

THE FAMILY BUSINESS: A UNIQUE PROFILE OF BEHAVIOUR, OR A PROFILE ADAPTED TO THE NEEDS OF THE FAMILY AND THE MARKET?

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Abstract

This paper helps to theorize the link between family generation and the characteristics, behaviour, management and governance of the firm. The paper also answers the question: to what extent is competitive position affected by each generation? The paper overcomes the limitation of the cross-sectional data, since the investigation is applied to data from Spanish firms during the period 1994 to 2005, which is much more appropriate when discussing developmental models. Our results confirm the greater degree of complexity of the family firm, as the ownership and the running of the business is passed to future generations. However, and contrary to all expectations, family firms in the sample have a high degree of concentration of ownership, regardless of the generation and a greater complexity in the business does not give rise to the incorporation of external partners in the company's share capital. In fact, third generation companies have no external partners, with 100% capital remaining in the family.

Keywords: corporate ownership, family business, Spain

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The financial support of MCYT, ECO2009-13158ECO is acknowledged.

1. Introduction

Family firms hold a particular position among all the different types of company, owing to the nature of their ownership structures, their leadership and their evolutionary dynamics. In contrast to other types of company, family firms constitute the basic foundations of the business community worldwide. Their creation, growth and longevity are critical to the success of the global economy, and the economic and social importance of family firms has been widely recognized at an international level. The proportion of family firms in relation to the total number of registered companies; their contribution to the GDP of a country and its levels of employment can be considered measures of their importance³².

Although there is a unanimous belief about the quantitative and qualitative importance of family firms in the economy of any country, the controversy continues about how, and in what direction, family ownership affects the behaviour and the performance

of firms. Recent empirical conflicting evidence on the performance of family firms compared with that of non family one has raised the interest on this issue³³. For some researchers the existing disparity of conclusions has to do with the heterogeneous definitions of family firms used in the different studies (Dyer, 2006; Miller et al, 2007).

Dyer points out that classifying all family firms in one category may lead to misleading conclusions. Definitions of family firms based strictly on

³² Ward and Aronoff (1990); Shanker and Astrachan (1996); Gersick et al (1997); Laporta et al (1999); Upton and Petty (2000); Amat (2001); McConaughy et al (2001); Faccio and Lang (2002); Anderson and Reeb (2003); Chris-Graves (2006).

³³ Anderson and Reeb (2003), Villalonga and Amit (2006), Perez Gonzalez (2006), and Sraer and Thesmar (2007) find that listed family firms are more profitable than other listed firms. Faccio et al (2001) find evidence of inferior performance in family firms. Barth et al (2005) find that family-owned firms are less efficient than non-family owned firms.

On the other hand, there are studies that find no differences between the performance of family and non-family firms. Following the Comparative Institutional Economics Theory, Demsetz and Lehn (1985), Cho (1998), Himmelberg et al (1999), Demsetz and Villalonga (2001), and Galve and Salas (2005) find empirical support for the hypothesis that, controlling for the characteristics of the transactions that determine the choice of one form of governance or another, no differences in profitability are expected among firms of different ownership structure.

percentages of ownership and management control will likely not differentiate the various family effects, and thus will not accurately predict or explain differences in firm performance. These methodological problems suggest that researchers need to unravel the impact of the various factors affecting firm performance, including the family itself, such as: industry, governance, firm characteristics and management. A family may influence firm governance, its basic characteristics, the quality of its management, and possibly even an industry (Dyer, 2003; Morck & Jeung, 2003, 2004). Dyer (2006) suggests that it is also possible that a family may have a direct effect on a firm's performance that is not mediated through the other four variables.

In order to increase the predictive power of the analysis there have been a few attempts to create typologies of family firms, such as the well-known development model of family firms of Gersick et al (1997), who consider a family firm as a system of overlapping circles labelled "family", "business", and "ownership"; although the three circles provide a good foundation for examining family business, most of the problems and challenges of a family firm occur over the course of time. One reasonable starting point in the analysis of heterogeneous behaviour within family firms is to compare the behaviour of family firms in the first, second and multiple generations

Surprisingly, only very limited research has been conducted in this area. Among the noteworthy exceptions are the works of Ward (1991), Gersick et al. (1997), Lansberg (1999), Van den Berghe & Carchon (2002), Dyer (2006), and Rutherford et al. (2006). There is very little empirical research on the differences in governance structures among family firms themselves. Additionally, scientific uncertainty remains within the heterogeneous group of family firms, with regard to how they behave.

Van den Berghe & Carchon (2002), collecting data from a Belgian population of companies submitting their annual accounts, in 1997, to the National Bank of Belgium, attempt to identify differences in corporate governance practices between family and non-family firms, and investigate to what extent differences can be found within the group of family firms based on family ownership and family generation³⁴. Although their study contributes to the corporate governance literature, to improve the understanding of family firm governance it is necessary to understand how the idiosyncratic characteristics of this type of firm's corporate governance affects its competitiveness, and for that it is necessary to answer the following question: to what

extent is competitive position affected by each generation?

