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Defining the Family Business by Behavior

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It is generally accepted that a family's involvement in the business makes the family business unique; but the literature continues to have difficulty defining the family business. We argue for a distinction between theoretical and operational definitions. A theoretical definition must identify the esence that distinguishes the family business from other businesses. It is the standard against which operational definitions must be measured. We propose a theoretical definition based on behavior as the essence of a family business. Our conceptual analysis shows that most of the operational definitions based on the components of family involvement overlap with our theoretical definition. Our empirical results suggest, however, that the components of family involvement typically used in operational definitions are weak predictors of intentions and, therefore, are not always reliable for distinguishing family businesses from non-family ones.

In their editorial note in the first issue of *Family Business Review,* Lansberg, Perrow, and Rogolsky (1988) asked: what is a family business? The question continues to be asked because definitions of *family business* abound in the literature (Desman & Brush, 1991) and definitional ambiguities persist (Upton, Vinton, Seaman, & Moore, 1993).

Researchers generally agree that family involvement in the business is what makes the family business different (Miller & Rice, 1967). Most researchers interpret family involvement as ownership and management (Handler, 1989). Churchill and Hatten (1987) prefer to add to this the existence of a family successor. One could interpret this to imply that the family-owned and operated ethnic restaurant or farm, where the next generation is being educated to become professionals rather than to continue in the restaurant or farm business, is not a family business. If we accept this, we would then have to exclude from the family business literature all empirical studies based on such firms.

Family firms themselves do not do better. In interviews we conducted with family business managers, the CEO of a firm with minority public shareholders and managed by a family for three generations denies that it is a family business while another with similar attributes declares itself to be one. Members of the same family who, together, fully own and manage the business vehemently argue that theirs is not because they believe that only a business fully owned by the family and without a single non-family worker is a family business. Meanwhile, siblings and in-laws who own and govern but do not manage another insist theirs is.

No business can escape some family involvement because even the decisions of a widely held corporation's CEO are influenced sometimes by the spouse and children. Definitions based on the components of family involvement—management, ownership, governance, and succession—are easy to operationalize. Unfortunately, they cannot distinguish between two firms with the same level of family involvement when one considers itself a family business and the other does not. Therefore, there is a need to develop a definition that captures the essence of the family business and, as such, may be used to distinguish the family business, in theory, research, and practice, from the non-family business.

In this paper, we first review the literature on the definitions of a family business. We then propose a theoretical definition based on a firm's intention and vision. We believe that this definition captures the essence of a family business.

We examine the operational definitions used in the literature against our theoretical definition both conceptually and empirically. Conceptually, by identifying the overlaps and discrepancies, it appears that family businesses will be a subset of the populations identified by all except one of these operational definitions. The implication for empirical research is that data on a firm's intentions and vision must be collected to properly identify which are the family businesses within a sample delineated by the components of family involvement.

Empirically, we test how well the components of family involvement predict concerns with respect to succession and professionalization. The results show that family involvement variables explain only a very small portion of the variances in these concerns and exert completely different influences on different concerns. Therefore, they further strengthen our conclusion that although the components of family involvement may be used operationally to delineate a population for study, a further distinction must be made within the population between those that have the essence of a family business and those that do not. Without such a distinction, statistics and research findings on family business may be inconsistent, unreliable, and irreconcilable. As a result, there will be little scientific understanding, explanation, or prediction.

THE LITERATURE ON DEFINITION OF FAMILY BUSINESS

We reviewed over 250 papers in the family business literature. From these, we excluded those that did not define a family business explicitly, those wherein a definition had been repeated by the same author(s) in another paper, and those that did not attempt to differentiate family businesses from non-family ones. As an example of the last case, Beckhard and Dyer (1983) define a family business as the system that includes the business, the family, the founder, and such linking organizations as the board of directors. A list of 21 definitions that touch on the degree or nature of family involvement is presented in Table 1 below.

Several observations can be made about these definitions. First, with few exceptions, the definitions do not differentiate between governance and management. Second, some require controlling ownership or family management alone while others require both ownership and management. Thus, the definitions include three qualifying combinations of ownership and management.

(A) family owned and family managed;
(B) family owned but not family managed; and
(C) family managed but not family owned.

All of the definitions in Table 1 consider combination (A) to be a family business. There is disagreement, however, on the other two combinations, although most authors seem to prefer combination (B) over (C).

Third, while some definitions do not require family ownership, those that do imply, explicitly or implicitly, controlling ownership, although they differ with respect to the acceptable patterns of controlling ownership. The list of controlling owners include:

