your company recently refuse to attract bank financing? Yes No

• If yes, for what reasons (e.g. too high risk, collateral, cost of debt, etc.)?

• Do one or more family shareholders/directors supply a loan to the company? Yes No

• If yes, what is the estimated share of these loans to the total capital (= equity + liabilities) of the company? %

Additional comments:

.....

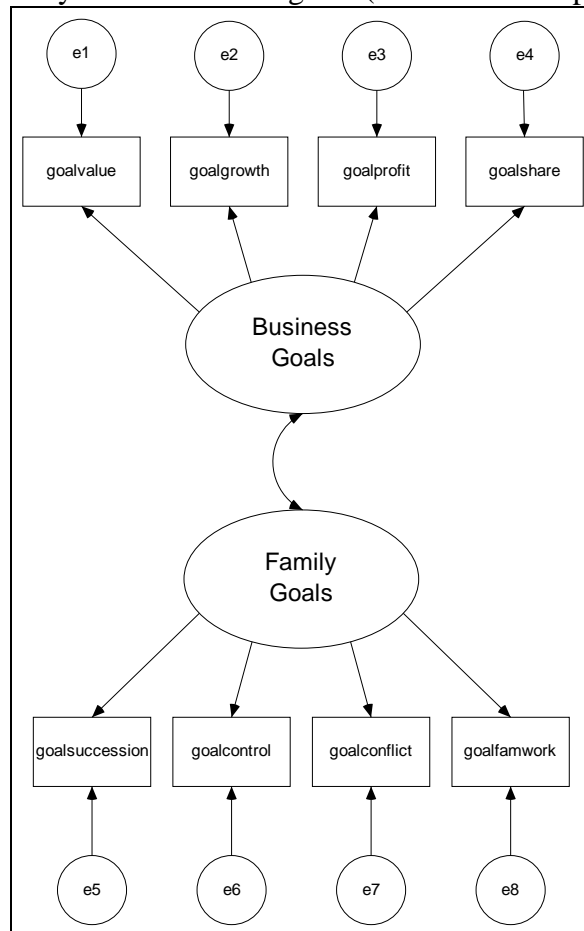
Would you like to receive a research report? Yes No

Appendix 2: Robustness tests chapter 2

Items used to measure importance of business and family goals (EFA – sub sample)

	Factor loadings	Mean	Median	Std. dev.
Business goals (Cronbach's alpha)	$\alpha = .71$	1.87	2.00	.77
1. Increase of the financial value of the business	.68	2.02	2.00	.96
2. Growth of the sales figure of the business	.78	1.88	2.00	.92
3. Maximization of profit	.75	2.07	2.00	.95
4. Increase of the market share of the business	.70	1.53	2.00	1.22
Family goals (Cronbach's alpha)	$\alpha = .71$	1.24	1.50	1.18
5. Successful business transfer to the next generation	.81	1.48	2.00	1.71
6. Preservation of family control and independence	.77	1.69	2.00	1.48
7. Minimization of family conflicts	.70	1.76	2.00	1.43
8. Provision of work to family members	.63	-.02	0.00	1.79

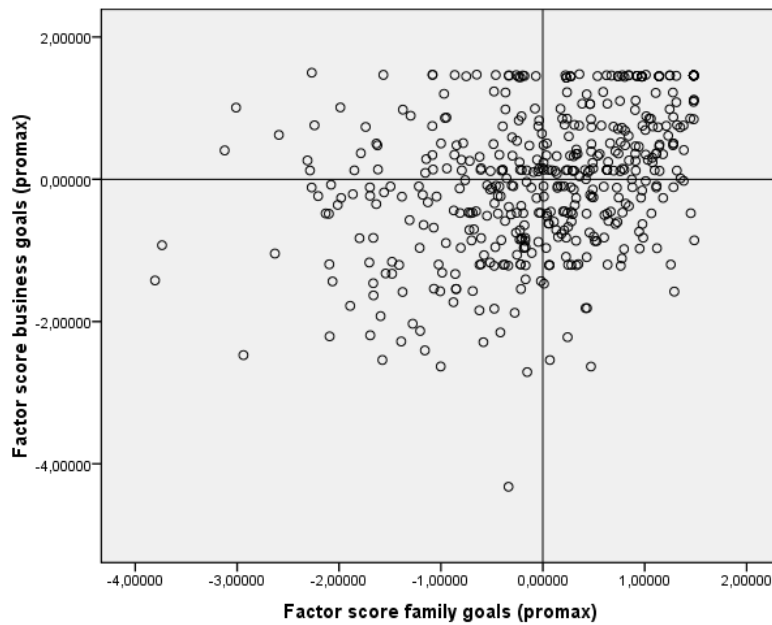
Family versus business goals (CFA – sub sample)



Items used to measure importance of business and family goals (EFA – Promax)

	Factor loadings	Mean	Median	Std. dev.
Business goals (Cronbach's alpha)	$\alpha = .74$	1.88	2.00	.78
1. Increase of the financial value of the business	.73	2.01	2.00	.94
2. Growth of the sales figure of the business	.80	1.84	2.00	.96
3. Maximization of profit	.78	2.06	2.00	.94
4. Increase of the market share of the business	.69	1.61	2.00	1.23
Family goals (Cronbach's alpha)	$\alpha = .73$	1.20	1.25	1.17
5. Successful business transfer to the next generation	.79	1.47	2.00	1.62
6. Preservation of family control and independence	.78	1.58	2.00	1.50
7. Minimization of family conflicts	.75	1.68	2.00	1.43
8. Provision of work to family members	.67	0.07	0.00	1.73

Importance attached to family goals and business goals (factor scores – Promax)



Items used to measure perceived business and family performance (EFA – Promax)

	Factor loadings	Mean	Median	Std. dev.
Business performance (Cronbach's alpha)	$\alpha = .89$	1.33	1.50	1.09
1. Increase of the financial value of the business	.87	1.45	2.00	1.28
2. Growth of the sales figure of the business	.89	1.49	2.00	1.22
3. Maximization of profit	.88	1.19	1.00	1.32
4. Increase of the market share of the business	.81	1.22	1.00	1.16
Family performance (Cronbach's alpha)	$\alpha = .77$	1.18	1.25	1.00
5. Successful business transfer to the next generation	.79	.99	1.00	1.38
6. Preservation of family control and independence	.76	1.53	2.00	1.23
7. Minimization of family conflicts	.79	1.37	2.00	1.35
8. Provision of work to family members	.73	.76	0.00	1.23

OLS regression results (dependent variables: family/business performance – Typology based on Promax)

Variables	Family performance		Business performance	
	B	SE	B	SE
Constant	.575	.429	.427	.546
Controls				
Company age	.000	.002	-.002	.002
Log size	.002	.042	.192***	.054
Manufacturing	-.134	.117	-.173	.149
Construction	-.030	.129	.223	.164
Trade	-.159	.121	.080	.154
Family influence				
Family culture	.382***	.052	.123*	.065
Proportion of family in management	-.023	.159	.075	.202
Family ownership	.103	.145	-.296	.185
Family members actively involved	.001	.021	-.024	.026
Founder involvement	.076	.108	-.032	.138
2 nd vs. 1 st generation	.227**	.116	-.047	.147
3 rd vs. 1 st generation	.374**	.165	-.053	.211
Typology				
Type 1 vs. type 4 family firm	-.865***	.120	-.470***	.153
Type 2 vs. type 4 family firm	-.307***	.111	-.440***	.142
Type 3 vs. type 4 family firm	-.896***	.111	-.900***	.141
R ²	.409		.192	
Adjusted R ²	.387		.161	
F-value	18.424***		6.334***	
N	415		417	

Note: ***, **, * indicate statistical significance at 1, 5, and 10% respectively

OLS regression results (dependent variables: family/business goals –
Excl. founder involvement & company age)

Variables	Family goals		Business goals	
	B	SE	B	SE
Constant	-1.456***	.484	1.146***	.339
Controls				
Log size	.076	.051	.033	.035
Manufacturing	-.162	.141	-.087	.099
Construction	-.333**	.153	-.390***	.107
Trade	-.104	.142	.102	.100
Family influence				
Family culture	.555***	.054	.346***	.038
Proportion of family in management	.531***	.190	-.064	.133
Family ownership	.437**	.183	-.031	.128
Family members actively involved	.006	.023	-.013	.016
2 nd vs. 1 st generation	.334***	.124	-.008	.087
3 rd vs. 1 st generation	.232*	.135	-.128	.095
R ²	.268		.212	
Adjusted R ²	.251		.194	
F-value	16.403***		12.051***	
N	460		460	

Note: ***, **, * indicate statistical significance at 1, 5, and 10% respectively.