The Catedra of family firms of Palmas de Gran Canarias (Spain), in collaboration with The Institute of Spanish Family Firms (IEF) and Price-WaterHouse-Coopers, carried out a study of a collective of 112 family firms belonging to 14 Spanish Territorial Associations of family firms. This work concerned differences in corporate governance mechanisms (family board and board of directors), in 2000, between family firms of first, second and later generations. As in the previous work, this paper does not analyze the differences in business development and competitive position with regard to the generation that owns and runs the business.

Rutherford et al. (2006) provide an initial empirical examination of the Gersick et al (1997) developmental model of family business, through an analysis of the relationship existing between family development (first, second and further generations) and ownership (controlling owner, sibling partnership and cousin consortium) variables, and the variable of business development (measured by size and growth of the firm). They find a positive relationship between the generation and the business development but no relationship between the ownership dimension and the business development. The authors also identify additional key groups of variables (owner, firm, and family characteristics) that help to explain family business development. Although the authors point out that the primary strength of this research is that it provides additional insights into the developmental model of family firms, they recognize that the cross-sectional nature of the data is problematic when discussing developmental models, a result of a weakness of the survey: the historical growth rates were collected for only one year prior to the study

This paper provides some answers to the questions raised by Van den Berghe & Carchon (2002), Dyer (2006) and Rutherford et al. (2006), and overcomes some of their limitations. First, this paper helps to theorize the link between family generation and the characteristics, behaviour, management and governance of the firm. Second, the paper answers the question: to what extent is competitive position affected by each generation? Third, the paper overcomes the limitation of the cross-sectional data, since the investigation is applied to data from Spanish firms during the period 1994 to 2005, which is much more appropriate when discussing developmental models.

Our paper contributes to both Family Business and Corporate Governance Literature; the first by providing an empirical test of the developmental model of family business (DMFB, developed by Gersick et al. (1997), since the main objective of the paper is to check how the family and its business develop to a higher level of complexity as ownership and the running of the business are passed on to future generations, and the second by analysing the need for adequate governance practices when a family and its

³⁴ Attending to the generation of the family that is involved in the firm, they analyze whether there are differences in the family ownership policy, the family member independence ratio of the board of directors, the frequency of meetings of the board, and the accumulation of the functions of president of the board and representatives of the board of directors.

business develop to a higher level of complexity.

The paper is structured as follows. In section two, we focus on a theoretical discussion of the problems related to the growth of the family and the company over time, and of how the consequences of growth are successfully managed through the implementation of adequate governance practices. The third section presents the results of our empirical analysis of the sample of Spanish firms. The conclusions summarize the main results of the paper.

2. Theoretical framework

One of the main sources of problems for family firms is related to the growth of the family and the company over time. Gersick et al (1997) and Leon-Guerrero et al (1998) suggested that the nature of the family firm changes over time in response to the developmental dimensions of the family, the firm and the ownership, with varying impacts on the firm at different stages³⁵. The growth of the family signifies a larger number of family members belonging to different branches of the same family dynasty. One of the changes brought about by family growth is the dispersion of shareholders, resulting from the transfer of shares from parents to children. This brings about a fragmentation of shareholders' power, which requires heavy doses of negotiation and consensus. A particularly difficult transaction for a company, in these circumstances, is the change from the first generation stage of brothers' society [Levinson, 1971; Lansberg, 1988; Handler, 1990; Barach & Ganitsky, 1995; Cabrera Suarez et al, 2001]. Another point to take into account is that, as the family grows, not all shareholding family members will work in the company, and so active and non-active family shareholders must be differentiated, since their interests will not always coincide. While non-active family shareholders will be interested in obtaining returns on their investment in the company, the active family shareholders will also be interested in their careers in the company and their salaries [Gersick et al, 1997; Lansberg, 1999; Schulze et al, 2003]. Thus, a potentially difficult area for family firms is that interpersonal relationships are of the utmost importance, and family members involved in the running of the company cannot take business oriented decisions in isolation, without considering family matters. A lack of optimum interpersonal relations, or the existence of conflict between family members, will inevitably lead to these conflicts being transferred from the family to the company (and/or vice versa) [Hilburt-Davis & Dyer, 2003³⁶; Lee, 2006³⁷]. This

may put the long-term survival of the company at risk: some members of warring family factions may block investment projects for the simple reason that they have been proposed by another faction, without determining whether the projects are really appropriate from a business perspective [Dyer, 1986; Kaye, 1991; Lansberg, 1999; Ward, 1987].

It is also important to take into account that once the family has grown past the point where there is a clear identity among family members involved in management and family members who are owners, it is time to provide a clear and acceptable division between the Governing Body of the company and Family Deliberations. All members of the family with interests in the company should meet at regular intervals to discuss family and business matters (Neubauer and Lank, 1998; Sanchez-Crespo, 2003)³⁸.

A family forum means the generally accepted union between family and company, rather than simply a rapprochement between individuals belonging to the family. The forum provides a recognised means of communication between family and company. In these forums, non-active family members can ask questions about company policies and projects and express their points of view. Executive family members can explain policies and progress, and have the opportunity to gain the support of non-active family members for implemented policies and proposed changes. It is probable that the non-active family members, if they are well-informed and considerate, will support policies and changes proposed by executive family members, so long as they do not entail a break with the family's original company philosophy, culture and values. Among the specific mechanisms of governance of the business family, we can identify the Family Assembly and the Family Council.