Table 1

Definitions of Family Business in the Literature

Author(s)	Definition
Alcorn, 1982	a profit-making concern that is either a proprietorship, a partnership, or a corporation If part of the stock is publicly owned, the family must also operate the business (p 230)
Babicky, 1987	is the kind of small business started by one or a few individuals who had an idea, worked hard to develop it, and achieved, usually with limited capital, growth while maintaining majority ownership of the enterprise (p 25)
Barnes & Hershon, 1976	Controlling ownership is rested in the hands of an individual or of the members of a single family (p 106)
Bernard, 1975	an enterprise which, in practice, is controlled by the members of a single family (p 42)
Carsrud, 1994	closely-held firm's ownership and policy making are dominated by members of an "emotional kinship group" (p 40)
Churchill & Hatten, 1993	what is usually meant by family business is either the occurrence or the anticipation that a younger family member has or will assume control of the business from the elder (p 52)
Davis, 1983	are those whose policy and direction are subject to significant influence by one or more family units. This influence is exercised through ownership and sometimes through the participation of family members in management (p 47)
Davis & Tagiuri, 1985	a business in which two or more extended family members influence the direction of the business (quoted in Rothstein, 1992)
Donckels & Frohlich, 1991	if family members own at least 60 percent of the equity (p 152)
Donnelley, 1964	when it has been closely identified with at least two generations of a family and when this link has had a mutual influence on company policy and on the interests and objectives of the family (p 94)
Dreux, 1990	are economic enterprises that happen to be controlled by one or more families (that have) a degree of influence in organizational governance sufficient to substantially influence or compel action (p 226)
Gallo & Sveen, 1991	a business where a single family owns the majority of stock and has total control (p 181)
Handler, 1989	an organization whose major operating decisions and plans for leadership succession are influenced by family members serving in management or on the board (p. 262)
Holland & Oliver, 1992	any business in which decisions regarding its ownership or management are influenced by a relationship to a family or families (p 27)
Lansberg, Perrow, Rogolsky (1988)	a business in which members of a family have legal control over ownership (p 2)
Leach, et al (1990)	a company in which more than 50 percent of the voting shares are controlled by one family, and/or a single family group effectively controls the firm, and/or a significant proportion of the firm's senior management is members from the same family (quoted by Astrachan, 1993, pp 341-342)
Lyman, 1991	the ownership had to reside completely with family members, at least one owner had to be employed in the business, and one other family member had either to be employed in the business or to help out on a regular basis even if not officially employed (p 304)
Pratt & Davis, 1986	one 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 (chap 3, p 2)
Rosenblatt, deMik, Anderson, & Johnson, 1985	any 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 (pp 4-5)
Stern, 1986	owned and run by the members of one or two families (p xxi)
Welsch, 1993	one in which ownership is concentrated, and owners or relatives of owners are involved in the management process (p 40)

(1) an individual;
(2) two persons, unrelated by blood or marriage;
(3) two persons, related by blood or marriage;
(4) a nuclear family;
(5) more than one nuclear family;
(6) an extended family;
(7) more than one extended family; and
(8) the public.

Those definitions that are based on family ownership unanimously consider ownership by a nuclear family to be a qualifying ownership pattern. They disagree, however, about all the others, especially the last one, public ownership.

In summary, there appears to be total agreement that a business owned and managed by a nuclear family is a family business. Once one deviates from that particular combination of ownership pattern and management involvement, however, researchers hold different opinions.

THE PROBLEM OF DEFINING THE FAMILY BUSINESS

A definition of the family business must identify its uniqueness because it is the uniqueness (or our belief in the existence of this uniqueness) that makes business management a field worthy of differentiation and study. What is this uniqueness? It is not the fact that the members of a family own and/or manage a business, although those characteristics are certainly present and important. No, what makes a family business unique is that the pattern of ownership, governance, management, and succession materially influences the firm's goals, strategies, structure, and the manner in which each is formulated, designed, and implemented. In other words, we study family businesses because researchers believe that the family component shapes the business in a way that the family members of executives in non-family firms do not and cannot (Lansberg, 1983).

To illustrate, take the central debate on family business definitions hinging on ownership and management and, sometimes, succession. Clearly, a business owned and managed by a nuclear family is a family business. By necessity, it will be operated with the intention to pursue a desired future for the family and in accordance with their values and preferences. Family dynamics will affect decisions/actions and those decisions/actions will assuredly be different from firms with neither family ownership nor family management to influence them.

How about firms that are family owned but not managed or family managed but not owned? Some of these firms will behave in a fashion that is markedly similar to that of a firm owned and managed by a nuclear family and some will not. As a consequence, one must conclude that some of these firms are family businesses and some are not. If we define family business as only those that are family owned and managed, we would be excluding many firms that are family businesses. On the other hand, if we include as family businesses all firms that are either family owned but not family managed or family managed but not family owned, we would be including many firms that do not belong.

How can we tell when ownership or management by a family makes a firm a family business? A firm wholly owned by a family may be treated as a passive portfolio investment. At the other end, a family-managed but not family-owned firm may be operated predominantly to pursue the aspirations of the family managing the firm with the corresponding benefits for that family or it may be operated for the benefit of unrelated shareholders. Making matters worse, there are no clear-cut demarcations on how much ownership or management is necessary to qualify the firm as a family business. Should it be complete ownership, majority ownership, or controlling ownership? The presence or absence of a successor offers no better solution to this difficulty.

There must be a primary theoretical imperative that makes the study of family business as a unique type of organization worthwhile. Otherwise, there is no need for differentiation from the study of other types of business. Therefore, we argue that any attempt to define a family business must start at the theoretical level. For this purpose, we distinguish between two types of definitions: theoretical and operational.

A theoretical definition should distinguish one entity, object, or phenomenon from another based on a conceptual foundation of how the entity, object, or phenomenon is different and why the differences matter. An operational definition, on the other hand, merely identifies the observable and measurable characteristics that differentiate the entity, object, or phenomenon from others.

For example, in the field of strategic management, differences in firm strategy are theoretically defined as the varying characteristics of the match that each organization achieves or intends to achieve between its internal resources and environmental opportunities (Chrisman, Hofer, & Bolton, 1988), with the belief that the nature of this match affects organizational performance. Operationally, however, differences in organizational strategies are defined by using the components of strategy, such as competitive weapons and scope (Porter, 1980), investment intensity (Hofer & Schendel, 1978), growth vectors (Ansoff, 1965), segment differentiation (Abell, 1980), and functional policies (Hatten, 1974).

Both types of definition are needed to study family firms. The theoretical definition sets the paradigm for the field of study and the standard against which the efficacy of an operational one must be measured. Without a theoretical definition and the rationale for it, there is no standard for determining the validity of any operational definition used by researchers and such a definition becomes a matter of convenience. On the other hand, without an operational definition, the theoretical definition cannot be applied. Continuing the example, the vast literature in strategic management suggests that the components by which strategy has been operationalized are valid because they are reliable means for identifying essential differences in organizational strategies and they empirically explain why there are differences in organizational performance.