Logistic regression results (dependent variable: family firm typology –
Excl. founder involvement & company age)

Variables	Type 1 vs. 2		Type 1 vs. 3		Type 1 vs. 4		Type 2 vs. 3		Type 2 vs. 4		Type 3 vs. 4	
	B	SE	B	SE	B	SE	B	SE	B	SE	B	SE
	Constant	3.133**	1.588	-1.555	1.441	6.639***	1.655	-4.687***	1.661	3.506**	1.666	8.193***
Controls												
Log size	.031	.160	.142	.159	-.256*	.154	.111	.171	-.288*	.153	-.398**	.172
Manufacturing	-.390	.435	-.185	.443	.169	.415	.204	.467	.558	.405	.354	.458
Construction	-1.135**	.514	-1.280**	.518	-.280	.512	-.145	.477	.855**	.437	1.000**	.485
Trade	.174	.442	.671	.465	.341	.410	.497	.507	.167	.419	-.330	.490
Family influence												
Family culture	-.419**	.183	.459***	.171	-1.247***	.213	.879***	.187	-.828***	.215	-1.707***	.225
Proportion of family in management	-1.635***	.595	-.022	.575	-1.249**	.562	1.613***	.628	.386	.590	-1.227**	.622
Family ownership	-.449	.554	-.023	.481	-1.284**	.614	.427	.590	-.834	.664	-1.261*	.662
Family members actively involved	-.059	.068	.058	.081	-.002	.070	.118	.078	.057	.061	-.060	.082
2 nd vs. 1 st generation	-.433	.390	-.212	.396	-.214	.364	.221	.420	.219	.369	-.003	.411
3 rd vs. 1 st generation	-.629	.418	-.566	.422	.062	.403	.063	.440	.691*	.401	.628	.442
Nagelkerke R ²	.323											
χ ² - value	159.362***											
N	443											

Note: ***, **, * indicate statistical significance at 1, 5, and 10% respectively.

OLS regression results (dependent variables: family/business performance –
Excl. founder involvement & company age)

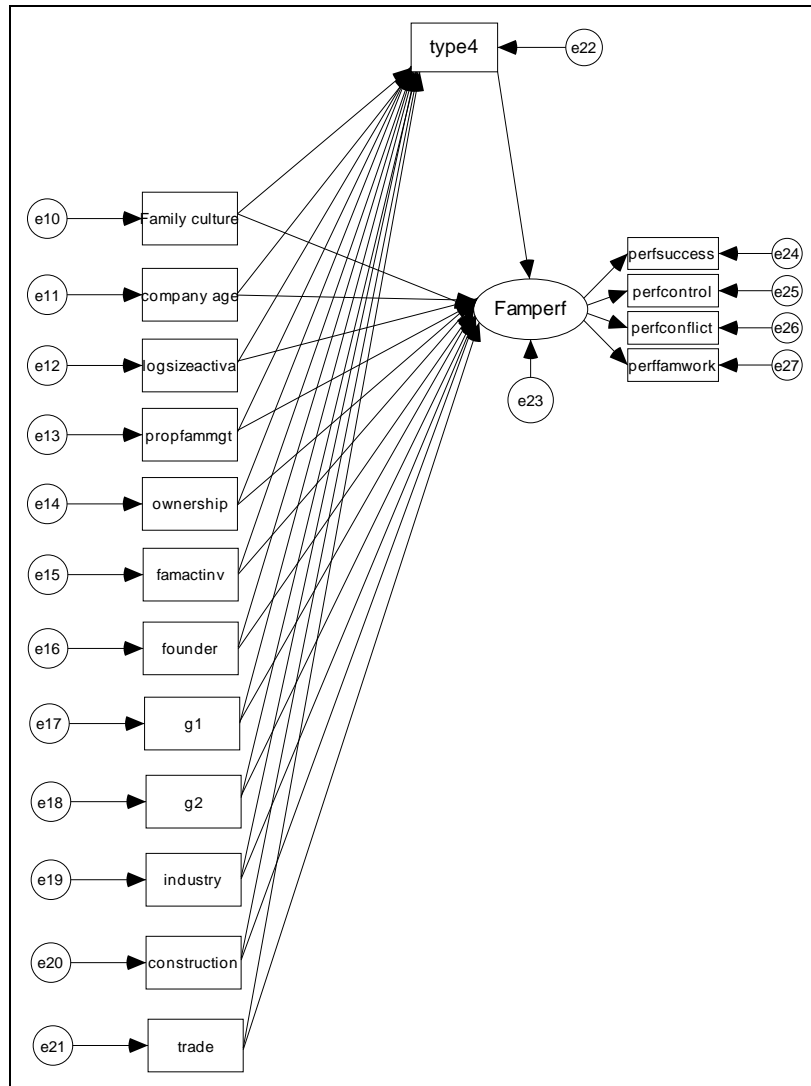
Variables	Family performance		Business performance	
	B	SE	B	SE
Constant	.788*	.411	.346	.528
Controls				
Log size	-.010	.040	.167***	.052
Manufacturing	-.127	.112	-.155	.144
Construction	-.075	.123	.198	.158
Trade	-.152	.114	.081	.146
Family influence				
Family culture	.383***	.049	.169***	.063
Proportion of family in management	-.095	.151	.067	.194
Family ownership	.118	.143	-.262	.184
Family members actively involved	.004	.018	-.017	.023
2 nd vs. 1 st generation	.228**	.099	.007	.127
3 rd vs. 1 st generation	.402***	.108	-.067	.138
Typology				
Type 1 vs. type 4 family firm	-.885***	.108	-.456***	.140
Type 2 vs. type 4 family firm	-.361***	.102	-.482***	.132
Type 3 vs. type 4 family firm	-.953***	.119	-.811***	.153
R ²		.411		.171
Adjusted R ²		.393		.146
F-value		22.947***		6.794***
N		441		443

Note: ***, **, * indicate statistical significance at 1, 5, and 10% respectively

SEM estimates (dependent variable: Family performance)