The discussion suggests the following hypotheses :

H1: As the family grows over time, there will be a higher dispersion of shareholding, as a result of the transfer of shares from parents to children. Thus, first generation family firms will have a higher degree of concentration of family-held shares than second or later generation family firms.

H2: As the family grows over time, not all shareholding family members will work in the company, and so active and non-active family shareholders must be differentiated. Thus, first generation family firms will have a lower proportion of non-active family shareholders than second or later generation family firms.

H3: In order to successfully manage the consequences of complexity and growth of the family,

³⁵ Kotey (2005) examines differences in business goals, management practices, and performance between small family and non-family firms and changes in these differences as the firms grow.

³⁶ Hilburt-Davis & Dyer (2003) point out that family members may have competing goals and values, which may spring from complex conflicts and family dynamics that arise from a family's psychosocial history.

³⁷ For further information about the literature that researches the impact of family relationships see Lee, J. (2006).

³⁸ For more information about mechanisms of Governance in Spanish family firms, see the document published in 2002 by the Institute of Spanish Family Firms, Price-WaterHouse-Coopers and the Network of Spanish Cátedras of Family Firms.

second and later generation family firms will provide a more clear culture of transparency than first generation family firms, through the implementation of the Family Assembly and the Family Council.

According to company growth, although the growth goal may not feature strongly for family firms, some level of growth is required if the aim of the firm is to remain competitive and to assure its long-term survival, maintaining ownership and control of the firm within the family (Pollak, 1985; Casson, 1999; Chami, 1999). Family firms, as any firm, face a dynamic, global and highly competitive market, which increasingly demands the incorporation of new products, new technologies, new organizational methods and new methods for competing in the market; further, in family firms, growth goals (in terms of internationalization, commercialization, and innovation), are likely to be pushed by second or later generation proprietors as they bring new perspectives to the firm (See Fernández-Nieto, 2005, and Gallo & Pont, 1996). Although life-cycle literature suggests that second and later generation family firms are likely to be more mature, and to be growing more slowly than founder-led firms, it should not be forgotten that there is a need of family owners of second or later generations to adopt new perspectives and new corporate strategies for growth, in order to guarantee the survival of the firm, to remain competitive, and to accommodate the needs of the extended family as other family units join the firm (Poza, 1988).

As the firm grows in complexity over time, and is faced with the need to invest in growth strategies requiring a high level of investment, and thus a higher amount of funds than may be available within the family and the firm, it could be necessary to incorporate external partners in order to obtain additional funds without losing control of the firm.

Based upon this discussion, we present the following hypotheses:

H4: Founder-led firms are likely to be in the founding and growth stages of their life-cycle and firms in the second and later generations are likely to be bigger, older and more mature.

H5: In order to guarantee the survival of the firm and remain competitive, second and later generation family firms will invest more in growth strategies and in key factors to gain a competitive advantage (such as internationalization, commercialization, innovation and quality) than first generation family firms.

H6: Taking into account the hypothesis 4 and 5, differences in growth rates between family firms of first, and second or later generations, are not expected.

H7: Second and later generation family firms will have more non-family shareholders than first-generation family firms, to finance growth strategies without losing the family control of the firm.

It is also important to take into account that the new demands of the dynamic, global and highly competitive market bring with them the need for new knowledge and skills. Gallo et al (2002) and King, Salomon & Fernald (2001), argue that, as the business

grows and becomes more complex, the demand for role specialization and the number of required managerial layers increases, as does the complexity of the managerial roles. However, skills and knowledge are not always available among family members. The quality and experience of the family managerial labor pool may not be able to fulfil the range of specialist managerial functions that a competitive, growing, and complex firm requires (Casson, 1982). Obstacles to firm development may be overcome by investing in training to develop the skills and competencies of family members. However, it may be preferable for owners of some family firms to recruit non-family professional managers and directors to secure firm development. Outside directors and managers, and sometimes non-family shareholders, can provide firms with expert advice, specialist skills, and resources that a family firm does not necessarily possess (Kesner & Dalton, 1994; Blondell, Carlock, & Heyden, 2000). This, in turn, means that as the business grows and becomes more complex, the future of the family firm depends on its ability both to recruit and promote its most capable family members, and to offer attractive options (the possibility of a professional career) in order to attract and retain the best professionals from outside the family. Selection of family members often proves to be more complicated than recruitment of external professionals, as a result of the institutional overlap between family and company. There are two appropriate policies for the incorporation of family members into the business: i) Selective Policy, whereby the company only recruits those family members it considers to have a potential for promotion at a later date, and ii) Open Door Policy, whereby the company opts to accept any family member who is prepared to work hard and accept that promotion is not guaranteed (Cadbury, 2002).