With the widely varying opinions, we further believe that a theoretical definition should be biased toward being inclusive rather than exclusive for several reasons. First, it seems unreasonable to use a definition that excludes a large number of family businesses that insist they are so or that a significant group of scholars believe are so and include in their research samples. An exclusive definition would not only ensure continual disagreement but would also require the dismissal of a large portion of our knowledge base as irrelevant.

In empirical research, an inclusive definition will lead to a more thorough understanding of the family business. Using an inclusive definition requires the researcher to include these other combinations and groups in the database and to collect data on variables that may differentiate one combination or group from another. If a variable is later found to be an insignificant determinant of family involvement, family influence, or family business performance because it is invariant or random across groups, then it may be discarded. Meanwhile, our understanding and our confidence in the empirical results will be enhanced. Furthermore, it will lead to the discovery and classification of homogeneous populations of family firms about which generalizations can be made.

When researchers and practitioners define family business in different ways, it becomes difficult to determine whether the results of one study using a particular definition apply to family businesses excluded by that definition. Research results from different studies are difficult to reconcile because one study that defines a family business by its management and another by ownership will include a number of firms that are excluded from the other. As a result, the samples will not be homogeneous and it will be virtually impossible to partial out the impact on the findings of the non-overlapping firms in the samples. Therefore, we favor a very broad definition within which different types of family businesses can be identified, classified, and compared. This would permit the development of a hierarchical classification of family businesses. Identifying the common bonds among all types of family businesses, while acknowledging the factors that differentiate one type from another, will sharpen our ability to generalize the findings of research to the appropriate population and act as a convenient information storage and retrieval system (Chrisman et al., 1988).

A THEORETICAL DEFINITION OF FAMILY BUSINESS

Our purpose here is to propose a theoretical definition. We believe that a theoretical definition of family business must help us distinguish it from other businesses. It is obvious from our previous discussion that once one deviates from the nuclear family-owned and managed business, there is considerable disagreement and ambiguity about which other combination still makes up a family business. Previous authors have tried to define the family business by its ownership and management but companies with the same level of family involvement in ownership and management may or may not consider themselves family businesses and, more importantly, may or may not behave as family businesses.

A complete enumeration of the parts seldom gives us the essence of the whole. Surely, the nature of a family business must transcend its components in terms of family involvement in ownership and management. By this, we do not mean that the components are not needed in research. Instead, we simply insist that a theoretical definition must capture the essence differentiating family businesses from all other firms. The components merely make the essence possible. The existence of the components may be necessary but not sufficient; they must have been used to create the essence that makes the business distinct from non-family firms. The presence or absence of the essence is what allows researchers and the family firms themselves to classify firms with the same level of family involvement as family businesses or otherwise.

We propose that a company is a family business because it behaves as one and that this behavior is distinct from that of non-family firms. This approach to defining a family business may appear tautological but it is not, as long as we define the distinct behavior that makes a business a family business.

If a family business is a matter of behavior of the people who own and/or govern and/or manage the firm, then they must behave as they do to serve a purpose. We believe that this purpose is to shape and pursue the vision of one or a few families that control the dominant coalition in the firm. By *vision,* we simply mean a notion of a better future for the family, with the business operated as a vehicle to help achieve that desired future state. This concept of vision is akin to Freeman's (1984) definition of "enterprise strategy" in that it deals with what the business stands for with respect to the family and its future involvement in the business. Thus, our definition of vision is not necessarily the technical one consisting of "core values, core purpose, big-hairy-audacious-goals, and vivid description" (Collins & Porras, 1996).

Dominant coalition is intended here to include the powerful actors in an organization who control the overall organizational agenda (Cyert & March, 1963; Hambrick & Mason, 1984). With controlling ownership, the family's endeavor to shape and pursue its vision may have a greater potential for continuity. But, even without controlling ownership, it may still last through generations as long as the owners allow the dominant coalition to continue.

To summarize, we believe that the essence of a family business consists of a vision developed by a dominant coalition controlled by one or a few families and the intention of that dominant condition to continue shaping and pursuing the vision in such a way that it is potentially sustainable across generations of the family. We use intention instead of ability because a financially failing family business does not cease to be a family business. To capture this and be inclusive of all other definitions in the literature, we propose the following definition:

> The family business is a business governed and/or managed with the intention to shape and pursue the vision of the business 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.

By this definition, a family business is one because its vision is shaped and pursued by a dominant coalition controlled by a family or a small number of families. Significantly, the definition does not specify the particular family members to whom the vision belongs, the owners or the managing group. Neither does it stipulate that this vision must serve only the interests of the family because the desired future may be partly concerned with society in general.

The definition subsumes family ownership and family management of business as parts that make pursuit of the vision possible. Therefore, it provides a rationale for the literature's preoccupation with these involvements. Since it is sufficient that the family controls the dominant coalition, the family does not necessarily need ownership control. It incorporates all those definitions that emphasize the family's influence on the strategic direction of the firm (e.g., Davis, 1983; Davis & Tagiuri, 1985; Donnelley, 1964; Handler, 1989; Pratt & Davis, 1986).

By requiring potential cross-generational sustainability the definition incorporates controlling ownership as the predominant means to maintain or continually shape the vision. Sustainability across generations includes those definitions that insist upon the availability of a family successor since such availability facilitates the sustained pursuit of a vision across generations. Because there only has to be the potential for cross-generational sustainability, the definition accepts family businesses owned by couples with young or no children, or those that pursue a vision of the family business as a vehicle to educate the next generation for careers that exclude involvement in the business. Finally, because it is the potential sustainability of the vision that is important, our definition also permits the vision to change, although we would not anticipate the vision to change as frequently as business goals and strategies. Therefore, a firm that changes its vision does not cease to be a family business provided that two conditions are met: (1) that the dominant coalition instituting the change is controlled by members of the family, and (2) that the vision for the business continues to operate as a vehicle for achieving a desired future state of the family.