	Estimate	SE
Company age → Type 4 family firm	.001	.001
Log size → Type 4 family firm	.048**	.021
Manufacturing → Type 4 family firm	-.049	.058
Construction → Type 4 family firm	-.098	.063
Trade → Type 4 family firm	-.003	.059
Family culture → Type 4 family firm	.169***	.023
Proportion of family in management → Type 4 family firm	.096	.077
Family ownership → Type 4 family firm	.144*	.074
Family members actively involved → Type 4 family firm	-.008	.010
Founder involvement → Type 4 family firm	.065	.054
2 nd vs. 1 st generation → Type 4 family firm	.028	.058
3 rd vs. 1 st generation → Type 4 family firm	-.041	.084
Type 4 family firm → Family performance	.628***	.097
Company age → Family performance	-.001	.002
Log size → Family performance	.013	.042
Manufacturing → Family performance	-.120	.113
Construction → Family performance	-.085	.124
Trade → Family performance	-.178	.115
Family culture → Family performance	.527***	.055
Proportion of family in management → Family performance	.054	.150
Family ownership → Family performance	.241*	.146
Family members actively involved → Family performance	.005	.019
Founder involvement → Family performance	.023	.105
2 nd vs. 1 st generation → Family performance	.250**	.115
3 rd vs. 1 st generation → Family performance	.466***	.166
Family performance → Successful business transfer	1.000	
Family performance → Preservation of family control	.925***	.074
Family performance → Minimization of family conflicts	1.056***	.086
Family performance → Provision of work to family	.699***	.068
Chi-square	142.755***	
χ^2/df	1.854	
CFI	.970	
RMSEA	.041	

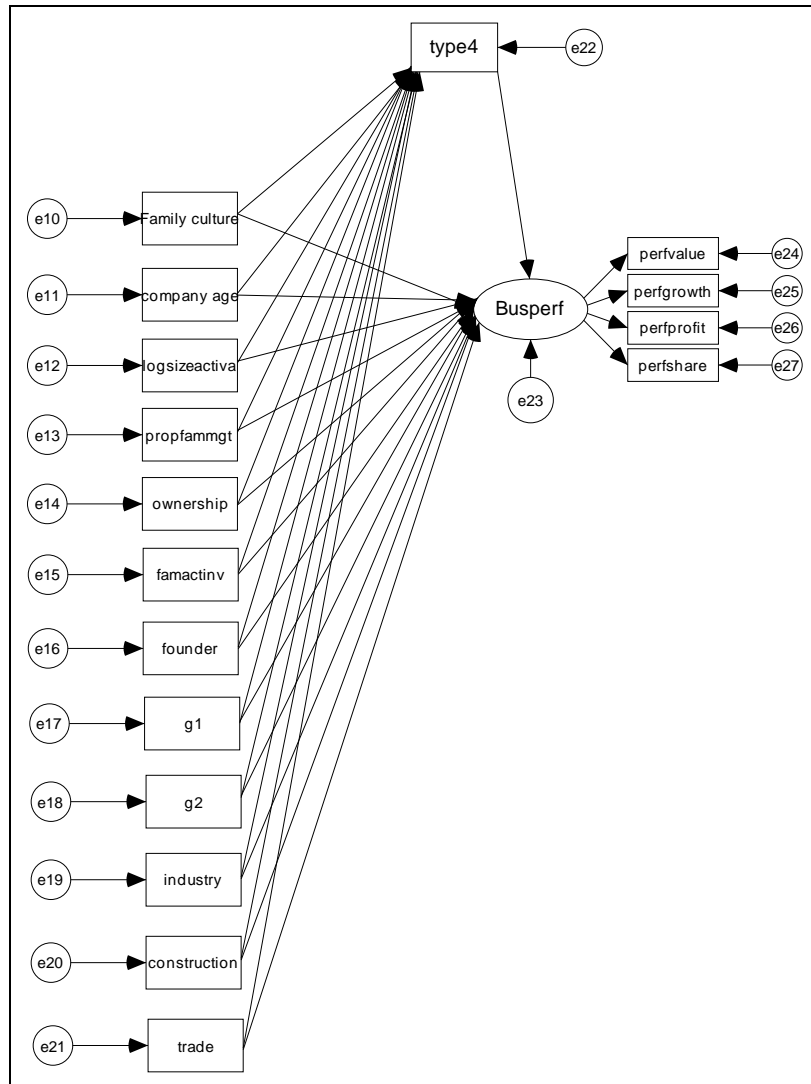
Note: ***, **, * indicate statistical significance at 1, 5, and 10% respectively



SEM estimates (dependent variable: Business performance)

	Estimate	SE
Company age → Type 4 family firm	.001	.001
Log size → Type 4 family firm	.047**	.021
Manufacturing → Type 4 family firm	-.041	.058
Construction → Type 4 family firm	-.089	.063
Trade → Type 4 family firm	.007	.059
Family culture → Type 4 family firm	.172***	.023
Proportion of family in management → Type 4 family firm	.086	.077
Family ownership → Type 4 family firm	.143*	.074
Family members actively involved → Type 4 family firm	-.007	.010
Founder involvement → Type 4 family firm	.066	.054
2 nd vs. 1 st generation → Type 4 family firm	.027	.058
3 rd vs. 1 st generation → Type 4 family firm	-.042	.084
Type 4 family firm → Business performance	.563***	.116
Company age → Business performance	-.001	.002
Log size → Business performance	.182***	.053
Manufacturing → Business performance	-.114	.144
Construction → Business performance	.184	.157
Trade → Business performance	.217	.146
Family culture → Business performance	.243***	.061
Proportion of family in management → Business performance	.070	.191
Family ownership → Business performance	-.258	.185
Family members actively involved → Business performance	-.011	.024
Founder involvement → Business performance	-.022	.134
2 nd vs. 1 st generation → Business performance	-.025	.145
3 rd vs. 1 st generation → Business performance	-.070	.208
Business performance → Increase of the financial value	1.000	
Business performance → Growth of the sales figure	.887***	.042
Business performance → Maximization of profit	1.000***	.045
Business performance → Increase of the market share	.787***	.048
Chi-square	114.199***	
χ^2/df	1.483	
CFI	.986	
RMSEA	.031	

Note: ***, **, * indicate statistical significance at 1, 5, and 10% respectively



Appendix 3: Robustness tests chapter 3

OLS regression results - dependent variable: total debt/total assets
(Based on ownership transition)

Independent variables	B	SE	Beta
Constant	.763***	.093	
Controls			
Company age	-.001***	.000	-.181
Log size	.003	.011	.014
Manufacturing	-.077***	.030	-.168
Construction	-.029	.034	-.052
Trade	-.002	.032	-.003
Profitability	-.767***	.117	-.313
Tangibility	.242***	.052	.234
Variability	.356*	.194	.086
Growth	.118	.087	.068
Financing constraints	.076*	.044	.079
Intergenerational differences			
2 nd versus 1 st generation	-.083***	.028	-.190
3 rd versus 1 st generation	-.037	.036	-.077
Founder * 2 nd generation	.031	.031	.053
R ²	.252		
Adjusted R ²	.226		
F	9.708***		
N	389		

Note: B, unstandardized coefficient; SE, standard error; Beta, standardized coefficient.
* p < .10; ** p < .05; *** p < .01.

OLS regression results - dependent variable: actual growth
(Based on ownership transition)

Independent variables	B	SE	Beta
Constant	.273***	.047	
Controls			
Company age	-.000	.000	-.016
Log size	-.027***	.006	-.249
Manufacturing	-.019	.017	-.078
Construction	-.004	.019	-.012
Trade	-.004	.017	-.015
Profitability	.076	.066	.058
Growth objectives	.014**	.006	.118
Financing constraints	-.034	.025	-.067
Intergenerational differences			
2 nd versus 1 st generation	-.035**	.016	-.150
3 rd versus 1 st generation	-.029	.020	-.116
Founder * 2 nd generation	.004	.018	.013
R ²	.139		
Adjusted R ²	.114		
F	5.480***		
N	385		

Note: B, unstandardized coefficient; SE, standard error; Beta, standardized coefficient.
* p < .10; ** p < .05; *** p < .01.