In addition to having, or obtaining, the managerial capacity and expertise, it is also important that firms utilize planning and control techniques that assist in monitoring and controlling performance as they grow. Leon-Guerrero (1998) and Reid and Adams (2001) argued that family firms are also pushed towards more formal practices as growth occurs. Growth requires formal management systems with clear definition of tasks, clear lines of responsibility and authority, and greater documentation of management decisions, procedures and achievements. Formal management systems provide greater transparency and ensure fairer treatment of employees. Tasks and responsibilities must be defined in order to establish objective bases for the evaluation of how they are carried out and remunerated. The Board of Administration provides the basis for the construction of a logical organisational structure, and defines clear lines of authority and responsibility. With growth, the need for more formal practices increases, since conflicts will occur between the requirements for effective management of growth and the preferred informal, personal and direct style of family owners (Mintzberg, 1994; Van Den Bergh & Carchon, 2002;

Cadbury, 2002).

The Board of Administration should determine the company's long-term aims and objectives and the means by which they can be achieved, leaving day-to-day decision-making to the Committee of directors. In certain cases, the Board provides the ideal way to attract independent, external members. The nomination of an external member to the board means sharing the responsibility of directing the company with somebody who is neither a family member nor an executive. This can be vital to non-active family members when they do not have sufficient information, [Ward, 1991; Hoy and Verser, 1994; Harris et al, 1994; Cadbury, 2002; Van Den Berghe & Carchon, 2002; Sirmon and Hitt, 2003].

In order for the Board to accomplish its mission satisfactorily, it would seem necessary, according to certain codes of good government (Olivencia, 1998; Aldama, 2003; and Conthe, 2006, in Spain), that the roles of president of the board and that of chief executive officer, are separate. The main role of the President of the board is to hire, fire, evaluate and pay top management, thus making it extremely difficult to do so for him/her self. Concerning the size of the Board, the recommended number of members is between 5 and 9; fewer than five members limits creativity, while more than nine may lead to inefficiency.

The discussion suggests the following hypothesis:

H8: In order to successfully manage the consequences of complexity and growth of the firm, second and third generation family firms will be more professionalized, with a higher number of non-family directors, and will have a higher ability to recruit, promote and retain the best professionals, than first generation family firms.

H9: In order to successfully manage the consequences of complexity and growth of the firm, second and third generation family firms will provide a more efficient organizational structure than first generation family firms through the board.

3. Empirical study of the running of Spanish family businesses in Aragon

The sample was selected from a population of 85 companies included in the SABI-Database³⁹, who report their annual accounts in the Mercantile Register, according to the following criteria: i) the company should belong to the Autonomous Community of Aragón; ii) the number of employees of the firm should be at least 10, and the annual turnover of the firm should be at least 1,9 million of euros. The latter criterion, whose objective is to exclude the micro-firms from the sample, has also been used by Astrachan and Kolenko (1994).

³⁹ The Sabi-Database is edited by Bureau Van Dick, Informa S.A, and Coface. It includes financial and shareholder information about Spanish and Portuguese Firms.

Of the 85 companies with these characteristics, only 44 were family firms, these are: the family had enough percentage of shares to exercise effective control over the firm and one or more family members held posts of management in the firm.

Two types of information have been used in this research. Qualitative data (case-based data) from an extensive and complete questionnaire (related to ownership structure, size, growth strategies, management and governance practices in the firm over time) were completed with quantitative data collected from the balance sheet, income statements and annual reports of firms in the Spanish Mercantile Register.

Before the survey was distributed, it was reviewed by a focus group of family business owners, belonging to the Association of Family Firms in Aragon and to the Family Firm Institute, and a pilot study was conducted. A total of 22 companies meeting the criteria responded to the questionnaire, a response index of 50%. Those completing the questionnaires occupied a key position in the decision-making process of their companies - general director, president of the board, president of the board of administration, executive director - and had received some kind of training course related to the concerns of the family business. The firms in the sample can be classified in three main industrial sectors, based on ISIC codes (manufacturing, wholesale/retail and services). The period of study was from 1994 to 2005, therefore the number of observations considered is 264.

3.1 Family development and ownership structure

Table 1, presents the distribution of businesses in the sample (differentiating between the generations leading the company) in terms not only of the nature and type of shareholders who participate in the share capital, but also their degree of participation in the share capital, which allows us to analyse the composition of shareholders. With regard to the nature or identity of the main shareholders of the family business, the following groups were identified: family owners, family holding company, other private individuals, financial entities, national companies, foreign capital, and non-family employees. In relation to the generation that runs the business, first, second and third generation family firms were identified. The variable generation was measured by the number of generations between the current chief executive officer (CEO) and the founder of the firm.

The table shows that 27.3% of the total number of businesses in the sample are in the first generation businesses, 59.1% in the second generation and 13.6 % in the third generation. The data reveal that, on the one hand, in the majority of the businesses analysed (80%), independent of which generation runs the business, the family is the only shareholder in the company, with the proportion of companies having external, non-family member shareholders being small (only 18% of the businesses, on average). On the other hand, that a

greater complexity in the business does not give rise to the incorporation of external partners in the company's share capital. In fact, third generation companies have no external partners, with 100% of capital being in the hands of the family. Therefore, our results do not support hypothesis H7.