The definition includes those firms wherein family involvement takes the form of successive generations of management but not ownership; but it excludes, as it should, those situations where the powerful chief executive of a publicly held company manages during his or her lifetime to pursue his or her own vision, as long as the leadership does not have the potential of passing to the chief executive's spouse, children, or sibling. And, if this does occur, then our definition would consider the business a family business as some of the definitions in Table 1 (e.g., Carsrud, 1994) imply, because the business will be operated with the intention to pursue across generations the vision of a dominant coalition controlled by a family.

The definition does not imply that the vision is or should be shared by all, or even a majority of the members of the family group; nor should it since it is well known that families are often conflicted and factional (Dyer, 1986). Indeed, the concept of a dominant coalition suggests some amount of opposition. What is required, however, is the power on the part of the holders of the vision to put it into practice.

At certain stages of its development, a family firm may be more preoccupied with shaping rather than pursuing a vision. During these times, it may appear that there are only factions but no dominant coalition. Our definition would accommodate this situation because the powerful actors in the organization who control the organizational agenda, upon whom we base our definition of a dominant coalition, will be engaged, collectively if not cooperatively, in shaping the desired future of the firm. Furthermore, on a daily basis, the firm will be maintaining a vision that was shaped previously by a dominant coalition controlled by the family.

A CONCEPTUAL TEST OF OPERATIONAL DEFINITIONS

Table 2 shows that this theoretical definition does not exclude any of the previously mentioned combinations of family involvement or patterns of controlling ownership used in the literature to define a family business. If the business is family owned then the family most likely will have developed the vision being pursued or acceded to it. If the family-owned business is also family managed, then the potential for the next generation to be involved in both ownership and management exists. If the family-owned business is not family managed, there is always the potential for the next generation to continue pursuing the same vision or even re-assume management control if so desired.

Of the combinations of family involvement, many researchers have the most problem classifying the family-managed but not family-owned firm as a family business. Of the patterns of ownership, that of a publicly held company is least acceptable. Both can be accommodated under our definition. The requirements are that: the managing family must control the dominant coalition that developed the vision for the firm and one or more members of the managing family must be able, willing, and approved by the dominant coalition to take over and continue pursuing the vision.

It is obvious from the above that all family-owned and family-managed firms are family businesses according to our theoretical definition. While the definition does not exclude the possibility of firms fitting any of the other previously mentioned combinations of family involvement or patterns of controlling ownership, firms with acceptable combinations of family involvement and patterns of controlling ownership do not necessarily qualify as family businesses under the definition; it depends on their vision. Simply stated, if: (1) a family-controlled dominant coalition has shaped the vision that is being pursued or intends to shape and pursue a new vision and (2) the intention or behavior is potentially sustainable across generations, the business is a family business. If either of these conditions is not met, the business is not a family business.

To reiterate, the components of family involvement—ownership, management, governance, and succession—are the most convenient observable and measurable means for segregating the population of study, but firms having acceptable combinations of family involvement may, nevertheless, not qualify or not consider themselves to be family businesses. Therefore, the definition does require that any empirical study of family business collect data on the firm's vision (in particular, how the business and the family are related to one another) and who shaped or developed it in order to ensure the firms classified as family business are indeed so. As a result, it suggests a direction of research that has not been actively pursued in the literature.

The definition proposes that research on family business should start with understanding the vision pursued by these firms. Specific questions related to this include: What is the vision? Who develops the vision in family businesses? How are their visions

Table 2

Family Involvement, Ownership Patterns and the Definition

	Family Vision	Potential Cross-Generational Sustainability
Family involvement		
Family owned and family managed	Since the business is family owned, the family must have developed the vision being pursued or agreed to it	Being family owned and family managed, the potential for the next generation to be involved in either or both exists
Family owned but not family managed		With family ownership, there is always the potential for the next generation to continue pursuing the same vision or even re-assume management control if so desired
Family managed but not family owned	If the business is managed by a family that does not own the company, then the family must be the one that developed the vision for the firm to be considered a family business under the definition	One or more members of the managing family must have the potential to continue pursuing the managing family's vision for this firm to be considered a family business under this definition
Pattern of controlling ownership		
Individual Two persons, unrelated by blood or marriage Two persons, related by blood or marriage A nuclear family More than one nuclear family An extended family More than one extended family	If the business is controlled by an individual or family fitting any of these patterns, then the owner or owners will have developed the formal or implicit vision being pursued or agreed to it	As long as the individual, the two persons, the nuclear family, or extended family has the potential of having a spouse, sibling, partner, or children continue to pursue the vision, then the ownership pattern is included in the definition
The public	For this ownwership pattern to qualify as a family business, the managing family has to be the one that developed the vision	For this ownership pattern to qualify as a family business, the top manager must have a sibling, spouse, or child able, willing, and approved by the owners to take over and continue pursuing the vision

developed? Are the visions clear, formally articulated, and communicated or are they implicit in the minds of the senior member or members of the family? Do the visions of family firms change and adapt as frequently as those of non-family firms? Is there continuity in the vision pursued by managers across generations? What effects do these visions have on the measurable objectives, strategies, and structures of family firms? How are these different from non-family firms? Do these differences have significant impacts on the financial and market performances of family firms?

AN EMPIRICAL TEST OF THE COMPONENTS OF FAMILY INVOLVEMENT AS PREDICTORS OF INTENTIONS

According to our theoretical definition, a family business is distinguished from others, not on the basis of the components of family involvement, but by how these components are used to pursue the family's vision. Put differently, the vision provides the context, meaning, and reason for family involvement just as a strategy provides the context for the functional policy decisions of the firm. To complete the analogy, functional policies should help us infer a strategy but they are not, taken together, *the* strategy, just as ownership, management, governance, and succession permit inferences about the vision (and whether a firm is or is not a family business) but their mere summation does not necessarily equal the vision.

One of the ways one can determine if the manner in which a construct is operationalized provides a fair interpretation of that underlying construct is to assess whether or not the operationalized variables provide consistent prediction of other decisions that are theoretically related to the construct. In this section, we report the results of such an exercise using the components of family involvement.