OLS regression results - dependent variables: actual – internal/sustainable growth
(Based on ownership transition)

Independent variables	Model 1			Model 2		
	Actual - internal growth			Actual - sustainable growth		
	B	SE	Beta	B	SE	Beta
Constant	.465***	.054		.914***	.234	
Controls						
Company age	.000	.000	.003	-.000	.001	-.027
Log size	-.035***	.006	-.364	-.064**	.029	-.216
Manufacturing	-.038**	.019	-.155	-.117	.073	-.169
Construction	-.039*	.021	-.138	-.197**	.084	-.242
Trade	-.034*	.020	-.137	-.156*	.085	-.200
Profitability	-.502***	.090	-.381	-1.023**	.430	-.219
Tangibility	.086**	.036	.154	.186	.139	.126
Dividends	.674**	.281	.161	.400	1.404	.025
Intergenerational differences						
2 nd versus 1 st generation	-.047***	.018	-.205	-.145*	.078	-.218
3 rd versus 1 st generation	-.049**	.022	-.193	-.099	.095	-.140
Founder * 2 nd generation	.013	.020	.042	-.019	.082	-.022
R ²	.289			.178		
Adjusted R ²	.255			.111		
F	8.597***			2.661***		
N	245			147		

Note: B, unstandardized coefficient; SE, standard error; Beta, standardized coefficient.

* p < .10; ** p < .05; *** p < .01.

OLS regression results - dependent variable: actual growth
(Based on sales growth)

Independent variables	B	SE	Beta
Constant	.184***	.071	
Controls			
Company age	.000	.000	.099
Log size	-.016**	.008	-.164
Manufacturing	.011	.029	.046
Construction	.053	.033	.169
Trade	.040	.031	.154
Profitability	.099	.102	.076
Growth objectives	.004	.010	.030
Financing constraints	-.007	.041	-.014
Intergenerational differences			
2 nd versus 1 st generation	-.079***	.030	-.323
3 rd versus 1 st generation	-.071**	.033	-.292
Founder * 2 nd generation	.019	.030	.057
R ²	.109		
Adjusted R ²	.048		
F	1.805*		
N	175		

Note: B, unstandardized coefficient; SE, standard error; Beta, standardized coefficient.

* p < .10; ** p < .05; *** p < .01.

OLS regression results - dependent variable: actual – sustainable growth
(Excl. dividends)

Independent variables	Model 2		
	Actual - sustainable growth		
	B	SE	Beta
Constant	.809***	.219	
Controls			
Company age	-.000	.001	-.007
Log size	-.055*	.028	-.190
Manufacturing	-.100	.075	-.143
Construction	-.160*	.084	-.196
Trade	-.142*	.085	-.184
Profitability	-.873**	.408	-.187
Tangibility	.196	.134	.134
Intergenerational differences			
2 nd versus 1 st generation	-.145*	.085	-.218
3 rd versus 1 st generation	-.126	.097	-.179
Founder * 2 nd generation	-.003	.081	-.004
R ²	.176		
Adjusted R ²	.113		
F	2.812***		
N	143		

Note: B, unstandardized coefficient; SE, standard error;
Beta, standardized coefficient.

* p < .10; ** p < .05; *** p < .01.

2SLS regression results - dependent variable: total debt/total assets
(Debt level 2000 instrumented by profitability 2000, tangibility 2000 and growth 2000)

Independent variables	B	SE	Beta
Constant	.373***	.098	
Controls			
Company age	.000	.000	-.039
Log size	.003	.007	.013
Manufacturing	-.071***	.022	-.147
Construction	-.017	.023	-.030
Trade	-.021	.021	-.043
Profitability	-.693***	.090	-.267
Tangibility	.186***	.037	.173
Variability	.763***	.207	.114
Growth	.188***	.063	.091
Financing constraints	.070**	.029	.074
Debt 2000	.484***	.096	.474
Intergenerational differences			
2 nd versus 1 st generation	-.045**	.021	-.098
3 rd versus 1 st generation	-.040	.025	-.081
Founder * 2 nd generation	.017	.021	.029
R ²	.511		
Adjusted R ²	.491		
F	25.836***		

Note: B, unstandardized coefficient; SE, standard error; Beta, standardized coefficient.
* p < .10; ** p < .05; *** p < .01.

2SLS regression results - dependent variable: actual growth
(Actual growth 2000 instrumented by profitability 2000)

Independent variables	B	SE	Beta
Constant	.180***	.041	
Controls			
Company age	.000	.000	.084
Log size	-.020***	.007	-.224
Manufacturing	-.008	.015	-.037
Construction	.011	.017	.045
Trade	.015	.016	.073
Profitability	.192***	.059	.173
Growth objectives	.011*	.006	.107
Financing constraints	-.044**	.021	-.108
Actual growth 2000	-.002	.180	-.006
Intergenerational differences			
2 nd versus 1 st generation	-.034**	.015	-.172
3 rd versus 1 st generation	-.042**	.018	-.203
Founder * 2 nd generation	.003	.017	.010
R ²	.166		
Adjusted R ²	.136		
F	5.634***		

Note: B, unstandardized coefficient; SE, standard error; Beta, standardized coefficient.
* p < .10; ** p < .05; *** p < .01.

OLS regression results - dependent variable: total debt/total assets
(Excl. company age)

Independent variables	B	SE	Beta
Constant	.710***	.088	
Controls			
Log size	.001	.010	.005
Manufacturing	-.076**	.030	-.162
Construction	.006	.033	.011
Trade	.028	.031	.059
Profitability	-.695***	.117	-.280
Tangibility	.263***	.050	.257
Variability	.410**	.193	.098
Growth	.146*	.086	.082
Financing constraints	.092**	.043	.099
Intergenerational differences			
2 nd versus 1 st generation	-.094***	.029	-.216
3 rd versus 1 st generation	-.117***	.028	-.250
Founder * 2 nd generation	.039	.030	.070
R ²	.235		
Adjusted R ²	.212		
F	9.904***		
N	399		

Note: B, unstandardized coefficient; SE, standard error; Beta, standardized coefficient.
* p < .10; ** p < .05; *** p < .01.

OLS regression results - dependent variable: actual growth
(Excl. company age)

Independent variables	B	SE	Beta
Constant	.268***	.043	
Controls			
Log size	-.028***	.005	-.271
Manufacturing	-.004	.016	-.018
Construction	.009	.018	.031
Trade	.014	.016	.056
Profitability	.078	.062	.061
Growth objectives	.014**	.006	.117
Financing constraints	-.033	.023	-.069
Intergenerational differences			
2 nd versus 1 st generation	-.040***	.015	-.179
3 rd versus 1 st generation	-.040***	.015	-.167
Founder * 2 nd generation	.003	.017	.012
R ²	.157		
Adjusted R ²	.135		
F	7.157***		
N	395		

Note: B, unstandardized coefficient; SE, standard error; Beta, standardized coefficient.
* p < .10; ** p < .05; *** p < .01.

OLS regression results - dependent variables: actual – internal/sustainable growth
(Excl. company age)

Independent variables	Model 1 Actual - internal growth			Model 2 Actual - sustainable growth		
	B	SE	Beta	B	SE	Beta
Constant	.471***	.050		.853***	.219	
Controls						
Log size	-.038***	.006	-.408	-.061**	.027	-.218
Manufacturing	-.029	.018	-.121	-.101	.071	-.147
Construction	-.038*	.020	-.140	-.166**	.081	-.209
Trade	-.020	.019	-.083	-.135*	.079	-.183
Profitability	-.525***	.085	-.401	-.964**	.415	-.211
Tangibility	.098***	.033	.181	.210	.128	.146
Dividends	.788***	.224	.231	.703	1.275	.049
Intergenerational differences						
2 nd versus 1 st generation	-.041**	.018	-.184	-.142*	.079	-.220
3 rd versus 1 st generation	-.047***	.017	-.197	-.127*	.073	-.186
Founder * 2 nd generation	.009	.019	.031	-.002	.075	-.003
R ²	.302			.177		
Adjusted R ²	.273			.119		
F	10.380***			3.032***		
N	251			152		

Note: B, unstandardized coefficient; SE, standard error; Beta, standardized coefficient.