Another relevant question is whether these family businesses have undergone important changes in ownership structure during the past twelve years. The answer can be found by comparing ownership structures at the end of 2005 with those existing at the end of 1994, table 2. From this comparative analysis (table 1 versus table 2) it can be seen that, during the period 1994-2005, regarding the nature of the main shareholders participating in the share capital of the businesses in the sample, seventy-three percent maintained their ownership structure and their main shareholders. Although 18.1% of the remaining businesses maintained their principal shareholders, one family sold shares to a company holding (in one case it sold 100% of its shares) belonging to the family. The holding was created in order to ensure the efficient growth of the company, both from the point of view of optimum resource management and from a legal-tax perspective. Contrary to expectation, 95% of family firms increased or maintained exactly the same level of ownership over the last twelve years. Five percent of the firms underwent only a little dispersion of ownership with the arrival of new partners.

Additionally, it is also important to know what is the minimum number of family shareholders necessary to obtain complete control or a majority in the business. The greater this number is, the more difficult it will probably be to obtain a large enough majority to exercise effective control over the firm, and the greater will be the need for negotiation and consensus-seeking among family members. The relevant variable is the degree of concentration of family-held shares. This is measured, in the present study, by the percentage of shares in the hands of "n", main shareholders, where n varies from one to eight. This variable is represented as "A_n". Table 3 presents the degree of concentration of family-held shares (differentiating between first generation companies and second and third generation⁴⁰). The data reveal that the group of family businesses analysed, regardless of generation, possesses an elevated concentration of ownership. One, two or three shareholders are enough to exercise effective control in 82% of the businesses. The remaining 18% are also characterized by a high degree of concentration of family shareholders, with 5, 6 or 8 being sufficient to control. There is only one exception where the family has minority control.

In addition, table 3 also presents the total number

of shareholders in the business, allowing us to check for possible discrepancies. The table shows that the average total number of shareholders is less than or equal to five in approximately 82% of the businesses, including between 6 and 8 in 5% of the businesses, and higher than 26 in only three businesses. Thus, the data reveal a strong concentration of ownership, since the number of shareholders in most of the businesses in the sample is relatively small. There is a marked asymmetry in the distribution of share capital among shareholders, especially in those three businesses where the number of shareholders is greater than 26. Both facts suggest that the possibility of obstructing decision-making in the business, when there are differing opinions and conflicts of interest among shareholders, is minimal.

We can conclude that our results do not support hypothesis H1. Second and third generation family businesses do not have a higher level of dispersion of ownership than first generation family businesses. Both collectives of family firms have a high degree of concentration of family-held shares.

On the other hand, and with the aim of testing our hypotheses 2, and contributing information that will permit inferences to be made about the risks of conflicts of interest between different family parties, table 4 presents a ratio showing the existence of different groups: active family shareholders (88% of the total number of shareholders in first generation businesses and 65% of the total number of shareholders in second and third generation businesses), which supports our hypothesis 2 that, as the family grows over time, a lower proportion of family shareholders will work in the company, and so active and non-active family shareholders must be differentiated.

Finally, and as a consequence of the last result, to manage the consequences of complexity and growth of the firm successfully, second and third generation family firms should provide a more clear culture of transparency than first generation family firms, through the implementation of Family Assembly and Family Council. Table 5 presents an analysis of governing mechanisms specific to the families of the sample businesses. Very few businesses in the sample make use of the Family Assembly as a vehicle for family deliberation about possible tensions, between different groups (active and non-active shareholders), that may put the survival of the business at risk. Concerning the Family Board, table 5 shows again that only a third of first generation companies have one, and that this percentage is even lower in second and third generation businesses (18.7%).

We can conclude that the data do not support our hypothesis H3; a possible explanation for this result could be that family firms do not have an important need for these mechanisms of family governance, due to the high degree of concentration of family shareholders, and to the small average total number of shareholders (see table 3). Both facts suggest that the possibility of obstructing decision-making in the

⁴⁰ From here on, the study will differentiate only two categories: first generation businesses, and second and third generation businesses, given that there are only 3 third generation companies and the transfer of leadership happened only recently so there is no great difference between the two groups

business, when there are different opinions and conflict of interests among shareholders, is minimal.

3.2 Business Development

This section focuses on the empirical study of the heterogeneous characteristics and behaviour within family firms, analyzing how the firm changes in characteristics and behaviour over time (so as to make investment decisions related to growth strategies, and, in response to other key factors, to gain a competitive advantage: internationalization, commercialization, innovation and quality), depending on the particular stage in the family generation evolution.

In order to test hypothesis 4, related to the life-cycle of firms, which predicts that “founder-led firms are likely to be in the founding and growth stages of their life-cycle and firms in second and later generations are likely to be bigger, older and more mature, and growing more slowly or even declining”, we present table 6. As dependent variables, we employ life-cycle variables, such as size, age, and growth. Size is measured in four dimensions: level of sales, assets, value-added, and the number of employees. Age is represented by the number of years the company has been in business. Growth is represented by the mean level of sales growth achieved during prior fiscal years. We use a historical measure of growth, rather than a perception of future growth, which provides the benefit of objectivity, as it is easier to measure past financial results than future projections of growth⁴¹. Furthermore, past growth has been shown to be highly correlated with future growth and perception of future growth (McMahon, 2001).