Conceptually, we discussed in the previous section that the population of family businesses is likely to be a subset of the population identified through the components of family involvement. However, the components of family involvement may still form a sound basis for delineating the population for empirical research if they are reliable predictors of intentions. To examine this possibility, we analyzed how the components of family involvement influence a sample of family firms with respect to their concerns over succession and professionalization, two of the most important strategic decisions facing a family business. This approach assumes that the higher the level of concern, the stronger the intention.

Sample and Data Collection

There are no national statistics on family business; maybe because there is no uniformly accepted definition of a family business. Therefore, empirical research on family business has had to rely on convenience samples such as the membership lists of professional associations or the mailing lists of family business consultants. This study is no exception and uses both.

Following the first approach, we used the mailing list of the Canadian Association of Family Enterprises (CAFE). CAFE is the largest national association of Canadian family firms, with a membership of 585 (approximately 10% family business consultants and bankers) at the time of data collection (fall, 1994). Included in their mailing list are approximately 1,000 non-member family firms.

We also selected a random sample of 500 family firms from the more than 4,000 names on the mailing list of Deloitte and Touche (Canada). After eliminating names that were obviously not family firms (e.g., account managers in banks, lawyers in large law firms, etc.) and duplications, questionnaires were sent to 1,725 family firms. This included 483 CAFE members and 1,242 non-CAFE firms.

Two mailings of the questionnaire were sent to the sample. 211 questionnaires from CAFE members and 274 from non-CAFE members were returned. This yielded a response rate of 44% for CAFE members, 22% for non-members, and 28% overall.

To decrease the possibility that respondents were in fact not family firms, respondents were asked to return the questionnaire if they did not consider themselves a family business. Still, this would not have ensured that the respondents qualify as family firms according to our theoretical definition. Not having collected any data on visions, because the survey was conducted before our development of a theoretical definition for the family business, we further screened the sample and retained only those firms that submitted data indicating that they were family owned and family managed. This left us with a sample of 453 firms.

Variables and Measures Used

The questionnaire included two parts pertinent to this study: the importance of each family business issue and information about the business. Relevant pages from the survey questionnaire used to collect the data are shown in Appendix A. In the issue section, respondents were asked to rate the importance of 26 attributes on a seven-point Likert scale. One end, scored as "0", was described as 'not important' and the other, scored as "6", as 'critically important.'

The business information section asked the respondent about the age of the business, its industry sector (retail, service, wholesale, manufacturing, natural resources, construction), legal form, size (geographical distribution, number of locations, and full-time employees), gross revenues and profitability, number of family and non-family managers in the business, the family's share of ownership, likelihood of the current president retiring in the next 10 years, generation running the business, the number of family and non-family members on the board of directors, and the number of male and female potential family member successors.

Business Profiles

The average age of the responding CAFE member firms is 42 years, while that of non-member firms is 34 years. Member firms employ an average of 146 employees as opposed to 89 by non-CAFE member firms. Member firms' median gross revenues is $5.3 million and that of non-member firms is $2.1 million. Only 29% of member firms are run by first-generation family members, whereas more than half (52%) of non-member firms are run by the founders. Ninety-seven percent of members and 98% of non-members are privately held. This indicates that member firms are generally larger and older than non-member firms.

Data Validation Tests

First, we tested for non-response bias. For this, the responses were divided into five batches according to when they were received. ANOVA and MANOVA tests indicate no statistically significant differences between the early and late responses. Second, we tested for homogeneity in the responses from different provinces. Again, tests indicated no statistically significant differences.

Structural Models

To reiterate, the primary purpose of these empirical tests is to determine whether, in differentiating family from non-family businesses, the frequently used components of family involvement in the business—ownership, management, governance, and existence of successors—may, in combination, serve as a substitute for our requirement that the vision be developed and pursued by a dominant coalition controlled by the family. A necessary condition for this to be true is that the components of family involvement be predictors of the intentions of the family. In particular, we test here whether the components of family involvement can be used to predict a family business's concerns about succession and professionalization. We do this because succession and professionalization are both critical decisions that will be profoundly influenced by vision as desired futures of the family.

As pointed out earlier, because it is difficult to measure intentions, these empirical tests use concerns as proxies for intentions. The logic used is as follows. The stronger and more consistent the relationship between the components of family involvement and concerns about both succession and professionalization, the stronger the linkage between the operational measures of family involvement and the theoretical construct of vision as a distinguishing factor between family and non-family businesses. If this is true, then the operational definitions of family business based on the components of family involvement may be used with confidence because they effectively tap the underlying rationale of our theoretical definition.

The two structural equation models we tested are shown in Figures 1 and 2. As shown in Figure 1, we hypothesize that Concerns about Succession (CON_S) is a function of ownership, management, successors, governance, age of the business, complexity of the business, financial performance, and imminence of succession. Inclusion of the variables other than components of family involvement is an attempt to "close the system" in the sense defined by Simon (1954). The model for Concerns about Professionalization (CON_P), shown in Figure 2, has an identical list of independent variables.

Both dependent variables are modelled as latent variables with reflective indicators. CON_S is measured by a firm's importance ratings for the following issues: maintaining family ownership, maintaining family control, selecting the successor, finding a place in the business for incompetent family members, resolving conflicts among family members, and compensating family members. CON_P is measured by the importance ratings of: involving non-family members in strategic decisions, appointing outside directors, changing to professional management, loyalty of non-family managers, and defining the role of the board. Indicators for the independent variables are shown in Table 3.