* p < .10; ** p < .05; *** p < .01.

Appendix 4: Robustness tests chapter 4

Regression analyses: profitability								
Independent variables	(1) GrossROA		(2) ROE		(3) Adjusted GrossROA		(4) Adjusted ROE	
	Coef.	SE	Coef.	SE	Coef.	SE	Coef.	SE
Controls								
Company age	-.003***	.001	-.003	.003	-.002*	.001	-.001	.005
Log size	.000	.007	.033	.026	.004	.010	.064	.041
Debt	-.112***	.019	-.161**	.075	-.121***	.025	-.278**	.121
Intergenerational succession								
Transfer from 1 st to 2 nd generation (dummy)	-.001	.006	-.030	.020	-.003	.009	-.030	.033
Transfer between later generations (dummy)	.014**	.006	.025	.021	.006	.008	.017	.033
Year (0, 1) indicators	Yes		Yes		Yes		Yes	
R ²	.054		.016		.031		.022	
F	4.130***		1.500*		2.570***		1.900**	
Number of observations	2,134		2,082		1,949		1,804	
Number of firms	142		140		142		140	

Note: SE, Robust standard errors.

***, ** and * indicate significance at the 1, 5 and 10% level, respectively.

Regression analyses: financial structure
(Excl. mergers and acquisitions)

Independent variables	(1) Debt		(2) Adjusted debt	
	Coef.	SE	Coef.	SE
Controls				
Company age	.008	.007	.003	.005
Log size	.104***	.014	.123***	.017
Tangibility	-.003	.035	-.135***	.047
Gross return on assets	-.245***	.041	-.324***	.063
Growth	.033***	.012	.012	.016
Intergenerational succession				
Transfer from 1 st to 2 nd generation (dummy)	-.033***	.010	-.034**	.016
Transfer between later generations (dummy)	.028***	.010	.053***	.016
Year (0, 1) indicators	Yes		Yes	
R ²	.152		.112	
F	9.610***		9.670***	
Number of observations	1,993		1,858	
Number of firms	142		142	

Note: SE, Robust standard errors.

***, ** and * indicate significance at the 1, 5 and 10% level, respectively.

Regression analyses: performance
(Excl. mergers and acquisitions)

Independent variables	(1) Growth		(2) OROA		(3) Adjusted growth		(4) Adjusted OROA	
	Coef.	SE	Coef.	SE	Coef.	SE	Coef.	SE
Controls								
Company age	-.015**	.007	-.002***	.001	-.005	.004	-.002*	.001
Log size	.211***	.019	.026***	.006	.204***	.033	.025**	.010
Gross return on assets	.116	.078			.084	.107		
Debt			-.131***	.018			-.138***	.025
Intergenerational succession								
Transfer from 1 st to 2 nd generation (dummy)	-.027	.020	-.003	.006	-.062**	.031	-.004	.008
Transfer between later generations (dummy)	.011	.020	.017***	.006	-.001	.031	.009	.009
Year (0, 1) indicators	Yes		Yes		Yes		Yes	
R ²	.103		.056		.053		.040	
F	9.230***		4.030***		3.810***		2.830***	
Number of observations	1,809		2,170		1,635		1,969	
Number of firms	130		143		130		143	

Note: SE, Robust standard errors.

***, ** and * indicate significance at the 1, 5 and 10% level, respectively.

Executive summary

When observing the past family business literature, it becomes clear that many studies have focused on the distinction between family and non-family firms in different areas like performance, finance, strategy, etc. By following this procedure, one inherently assumes that the family business population can be regarded as a homogeneous group with equal characteristics and similar behavior. However, the need to better understand to what extent family firms differ from one another still remains. The overall aim of current doctoral research is therefore to increase our knowledge on the distinguishing characteristics of family firms by adopting a heterogeneity approach in analyzing these organizations.

Starting from the extant literature on the various aspects of family involvement and the family business succession issue, a twofold method is followed in current doctoral research. In a first step, the diversity of the family firm is investigated based on the goal orientation of the company. A second step concerns an analysis of the differences between family firms by taking into account the transfer of the family firm over generations. The focus more specifically lies on the impact of these differing family firm characteristics on the behavior of family firms by investigating the performance and capital structure of these organizations.

In order to test our research questions, data from two distinct sources are used. Non-publicly available information was taken from a large-scale written survey sent out to 2.500 small and medium-sized Flemish (northern part of Belgium) companies with a total employment between 10 and 250 employees. After two rounds of the survey being held in the fall of 2006, 504 completed questionnaires were received, resulting in a final response rate of 20.16%. Besides the information contained in the survey, additional data were collected in the form of publicly available financial data based on the Bel-First database. The 504 companies in our sample could all be regarded as family businesses since they had 50% or more of the shares owned by members of the family and/or a managing director who perceived the company as a family business.

In chapter 2 we investigate the goal setting of a family business by starting from the agency theory, stewardship theory, and the concept of altruism. It is brought forward that family businesses are not exclusively profit maximizing organizations, but also strive for non-

financial benefits and the well-being of the family. They usually try to take the needs of the business as well as the family into consideration, meaning that they rather pursue the maximization of a utility function that is made up of economic and non-economic goals. In that sense, a distinction is made between a family and a business orientation in a company, where we define family orientation as the extent to which importance is attached to family oriented goals, and business orientation as the extent to which importance is attached to business oriented goals.

Based on these insights, we further categorize family firms by taking into account various combinations of a family and a business orientation. This allows us to differentiate between four types of family firms. Type 1 family firms are those companies that have a high business orientation and a low family orientation; type 2 family firms have a low business orientation and a high family orientation; type 3 family firms have a low business orientation and a low family orientation, and finally type 4 family firms have a high business orientation and a high family orientation.

Furthermore, we link several family influence variables to the goal orientation of a family business. We find that a transfer of the company to the next-generation is positively related to the degree to which family goals are being pursued. In addition, family firms where all shares are in hands of the family and where the management consists of a high proportion of family members also attach more importance to family goals. On the other hand, no association can be detected between these variables and the importance attached to business goals in the company. By further analyzing the link between the various family influence variables and the developed family firm typology, evidence is found that the family influence variables are not able to explain why a certain family business belongs to a specific family firm type and not to the other three types, meaning that a family firm has some opportunity of moving from one type to the other by altering the importance attached to family and/or business goals.

Finally, the impact of the developed family firm typology on the perceived performance is analyzed in order to verify whether the goal orientation of a family business is an important factor in explaining different levels of family and business performance. We define family performance as the degree to which the managing director is satisfied with the achievement of family oriented goals, and business performance as the degree to which the managing director is satisfied with the achievement of business oriented goals. Our results show that a strong

orientation towards the family only guarantees the highest levels of satisfaction regarding the realization of family goals if it is accompanied by a strong business orientation. Similarly, a strong business orientation only results in the highest levels of satisfaction regarding the realization of business goals if it is accompanied by a strong family orientation. In other words, the companies that are able to combine a strong family and a strong business orientation (type 4 family firms) achieve the highest levels of overall satisfaction as they create a setting where both the family and the business can flourish.