The general information about the data set is compiled in table 6. The data are collected from the balance sheet, income statement and annual reports that firms reported to the Mercantile Register for the period 1994-2005. The table also shows the results of the test of equal mean and equal median of the variable, for first and second-third generation firms, with time and industry variables of control. Our results support hypothesis H4, for all the size variables, in terms of sales, assets, employees and value-added. First generation family firms are significantly smaller than second and later generation family firms, and are younger than second and later generation family firms. The test of equal growth cannot be rejected (hypothesis 6). This result of equal sales growth rates between families of first, and second-third generations, could be explained by the need of family owners of second-third generations to seek new perspectives and corporate strategies, in order to guarantee the survival of the firm and to remain competitive, as well as to accommodate the needs of the extended family as other family units join the firm.

⁴¹ This measure has been used in previous family business studies (Rutherford et al, 2006; Rutherford et al, 2003; Schulze et al, 2001)

Another way to test whether first generation family firms grow at a higher or equal rate than second-third family firms (hypothesis 6), assuming that the size at the time they are created is similar, among firms of similar age, is by postulating a simple relation between size (Assets), age (T), and average growth rate (g),

$$Assets_T = Assets_0 (1 + g)^T \quad (1)$$

$Assets_T$ are the current total assets of the firm (in year 2005) and $Assets_0$ are the unknown assets when the firm was created in year 2005-T. Taking logs we have

$$\ln Assets_T = \ln Assets_0 + T \ln(1 + g)$$

Therefore from the empirical model,

$$\ln Assets_T = a + bT + c \text{FirstGeneration}T \quad (2)$$

We can test the hypothesis that first generation family firms have a higher or equal growth rate in invested assets than second-third family firms. In terms of the model in equation (2) this implies that,

$$(c+b) = \ln(1 + g_{\text{firstGeneration}}) = g_{FG} \geq b = \ln(1 + g_{\text{MultigenerationalGeneration}}) = g_{MG} \quad (3)$$

Table 7 presents the results of the test of the prediction of the life cycle literature that first generation family firms are smaller in size than multigenerational family firms. The first column shows that, controlling for industry effect, the coefficient of the dummy first generation family firm is negative and statistically significant, which implies that first generation family firms have a lower stock of assets than multigenerational family firms. The conclusion changes, as expected, when we control for age, column 2, taking into account that both types of family firms are of different age (see table 6). The last column of table 7 explains the differences in size as a result of differences in age. Finally, the estimated coefficient of the variable “FirstGenerationAge” is not statistically significant, which implies that first generation family firms grow at a rate equal to second-third family firms, again confirming our hypothesis H6.

In an attempt to test our hypothesis 5, that is to see whether differences in the type of family firm, depending on the generation running the business, cause differences in the key factors to gain competitive advantage (specifically, factors related to investment decisions, commercialization and internationalization, innovation and quality) in the last twelve years, we present tables 8, 9 and 10.

To analyse the possible differences: First, in commercialization, the variables used are the use of own brands, the percentage of own brand sales over total sales, and changes made in product/brand presentation. Second, in internationalization, the

variables used are the percentage of exports over total sales, the distribution of exports per country, the existence of affiliates and production plants abroad. Third, in innovation, the variables used are the percentage of sales of new products, the existence of R & D departments, the number of people working in R & D, and their level of education, the investment in R & D, and the number of patents per business. Finally, in quality, the variables used refer to whether the firm uses different models or certifications of quality, the percentage of total staff involved in quality teams or quality circles, and the percentage of returned products.

Concerning the key factors to competitive advantage in “Commercialization and Internationalization, table 8 reveals that: firstly, in terms of commercialization policy, one third of first generation family businesses, and 44% of second and third generation family businesses, provide their own brands, with the percentage of own brand sales over total sales being only 1% for the former and 30% for the latter. With regard to the variable, changes made in product/brand presentation, there are various differences depending on generation. The data show that about 60% of second and third generation businesses modify product/brand presentation, compared to 33.3% of first generation businesses. This implies that second and third generation businesses are more innovative and commercialize their own brands to a greater extent than first generation businesses.

Secondly, regarding internationalization actions, second and third generation businesses are also better prepared, in terms of resources and products, than first generation businesses to compete in more developed markets. The table shows that 33% of first generation businesses export products, with the average level of exports over total sales being 25%. Exports are mainly distributed in Europe, (75%), Asia and Oceania, (12.5%), Africa and South America (6.3% each). However, among second and third generation businesses, 62.5% export, and the level of exports over total sales is 27.3%. They export a larger proportion of their products to Europe, the USA and Canada than first generation family businesses and a smaller proportion to developing countries. Finally, only second and third generation family firms have affiliates and production plants abroad, 60% and 20%, respectively.

Concerning the key factor to competitive advantage in “Innovation” in the last twelve years, data in table 9 shows that only 33.3% of first generation family businesses innovate, with the level of sales of new products, (less than 5 years on the market), standing at 26%. The number of second and third generation firms who innovate is fifty% and the level of sales of new products stands at 42%. In addition, first generation businesses do not have R+D departments, and do not devote human or financial resources to these activities. In contrast, 50% of second and third generation businesses have a research and development department, with eight people

working full time, 3 of whom have higher education. Finally, second and third generation businesses designate 1.2% of sales to internal R+D costs and 0.8% to external R+D costs. Regarding patents, only 31.3% of second and third generation businesses have them, with the average number of patents per business being 10.8. In contrast, none of the first generation businesses have patents.