Partial Least Squares Results

Partial least squares (PLS) was used to validate the two models for several reasons. First, the structural models include latent variables with both reflective and formative indicators. Second, we have a mixture of data types and, of the methods for validating a structural model, PLS makes the fewest assumptions about data type. Third, PLS does

Figure 1

Structural Equation Model of Concerns over Succession

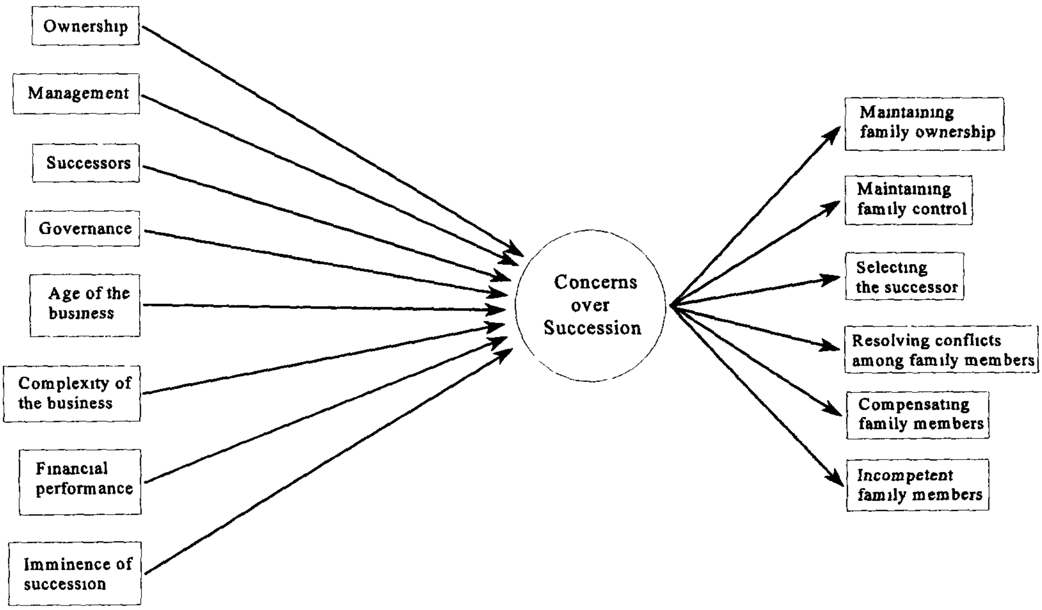
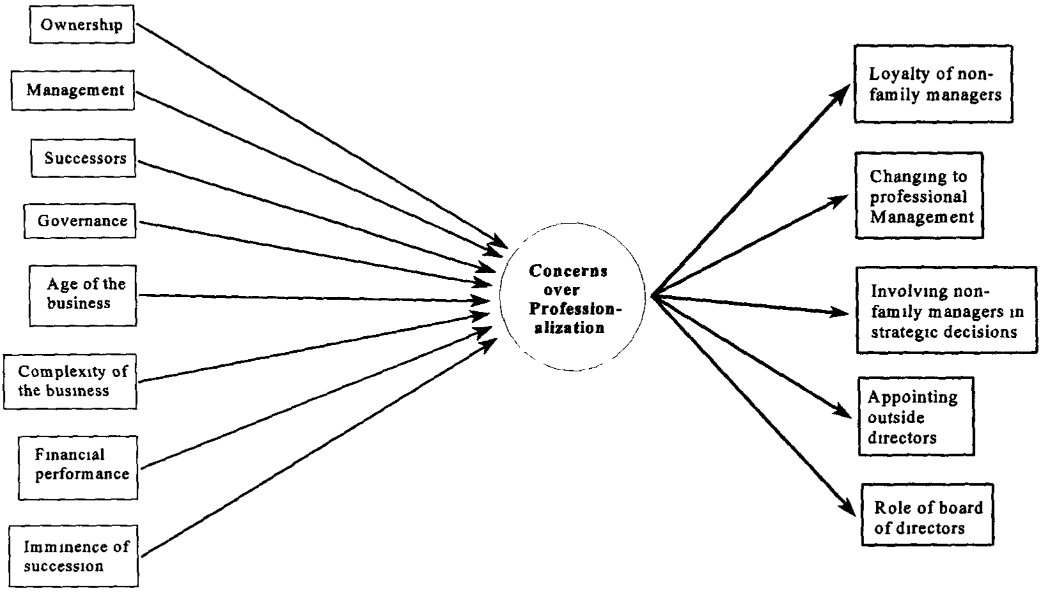


Figure 2

Structural Equation Model of Concerns over Professionalization



not require normal distributions. Standard errors were estimated using bootstrap samples of 100.

As shown in Tables 4 and 5, the components of family involvement have different influences on the dependent variables. The multiple R-square for the CON_S model is

Table 3

Indicators for Independent Variables

Independent Variable	Indicator Type	Indicators
Ownership	Formative	% ownership by family
Management	Reflective	Number of family members involved in the business; and ratio of non-family managers to family members
Successors	Reflective	Number of potential male family member successors; number of potential female family member successors, and a dummy variable with the value of 1 if there is a potential family successor and 0 otherwise
Governance	Formative	% of board of directors that are outsiders
Age	Reflective	Age of business, and generation managing the business
Complexity of the business	Reflective	Gross revenues, regional distribution of sales, number of business locations, and number of full-time employees.
Performance	Formative	Return on assets
Immınence of succession	Formative	Dummy variable as to whether the current family member CEO will retire in the next 10 years

Table 4

Partial Least Squares Results for CON_S

Inner Model (R-square = 0.25)

Variable	Weights	t-statistics
Ownership	0.07	1.4
Management	0.24	4.8
Successors	0.22	4.6
Governance	0.03	0.7
Complexity	0.09	1.5
Age	0.10	2.6
Final performance	0.00	−0.1
Imminence	0.17	3.6

Outer Model

Indicator	Loading/Weight	t-statistics
Concern for succession		
Family share ownership	0.74	27.5
Maintaining family control	0.64	17.0
Resolving family conflicts	0.63	14.8
Selecting the successor	0.69	21.5
Salaries of family members	0.75	32.8
Incompetent family members	0.62	17.9
Ownership		
% share ownership of family	1.00	Not meaningful
Involvement in management		
Active family members	0.99	29.2
Ratio of non-family members	−0.23	−2.4
Potential family member successors		
Male	0.82	21.8
Female	0.33	3.6
Existence	0.88	36.7
Complexity of the business		
Gross revenues	0.89	2.4
Regional distribution of sales	0.27	0.6
Number of business locations	0.79	2.6
Full-time employees	0.48	1.8
Age		
Age of business	0.92	22.6
Generation managing the business	0.87	32.0
Financial performance		
Return on assets	1.00	Not meaningful
Imminence of succession		
Incumbent retiring within 10 years	1.00	Not meaningful

0.25, while that for the CON_P model is 0.12. Both R-squares are low, indicating that components of family involvement are unlikely to be reliable predictors of intentions.