Our analyses and findings in chapter 2 contribute to the literature in several ways. We firstly demonstrate that agency theory should be supplemented with other theoretical frameworks like stewardship theory in order to get a more comprehensive view of the family business. Secondly, by integrating several measures of family involvement in our analyses, we try to fill the gap in literature on the association between various aspects of family influence in a company and a firm's goal setting. Thirdly, our work adds to the scarce literature on family firm typologies and goes beyond existing empirical taxonomies by taking into account a theoretical framework in differentiating between several types of family businesses. Finally, we try to respond to the often found conflicting results in past empirical research regarding organizational performance by showing that the differences in the goal orientation of a family firm should be seen as a valuable way for better understanding the perceived performance of family businesses.

In chapters 3 and 4 we focus on the differences between family firms by taking the transfer of the family firm over generations into account. This answers the need brought forward in the literature that family business transfers are a big challenge for any economy that merits further investigation. Chapter 3 more specifically deals with the analysis of intergenerational differences in family firms by studying to what extent the generational situation has an influence on the financing and growth behavior of the family firm. Evidence is found that it does make a difference whether the founder or other generations of family members are in charge of the family firm in order to explain the finance and growth patterns of these companies. Results indicate that second- and third-generation family businesses have a significant lower debt rate in their capital structure and also realize lower growth rates in terms of their total assets compared to first-generation firms.

Moreover, we also take the relationship between the financing and growth behavior into account, since many family firms try to accommodate the path of growth to the availability of financial means in order to maintain control within the family. This is accomplished by using the concepts of internal and sustainable growth, as they allow measuring a firm's growth capacity in relation to the available financial resources. It is found that second- and third-generation family firms that grow faster than their internal growth rate, exceed this internal level to a lower degree compared to first-generation companies. With respect to the sustainable growth rate, similar conclusions can be drawn since especially second-generation family firms growing faster than their sustainable growth rate, are found to go less far in exceeding this sustainable level compared to first-generation family firms.

In explaining these results, several ideas are brought forward such as the changing level of risk tolerance and family orientation when family firms evolve over generations. Since descendants are expected to take less risk and have a higher fear of losing control compared to their founders, they attract lower levels of debt to fund the growth of their companies in order to safeguard the family's control and independence. To some extent, this view corresponds to one of the results described in chapter 2, where it was found that next-generation family firms are indeed characterized by a higher family orientation as they attach more importance to family oriented goals compared to their first-generation counterparts.

Overall, the findings of chapter 3 add to the literature in four ways. We firstly contribute to the central idea in family business studies on the heterogeneous character of the family business by indicating that the generational situation has an influence on family business behavior. Next, we improve our general knowledge on the intergenerational differences in the family firm, as the literature proves to be rather scarce with regard to this topic. Thirdly, we try to provide a better understanding of the capital structure and growth behavior of family firms and to shed more light on the opposite results that can be found in past empirical studies. Finally, through our work we contribute to the extant business transfer literature by providing indirect evidence of the effects of an intergenerational succession on the financing and growth behavior of a family business.

In chapter 4 we adopt a different approach in analyzing the transfer of a family business over generations. By taking the succession event itself into consideration and by starting from a panel data setting which relies on financial information of the company before and after the

transfer, we are able to identify the direct consequences of a transition on a firm's capital structure and financial performance. Since we further distinguish between family business successions in first-generation family firms versus those that occur in next-generation companies, we are partly able to validate some of the results found in chapter 3 and to further extend our findings that result from the cross sectional comparison of different generations of family firms.

In order to identify changes in family firms going through a succession, a matching procedure is used by making comparison to a group of similar family firms from the first generation that have not yet been involved in a succession. Our results show that a firm's capital structure is indeed affected by the succession event, as a family business transfer from the first- to the second generation negatively influences the total debt level of the company. On the other hand, in later generations of family firms this negative effect is being reversed, given the significant rise in the level of indebtedness that is identified in these firms after the succession. With respect to the growth of the firm, it is found that in first-generation family firms also the growth rate decreases significantly when a family firm is transferred to the following generation. In next-generation family firms however, no such effect of succession on the growth level can be detected. In a last step, we also investigate the impact of succession on firm profitability. It is shown that a succession from the first to the second generation as well as a succession in next-generation family businesses has no significant impact on the profitability of the company.

The fact that a firm's debt level and growth rate significantly decrease from the moment a family business is handed over from the first- to the second generation, largely corresponds to the findings and ideas brought forward in chapter 3, which describe the changing risk attitude and family orientation if family firms evolve over generations. However, the opposite effect that is identified with respect to the firm's level of indebtedness when it is transferred to later generations of family members, could be attributed to the financing of the business transition itself or an increased level of ownership dispersion in the company. Finally, as no effect is found of succession on firm profitability, we conclude that a family business transfer should not necessarily be regarded as a value decreasing event in the life cycle of a family business.

Through chapter 4, we contribute to the existing literature in several ways. Our study firstly enables us to broaden our knowledge on the influence of a business succession on

company decisions and behavior, because the literature is still inconclusive with respect to this matter. Secondly, we manage to overcome one of the shortcomings in past empirical studies by following a longitudinal approach instead of using cross-sectional data in analyzing the impact of a family business transfer. Thirdly, we extend the traditional view of differentiating between founder- and descendant-managed family firms as often found in past studies, by making a further distinction between a transfer from the founder to the second generation and a succession occurring in later generations. Finally, our focus on the impact of succession in the context of private small- and medium-sized enterprises, adds to the literature since past studies mainly investigated leadership transitions in large publicly listed firms.

Overall, the purpose of this doctoral research was to investigate the heterogeneous character of family firms by taking into account the influence of family business goal orientation as well as the impact of intergenerational succession on the behavior of these companies. The various analyses indeed show that the extent to which either family and/or business oriented goals are being pursued in the family firm and whether the company has been transferred from one generation to the next, have a significant impact on family business behavior. In that way, current doctoral research hopes to extend the insights in family business literature and tries to contribute to a very interesting field of study that will undoubtedly gain even more importance in the future.

Nederlandstalige samenvatting

Wanneer we de bestaande literatuur omtrent familiebedrijven observeren, wordt duidelijk dat veel studies gericht zijn op het onderscheid tussen familie- en niet-familie ondernemingen op verschillende vlakken zoals prestaties, financiering, strategie, enz. Op basis van deze benadering wordt echter inherent aangenomen dat familiebedrijven als een homogene groep kunnen worden beschouwd met gelijke eigenschappen en een gelijkaardig gedrag. Niettemin blijft de noodzaak bestaan om tot een beter inzicht te komen in hoe familiebedrijven onderling van elkaar verschillen. Het algemene doel van dit doctoraal onderzoek is bijgevolg om onze kennis te verruimen inzake de onderscheidende kenmerken van familiebedrijven door het volgen van een heterogene benadering in de analyse van deze organisaties.

Uitgaande van de bestaande literatuur omtrent de verscheidene aspecten van familiale invloed en de successieproblematiek in familiebedrijven, wordt in dit doctoraal onderzoek een tweevoudige methode gevolgd. Als eerste stap wordt de diversiteit van het familiebedrijf onderzocht op basis van de gerichtheid van de doelstellingen in de onderneming. Een tweede stap betreft een analyse van de verschillen tussen familiebedrijven rekening houdende met de overdracht van het familiebedrijf over verschillende generaties heen. De focus ligt specifiek op het bestuderen van de impact van bovenstaande aspecten op het gedrag van familiebedrijven aan de hand van een onderzoek van de prestaties en kapitaalstructuur van deze organisaties.