Finally, in terms of the key factors to competitive advantage in “Quality”, table 10 shows that, although there are no great differences in the number of businesses who have obtained ISO or similar certification, there are important differences in other variables relating to quality. Among first generation businesses, the level of total staff involved in quality teams or circles is 8.1%, compared to approximately 36% in second and third generation businesses. In addition, none of the first generation businesses use European or non-European quality models, and only 16.6% employ environmental protection policies. These levels are 25.0%, 13.0% and 75.0%, respectively, for second and third generation businesses. Finally, there are no differences in the quality of products among the two groups, the level of returned products is 0,5% in both.

It may be concluded that our results support our hypothesis H5, as time passes and businesses become more complex, they invest more in commercialization and internationalization strategies and in technical or intangible resources, with the aim of obtaining a competitive position in the market and guaranteeing their survival as a family firm, in an increasingly complex, competitive and globalized environment.

In order to manage the consequences of complexity and growth successfully, and guarantee survival, the family firm faces the need for adequate governance practices. In particular, the family firm has two organizational requisites: the ability to recruit, promote and retain the best professionals; and the implementation of a more efficient organisational structure.

3.2.1 Analysis of personnel selection, recruitment, payment and training

In relation to our H8, Table 11 also allows inferences to be made about recruitment policies in the company. It shows the following, by generation: i) the proportion of family directors out of the total number of directors contracted by the business. This reveals the degree of external professionalization in the business; ii) the proportion of family directors over the total number of family members active in the business. This indicates the existence of selection policies for family members, and enables us to see whether the recruitment policy applied is selective (only allowing qualified family members to become directors, thus avoiding possible problems caused by the heterogeneity of positions occupied by family members at different levels) or if, on the contrary, the business applies an open door recruitment policy which allows this sort of heterogeneity. iii) The number of family members

contracted, of the total number of active family members, who have technical or university level qualifications. This is an indication of the degree of professionalization among family members employed in the business. iv) The degree of job security among employees in the business, measured by the percentage of permanent contracts of the total number of employees at the end of 2005. Finally, v), it shows the proportion of expenditure devoted to training employees, which will provide information about employee policies.

The degree of external professionalization increases over time as the business becomes more complex. The percentage of family directors is 72.6 in first generation businesses compared to 50.7 in the second and third generation. The table also reveals that, as the business becomes more complex over time, training and competence requisites increase for family executives; in first generation businesses, 47.2% of active family members have technical and/or university qualifications, compared to 60.7% of active family members in second and third generation companies.

It is also interesting to note that second and third generation family businesses use a more selective recruitment policy for family members than do those of the first generation. The table shows that 92% of active family members hold key positions in the business, compared to 55.1% of family members in first generation businesses. Another interesting point revealed in the table is that, with the passing of time, the family business becomes more committed to ensuring job security for its employees: 80.1% of personnel in second and third generation family businesses have permanent contracts, and 64.4% of personnel in first generation businesses.

Finally, the table reveals a greater awareness of the need for training as the business grows in complexity over time. Second and third generation businesses devote 2% of their total personnel costs to training for employees, compared to 1% of first generation companies.

According to the selection and promotion policies for directors, table 12 shows that the main selection criteria is professionalization, regardless of family relationship, in approximately 80% of second and third generation family businesses and 67% of first generation businesses. On the other hand, and independently of the generation leading the company, around 70% of businesses in the sample apply only one promotion policy, and give equal opportunity to the consideration of proposals made by all executives, regardless of family relationship.

Secondly, with reference to the length of time the general director stays with the company, the time period is more than 15 years for 100% of the first generation businesses, and 60% of the second and third generation businesses. The lower percentage for second and third generation businesses can be explained by the fact that there are a group of businesses that have recently passed from second to

third generation. Moreover, and regardless of generation, the family plays an important part in decision making in 80% of the sample.

Finally, with regards to payment policies, 80% of first generation family businesses pay their executives a fixed salary and only 20% pay partly fixed and partly variable salaries, depending on profits. These percentages change radically in second and third generation businesses, where a fixed salary is applied in 50% of the companies, and a mixed salary in the remainder. The average level of variable salary, in businesses using this system, is 30% in first generation companies, and 24.3% in second and third. On the other hand, in 83.3 percent of first generation family firms, and in 75% of multigenerational family firms, there is more than one payment policy, dependent on kinship. Moreover, salary scales are fixed by the owners in 80% of the businesses, who are, in most cases, the directors of the business.

The data support our hypothesis H8: as the business gains in complexity, and the degree of external and family directors professionalization is increasing, family firms use a more selective recruitment policy for family members and invest more in training employees. However, with regard to payment policies, and independently of the generation, more than 70% of family firms apply two different payment policies, depending on kinship.