As estimates for the outer models in Tables 4 and 5 show, the loadings for the indicators of both dependent variables are fairly uniform. Those for CON_S are all greater than 14 times the standard errors, while those for CON_P are all greater than 10

Table 5

Partial Least Squares Results for CON_P

Inner Model (R-square = 0.11)

Variable	Weights	t-statistics
Ownership	0 00	0 1
Management	0 08	1 0
Successors	0 03	0 3
Governance	0.13	2 5
Complexity	0 21	3 5
Age	0 06	1 7
Financial performance	0 00	0 1
Imminence	0 03	0 6

Outer Model

Indicator	Loading/Weight	t-statistics
Concern for professionalization		
Loyalty of non-family managers	0 78	20 6
Changing to professional management	0 63	11 1
Defining role of the board	0 66	10 9
Involving non-family managers in strategic decisions	0 76	19 5
Appointing outside directors	0 69	16 0
Ownership		
% share ownership family	1 00	Not meaningful
Involvement in management		
Active family members	0.79	7 3
Ratio of non-family members	0 62	2 2
Potential family member successors		
Male	0 63	1.6
Female	0 76	2 0
Existence	0 63	2.2
Complexity of the business		
Gross revenues	0 87	19 8
Regional distribution of sales	0 53	6 3
Number of business locations	0 70	9 9
Full-time employees	0 59	7 1
Age		
Age of business	0 91	5 1
Generation managing the business	0.90	21 2
Financial performance		
Return on assets	1 00	Not meaningful
Imminence of succession		
Incumbent retiring within 10 years	1 00	Not meaningful

times the standard errors. This shows that our choices for the indicators are valid and that the measurements of both CON_S and CON_P are reliable.

Regarding the inner models in Tables 4 and 5, it should first be noted that the ownership variable does not show any statistically significant influence on either dependent variables. This, however, is due to the nature of the data. Approximately 80% of the firms in the sample were wholly owned by the family. Therefore, the set of ownership data does not appear to have enough variance to discriminate among the firms. Similarly, financial performance, concerning which a large proportion of firms did not report, does not have any statistically significant influence on either dependent variable.

Family involvement in management has a statistically significant (t = 4.8) direct relationship with CON_S but not with CON_P. Both indicators of family involvement have statistically significant loadings in the CON_S outer model, positive for the number of active family members and negative for the ratio of non-family member managers to active family members. We interpret these results as follows. The more members of the family involved, the more complicated the succession process may become, thus, heightening the family's concern over succession. The existence or prevalence of non-family managers mitigates the concern beause it enhances the stability and continuity of the business during succession.

The latent variable successors, as measured by the number of male and female potential family member successors, and the dummy variable indicating the existence of at least one family member successor, has a statistically significant (t = 4.6) direct relationship with CON_S but, again, not with CON_P. This also confirms the intuition that the more potential successors there are the bigger the problem of choosing a successor, resolving family conflicts, etc. It is interesting to note that the number of male family members who are potential successors has a loading more than twice that for the number of females, indicating that Canadian family firms still do not relate to male and female potential successors similarly.

Imminence of succession and age of the business also raise the family firm's CON_S but have no effect on CON_P. Obviously, if the family believes that the incumbent's retirement is far away, it will not be as concerned about succession issues. The older the business, the more likely it will have knowledge about the difficulties of succession and the higher the probability that the succession would involve cousins rather than siblings, thus increasing concern.

Governance, as measured by the percentage of outside directors on the board, has the opposite relationships. It has a statistically significant (t = 2.5) relationship with CON_P but not with CON_S. We have modelled the causality as going from Governance to CON_P, hypothesizing that the more outside directors, the more the firm is driven or committed to professionalization and the greater their concerns over the issues of professionalization. This relationship may also be reversed, since the more the firm is committed to professionalizing management the more likely it would have outside directors. We tested this variation and obtained a decreased R-square (0.10).

Complexity of the business, as measured by gross revenues, regional distribution of sales, number of business locations, and number of full-time employees, has no statistically significant relationship with CON_S but raises worries about professionalization. CON_P has the highest loading on loyalty of non-family managers and involving them in strategic decisions. Therefore, we believe the results suggest that the more complex the business, the larger the number of non-family managers upon which the family will have to rely, and the greater the concern with loyalty and involvement.

To summarize, these results are interesting in that they confirm intuition about how different family firm profile variables should affect a firm's levels of concerns about succession and professionalization. The purpose here; however, is to test how well the components of family involvement predict family business intentions. The low R-squares obtained for the structural models suggest the following. First, many firms with similar family involvement may have very different intentions. Second, the components of family involvement, while significantly correlated with intentions, are not particularly strong predictors of intentions. These findings suggest that ownership, management, succession, and governance are useful means for initial sample selection but are insufficient for a precise delineation between family and non-family firms. As a consequence, future studies should ensure that questions concerning the vision, intentions, and dominant coalition are included in the study to ensure that the businesses studied are indeed family businesses.