Om onze onderzoeksvragen te testen, hebben we ons gebaseerd op gegevens uit twee verschillende bronnen. De niet-publiek beschikbare informatie werd verzameld op basis van een grootschalige schriftelijke enquête die werd verstuurd naar 2.500 kleine en middelgrote Vlaamse ondernemingen met een tewerkstelling tussen de 10 en 250 werknemers. Na de ondervraging in twee rondes werden in het najaar van 2006, 504 ingevulde vragenlijsten ontvangen, wat uiteindelijk resulteerde in een responsgraad van 20.16%. Naast de informatie die de enquête bevatte, werd bijkomende informatie verzameld onder de vorm van publiek beschikbare financiële gegevens uit de Bel-First databank. De 504 ondernemingen in ons gegevensbestand mogen alle als een familiebedrijf aanzien worden vermits 50% of meer van de aandelen in het bezit zijn van de familie en/of de bedrijfsleider de onderneming als een familiebedrijf beschouwt.

In hoofdstuk 2 onderzoeken we de doelstellingen van een familiebedrijf uitgaande van de agency theorie, de stewardship theorie en het altruïsme concept. Er wordt aangetoond dat familiebedrijven niet uitsluitend maximale winst nastreven maar tevens gefocust zijn op niet-financiële voordelen en het welzijn van de familie. Zij trachten vaak de noden van het bedrijf alsook van de familie te behartigen, wat betekent dat zij eerder een nutsfunctie maximaliseren die bestaat uit financiële en niet-financiële doelstellingen. In dat opzicht wordt een onderscheid gemaakt tussen de familiedoelgerichtheid enerzijds en de bedrijfsdoelgerichtheid anderzijds in een onderneming. Hierbij definiëren we familiedoelgerichtheid als de mate waarin belang wordt gehecht aan familiegerichte doelstellingen en bedrijfsdoelgerichtheid als de mate waarin belang wordt gehecht aan bedrijfsgerichte doelstellingen in de onderneming.

Uitgaande van deze bevindingen, categoriseren we vervolgens familiebedrijven op basis van verscheidene combinaties van familie- en bedrijfsdoelgerichtheid. Type 1 familiebedrijven zijn deze met een hoge bedrijfsdoelgerichtheid en een lage familiedoelgerichtheid; type 2 familiebedrijven hebben een lage bedrijfsdoelgerichtheid en een hoge familiedoelgerichtheid; type 3 familiebedrijven hebben een lage bedrijfsdoelgerichtheid en een lage familiedoelgerichtheid en tenslotte type 4 familiebedrijven hebben zowel een hoge bedrijfsdoelgerichtheid als een hoge familiedoelgerichtheid.

Daarnaast koppelen we verscheidene variabelen die familiale invloed meten in een onderneming aan de gerichtheid van de doelstellingen in een familiebedrijf. Hierbij stellen we vast dat een overdracht van het bedrijf naar de volgende generatie positief gerelateerd is met de graad waarin familiegerichte doelstellingen worden nagestreefd. Verder hechten familiebedrijven waar alle aandelen in handen zijn van de familie en waar het management uit een groot aantal familieleden bestaat, meer belang aan familiegerichte doelstellingen. Anderzijds kan er geen verband worden gevonden tussen deze variabelen en het belang dat binnen het bedrijf aan bedrijfsgerichte doelstellingen wordt gehecht. Een verdere analyse van het verband tussen de verscheidene variabelen inzake familiale invloed en de ontwikkelde typologie van het familiebedrijf toont aan dat de variabelen die familiale invloed meten geen verklaring kunnen geven waarom een bepaald familiebedrijf tot een specifiek familiebedrijftype behoort en niet tot één van de andere drie types, hetgeen betekent dat een familiebedrijf over een zekere mogelijkheid beschikt om van het ene naar het andere type

over te gaan door het wijzigen van het belang dat wordt gehecht aan familiale- en/of bedrijfsdoelstellingen.

Tenslotte wordt de impact van de ontwikkelde typologie van het familiebedrijf op de waargenomen prestaties geanalyseerd om na te gaan of de gerichtheid van de doelstellingen in een familiebedrijf een belangrijke factor is in het verklaren van de familie- en bedrijfsprestaties. Familieprestaties definiëren we als de mate waarin de bedrijfsleider tevreden is met de realisatie van familiegerichte doelstellingen en bedrijfsprestaties als de mate waarin de bedrijfsleider tevreden is met de realisatie van bedrijfsgerichte doelstellingen. Onze resultaten tonen aan dat enkel een sterke doelgerichtheid naar de familie de hoogste graad van tevredenheid waarborgt betreffende de verwezenlijking van familiale doelstellingen als het tevens gepaard gaat met een sterke bedrijfsdoelgerichtheid. Op gelijkaardige wijze resulteert een sterke bedrijfsdoelgerichtheid alleen in de hoogste graad van tevredenheid betreffende de verwezenlijking van bedrijfsdoelstellingen als deze gepaard gaat met een sterke familiedoelgerichtheid. Met andere woorden, de bedrijven die in staat zijn om een sterke familie- en bedrijfsdoelgerichtheid (type 4 familiebedrijven) te combineren, bereiken de hoogste graad van algemene tevredenheid vermits zij een omgeving creëren waarin zowel de familie als het bedrijf kunnen bloeien.

Onze analyses en bevindingen in hoofdstuk 2 dragen op verscheidene manieren bij tot de literatuur. We tonen vooreerst dat de agency theorie dient te worden aangevuld met andere theoretische inzichten zoals de stewardship theorie, teneinde een ruimer zicht te krijgen op het gedrag van familiebedrijven. Ten tweede proberen we de leemte in de literatuur betreffende het verband tussen de familiale betrokkenheid en de doelstellingen in een bedrijf te vullen door de integratie van verschillende maatstaven van familiale invloed in onze analyses. Ten derde draagt ons werk bij tot de schaarse literatuur over typologieën van familiebedrijven en reikt het verder dan de bestaande empirische classificaties van familieondernemingen door rekening te houden met een theoretisch kader in het onderscheiden van types van familiebedrijven. Tenslotte proberen we tegemoet te komen aan de vaak tegenstrijdige resultaten in empirisch onderzoek inzake ondernemingsprestaties door aan te tonen dat verschillen in de gerichtheid van de doelstellingen in een familiebedrijf kunnen beschouwd worden als een waardevolle manier om de waargenomen prestaties van familiebedrijven beter te begrijpen.

In hoofdstuk 3 en 4 richten we ons op de verschillen tussen familiebedrijven op basis van de overdracht van het familiebedrijf over generaties. Dit komt tegemoet aan de noodzaak die beschreven wordt in de literatuur om verder onderzoek te verrichten naar de overdracht van het familiebedrijf aangezien deze een grote uitdaging vormt voor de economie in de meeste landen. Hoofdstuk 3 behandelt meer specifiek de verschillen tussen generaties in familiebedrijven door te onderzoeken in welke mate verschillende generaties een invloed hebben op het financierings- en groeigedrag van het familiebedrijf. Hierbij wordt aangetoond dat het wel degelijk een verschil uitmaakt als de stichter of latere generaties van familieleden het bedrijf leiden om het financierings- en groeipatroon van een onderneming te verklaren. De resultaten tonen aan dat tweede en derde generatie familiebedrijven een beduidend lagere schuldgraad hebben in hun kapitaalstructuur en tevens een lagere groei realiseren in functie van hun totaal vermogen in vergelijking met eerste generatie familiebedrijven.