In addition, the results show that, even for the same sample of family firms, diverse family business management issues are affected by different sets of family involvement components frequently used to define the family business. This finding suggests that these components of family involvement cannot be assumed to delineate businesses with homogeneous intentions without further testing. In other words, family involvement in a business is not necessarily an indication that the family or the business will behave in a fashion consistent with the notion of a family business. Therefore, the results strengthen our belief that the family business should be distinguished theoretically from other businesses by their visions and intentions.

CONCLUSION

Researchers in the field of family business agree that family involvement in the business makes it unique. This involvement has usually been categorized in terms of ownership and management. Outside of a firm owned and managed by a nuclear family, there appears to be extensive disagreement about what constitutes a family. We find that defining a family business by its components does not capture its essence, which consists of the vision held for the firm by a family or a small group of families and the intention of the dominant condition to shape and pursue this vision, potentially across generations of the same family or small group of families. Consequently, we propose a definition for family business based on these two points. We believe that this definition captures the essence of the family business and incorporates all of the popular variations of family involvement as components that make the essence possible. Its focus on the family firm's intention to pursue a vision suggests a research direction that has not been actively pursued in the literature.

Our empirical tests show that the components of family involvement are very weak predictors of family firms' concerns over succession and professionalization. This suggests that family involvement variables are weak predictors of family firm behavior, implying that it is dangerous to delineate the population of study by the components of family involvement alone, as is frequently done in the literature, without theoretical guidance on the behaviors that differentiate family and non-family firms. Instead, the results strengthen our contention that vision, intentions, and behavior are what should be used to distinguish family business from all others. After all, understanding, predicting, and modifying behavior to help family businesses achieve their goals and improve their performance are the object of family business management research.

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Appendix A

Relevant Pages From Survey Questionnaire

Information About Your Business

Please answer the following questions about your business by checking the response that most closely describes your business or by specifying the information requested.

Year first sale made: ______________________________

Nature of business:
_____ Retail _____ Wholesale _____ Manufacturing
_____ Service _____ Construction _____ Natural resource
_____ Not-for-profit _____ Other (please specify) ______________

Legal form of business:
_____ Sole proprietorship _____ Private corporation
_____ Partnership _____ Publicly traded corporation
_____ Trusts

Gross Revenues in 1993:
_____ <\$100,000 _____ \$1,000,000 to \$4,999,999
_____ \$100,000 to \$249,999 _____ \$5,000,000 to \$9,999,999
_____ \$250,000 to \$499,999 _____ \$10,000,000 to \$50,000,000
_____ \$500,000 to \$999,999 _____ >\$50,000,000

Geographic distribution of sales/revenues: (Please check the most descriptive one)

_____ Local _____ Provincial _____ Regional _____ National _____ North America _____ Global

Return on assets for 1993: (Earnings before interest and taxes divided by total assets)
_____ Negative _____ 6% to 10% _____ 21% to 30%
_____ Zero _____ 11% to 15% _____ >30%
_____ 1% to 5% _____ 16% to 20%

Geographic locations of business operations (e.g., plants, sales offices, franchises, etc.):

_____ All at one location _____ 2 to 5 locations _____ 6 to 10 locations _____ >10

Number of full time employees in 1993: ______________________________

Number of family members (including you) active in the business: ______________________________

Number of nonfamily managers in the business: ______________________________

Family ownership of the business: _____ <50% _____ 50% to 99 9% _____ 100%

Is the current president likely to retire in the next ten years? _____ Yes _____ No

Which generation of the family is operating the business today?

_____ 1st _____ 2nd _____ 3rd _____ 4th _____ 5th _____ 6th _____ 7th _____ 8th

Membership of the board of directors: (please specify number)

Family members. _____ Nonfamily members _____

Number of persons who have the potential to assume presidency in the next ten years:

Family members: _____ Male _____ Female
Nonfamily members _____ Male _____ Female

Appendix A

Continued

Issues for Family Business

Listed below are several issues found to be of concern to family enterprises Please circle the response that most closely captures the importance of each of the issues to your business

	Importance of the Issue to your Company						
	Not Important					Critically Important	
Selecting the successor	0	1	2	3	4	5	6
Balancing family concerns and business interest	0	1	2	3	4	5	6
Including nonfamily members in the board of directors	0	1	2	3	4	5	6
Selecting family members for positions in the business	0	1	2	3	4	5	6
Preparing and training a successor	0	1	2	3	4	5	6
Setting up a family foundation	0	1	2	3	4	5	6
Planning for estate taxes	0	1	2	3	4	5	6
Maintaining ownership control in the family	0	1	2	3	4	5	6
Distributing ownership among family members	0	1	2	3	4	5	6
Dealing with incompetent family members active in the business	0	1	2	3	4	5	6
Maintaining a role for the founder in the business after retirement	0	1	2	3	4	5	6
Involving nonfamily managers in making strategic decisions	0	1	2	3	4	5	6
Balancing short-term and long-term business decisions	0	1	2	3	4	5	6
Changing from family management to professional management	0	1	2	3	4	5	6
Seeking assistance from outsiders to resolve business problems	0	1	2	3	4	5	6
Seeking assistance from outsiders to resolve family problems	0	1	2	3	4	5	6
Buying out family members not actively involved in the business	0	1	2	3	4	5	6
Valuing the business	0	1	2	3	4	5	6
Compensating family members involved in the business	0	1	2	3	4	5	6
Maintaining loyalty of nonfamily managers	0	1	2	3	4	5	6
Developing relationship between successor and nonfamily managers	0	1	2	3	4	5	6
Finding an outside buyer for the business	0	1	2	3	4	5	6
Dealing with rivalry among potential family member successors	0	1	2	3	4	5	6
Changing from an autocratic to a democratic style of leadership	0	1	2	3	4	5	6
Resolving conflicts among family members	0	1	2	3	4	5	6
Defining the role of the board of directors	0	1	2	3	4	5	6
Other (please specify) ______________________________	0	1	2	3	4	5	6