Verder bestuderen we eveneens de relatie tussen het financierings- en groeigedrag aangezien veel familiebedrijven trachten om hun groei in overeenstemming te brengen met de beschikbaarheid aan financiële middelen, om op die manier de controle binnen de familie te houden. Dit wordt tot stand gebracht op basis van de concepten “interne groei” en “financierbare groei” daar deze toelaten om de groeicapaciteit van een bedrijf te meten ten opzichte van de beschikbare financiële middelen. Vastgesteld wordt dat tweede en derde generatie familiebedrijven die sneller groeien dan hun interne groei, dit intern groeipeil in beperktere mate overschrijden in vergelijking met eerste generatie bedrijven. Wat betreft de financierbare groei, kunnen dezelfde conclusies worden getrokken aangezien specifiek bij tweede generatie familiebedrijven die sneller groeien dan hun financierbare groei wordt vastgesteld dat zij in mindere mate dit financierbaar groeipeil overschrijden in vergelijking met eerste generatie bedrijven.

Bij het verklaren van deze resultaten worden verscheidene ideeën naar voren gebracht zoals een wijziging in de graad van risicotolerantie en familiedoelgerichtheid wanneer familiebedrijven evolueren over generaties. Aangezien van opvolgers kan worden verwacht dat zij in mindere mate risico's nemen en in sterkere mate vrezen voor controleverlies in vergelijking met hun oprichters, trekken zij minder schulden aan ter financiering van de groei van hun onderneming om zo de controle en onafhankelijkheid van de familie te vrijwaren. Dit beeld komt enigszins overeen met een van de resultaten beschreven in hoofdstuk 2, waar werd vastgesteld dat tweede en derde generatie familiebedrijven gekenmerkt worden door een

hogere familiedoelgerichtheid aangezien zij meer belang hechten aan familiale doelstellingen ten opzichte van familiebedrijven uit de eerste generatie.

Globaal genomen vullen de bevindingen van hoofdstuk 3 de literatuur aan in vier opzichten. Vooreerst dragen we bij tot de centrale gedachte in het onderzoek naar familiebedrijven omtrent het heterogene karakter van het familiebedrijf door erop te wijzen dat verschillende generaties een specifieke invloed uitoefenen op het gedrag van deze ondernemingen. Verder vergroten we onze algemene kennis over de verschillen tussen generaties in het familiebedrijf aangezien de literatuur hieromtrent eerder beperkt is. Ten derde trachten we tot een beter begrip te komen van de kapitaalstructuur en het groeigedrag van familiebedrijven en een licht te werpen op de vaak tegengestelde resultaten die in vorige empirische studies werden vastgesteld. Tenslotte draagt ons werk bij tot de bestaande literatuur inzake de overdracht van ondernemingen door indirect het bewijs te leveren dat een familiale bedrijfsoverdracht tussen generaties een impact heeft op het financierings- en groeigedrag van een familiebedrijf.

In hoofdstuk 4 hanteren we een alternatieve benadering bij de analyse van de overdracht van een familiebedrijf over generaties. Door specifiek rekening te houden met het moment van overdracht en op basis van een panel data analyse die uitgaat van financiële informatie van de onderneming voor en na de overdracht, is het mogelijk om de directe gevolgen van een overdracht op de kapitaalstructuur en de financiële prestaties van een bedrijf te identificeren. Doordat we verder een onderscheid maken tussen familiale opvolging in eerste generatie bedrijven versus opvolging in volgende generatie bedrijven, zijn we gedeeltelijk in staat om de resultaten uit hoofdstuk 3 te valideren en onze bevindingen op basis van een cross-sectionele vergelijking tussen verschillende generaties van familiebedrijven uit te breiden.

Om de impact van een opvolging in het familiebedrijf te analyseren wordt er een “matching” procedure gebruikt die erin bestaat een vergelijking te maken met een groep van gelijkaardige familiebedrijven van de eerste generatie die nog niet betrokken waren bij een opvolging. Onze resultaten tonen aan dat de kapitaalstructuur van een bedrijf significant beïnvloed wordt door de opvolging, daar de overdracht van een familiebedrijf van de eerste naar de tweede generatie een negatieve invloed heeft op de schuldgraad van de onderneming. Anderzijds slaat dit negatieve effect om bij een overdracht tussen latere generaties, gegeven de significante stijging van de schuldgraad in deze bedrijven na de opvolging. Wat betreft de

groei van de onderneming wordt vastgesteld dat in eerste generatie familiebedrijven ook het groeipeil significant daalt wanneer een familiebedrijf wordt overgedragen naar de volgende generatie. Daarentegen wordt in familiebedrijven van de volgende generatie een dergelijk effect van de opvolging op de groei van de onderneming echter niet waargenomen. Tenslotte onderzoeken we ook de impact van de opvolging op de winstgevendheid van het bedrijf. Daarbij wordt aangetoond dat een overdracht van de eerste naar de tweede generatie, alsook een overdracht naar de volgende generatie geen significante invloed hebben op de winstgevendheid van het bedrijf.

Het feit dat de schuldgraad en de groei van een bedrijf significant dalen vanaf het ogenblik dat een familiebedrijf wordt overgedragen van de eerste naar de tweede generatie, komt in ruime mate overeen met de bevindingen en ideeën uit hoofdstuk 3, waar werd gewezen op een verandering in de risicohouding en familiedoelgerichtheid wanneer familiebedrijven evolueren over generaties. Anderzijds kan het omgekeerde effect dat wordt vastgesteld met betrekking tot de schuldgraad van het bedrijf wanneer deze wordt overgedragen naar latere generaties, worden toegeschreven aan de financiering van de bedrijfsoverdracht of de verdere verspreiding van het aandeelhouderschap in de onderneming. Aangezien er tenslotte geen effect werd gevonden van opvolging op de winstgevendheid van het bedrijf, kunnen we besluiten dat een familiale bedrijfsoverdracht niet noodzakelijk moet worden beschouwd als een waardeverminderend gebeuren in de levenscyclus van een familiebedrijf.

Op basis van hoofdstuk 4 dragen we op verschillende manieren bij tot de bestaande literatuur. Onze studie laat ons vooreerst toe om de kennis inzake de invloed van een bedrijfsoverdracht op de ondernemingsbeslissingen en het ondernemingsgedrag te vergroten vermits de literatuur nog onbeslist blijkt op dit vlak. Ten tweede slagen we erin om tegemoet te komen aan een van de tekortkomingen in bestaand empirisch onderzoek door een longitudinale benadering te volgen in plaats van een cross-sectionele analyse om de impact van een familiale bedrijfsopvolging te bestuderen. Ten derde verruimen we de traditionele zienswijze die vaak wordt teruggevonden in vorige studies die uitgaat van het onderscheid tussen familiebedrijven geleid door de stichter en deze in handen van de opvolgers, door een verder onderscheid te maken tussen een overdracht van de stichter naar de tweede generatie en een opvolging die plaatsvindt tussen latere generaties. Tenslotte draagt onze studie over de impact van opvolging in de context van private kleine en middelgrote ondernemingen bij tot

de literatuur, aangezien voorgaande studies hoofdzakelijk gericht waren op de overdracht van leiderschap in grote beursgenoteerde ondernemingen.

Dit doctoraal onderzoek had algemeen tot doel het heterogene karakter van familiebedrijven te bestuderen uitgaande van de gerichtheid van de doelstellingen in deze ondernemingen alsook op basis van de impact van familiale opvolging op het gedrag van deze bedrijven. De verscheidene analyses hebben alleszins aangetoond dat de mate waarin familie- en/of bedrijfsgerichte doelstellingen worden nagestreefd in het familiebedrijf en het feit of de onderneming werd overgedragen van de ene naar de andere generatie, een significante impact hebben op het gedrag van een familiebedrijf. Op die manier hoopt dit doctoraal onderzoek de inzichten in de literatuur inzake familiebedrijven verder te vergroten en bij te dragen tot een zeer interessant studiegebied waaraan in de toekomst ongetwijfeld nog meer belang zal worden gehecht.