3.2.2 Analysis of the Formal Structure of the Organisation: The Board of Administration

Concerning the composition of the Board of Administration, table 13 shows that the average number of members belonging to the Board of Administration is 4.7 in first generation family businesses (89.4% family member), and 4.8 in second and third generation businesses (77.1% family members). This table also shows information about the generation to which the family board members belong. In first generation family businesses, 71.4% of family board members belong to the first generation and the remaining 28.6% are second generation family members. In second and third generation businesses, different generations are also represented: 13.5% of board members are first generation, 73% are second generation, and the remaining 13.5% are third generation.

The table 13 also shows the frequency per year of board meetings. Among first generation businesses, the board meets only once a year, or sporadically, in 50% of the companies; between one and eleven times in 33.3% of the companies, and more than eleven times in only 16.7% of the companies. In second and third generation businesses, the board meets sporadically in 40%, between two and eleven times in 33.3%, and more than eleven times in 26.7% of the companies.

In addition, the table shows the degree of independence of the Board through the representation of family shareholders, measured by the proportion of family shareholders on the board and the total number

of family shareholders. Data obtained from this table reveals that all the family shareholders in first generation businesses have a place on the board, compared to 77.5% of family shareholders in second and third generation businesses. The ratio of independence of the board, measured by the proportion of independent board members among the total number of board members, is zero in first generation family businesses, and 0.6% for second and third generation businesses. Only one firm has an independent board member, who is not linked to the management or shareholders of the business. The table also shows that, in 67% of first generation businesses and 53% of second and third generation businesses, the president of the board is also the managing director of the business, which may put the effectiveness of the board at risk when it comes to supervising management.

Regarding functions carried out by the Board of Administration, table 14 shows that, as the business gains in complexity, with transfers over generations, there is an increasing concern for Administration boards to be more formal and efficient in terms of management. Specifically, the data shows that, among second and third generation businesses, greater care is taken in the decision-making process; 86% of this group mark their boards as being responsible for the ratification and selection of strategies proposed by the management team and control of the results of these elected strategies, whereas the level of first generation businesses whose boards carry out these two functions is lower (16.7% and 33.3%, respectively). In addition, a greater concern can also be seen, in these more complex businesses, for the use of more formal organisational structures which help to prevent confusion and intrigue; 78.6% of second and third generation businesses mark the main task of the board as being the definition of lines of responsibility and authority. This level is 16.7% (only one business) among the group of first generation businesses.

It is interesting to note that in half of the boards of first generation businesses, and a third of the boards of second and third generation, tasks are confused and involve day-to-day operative policy. In addition, the boards of first generation businesses pay little or no attention to tasks involving the selection, supervision, evaluation and control of the management team.

Finally, with reference to payment policy, table 15 shows that in approximately 70% of first generation family businesses, members of the board receive no payment for being board members and, in the remaining 30%, they receive a fixed amount. On the contrary, in 77% of second and third generation family businesses, members of the board are paid for being board members, a fixed amount in 30% of the businesses, fixed plus expenses in 40%, and a variable amount in the remaining 30% of the businesses. The average levels of fixed payment, fixed plus expenses, and variable out of total payment are, 65%, 23% and 12%, respectively. These payments are fixed by the owners in all first generation businesses and in half of

the second and third generation businesses, with the board establishing payment in the other half of the businesses. In conclusion, the information obtained from this table reveals that, as the business gains in complexity, there is an increasing concern for director boards to be more efficient in terms of payment policy to their members.

Summarising the results obtained, we can confirm our hypothesis H9. We conclude that the data reveal that, as the business grows in complexity, there is an increasing concern for director boards to be more formal and efficient in management. The data show that, among second and third generation family businesses, greater care is taken in the decision-making process, there is greater concern for the use of more formal organisational structures which help to prevent confusion and intrigue, and greater care is taken concerning the composition, degree of independence and frequency of meetings of the board, along with a greater focus on efficiency in terms of payment policy to their members.

4. Conclusions

Our results confirm the greater degree of complexity of the family firm, as the ownership and the running of the business is passed to future generations. However, and contrary to all expectations, family firms in the sample have a high degree of concentration of ownership, regardless of the generation; one, two or three shareholders are enough to exercise at least a majority control in 82% of the businesses. On the other hand, and also contrary to expectations, our results reveal that a greater complexity in the business does not give rise to the incorporation of external partners in the company's share capital. In fact, third generation companies have no external partners, with 100% capital remaining in the family. The results reveal that the ownership structure remains stable and undergoes no important change over time, regardless of the generation. This result could be explain that very few businesses in the sample, independently of the generation running the business, make use of governing mechanisms specific to the families, as a vehicle for family deliberations concerning possible tensions between different groups.

Family firms, as any firm, face a dynamic, global and highly competitive market, which increasingly demands the incorporation of new products, new technologies, new organizational methods and new methods for competing in the market. With the aim of maintaining a competitive position in the market, guaranteeing survival as a family firm, and to accommodate the needs of the extended family as other family units join the firm, family firms in second or later generations are larger, invest more in commercialization and internationalization strategies and in technical or intangible resources. However, there are no differences in the level of sales growth and in the quality of products between generations; the level of returned products is 0.5% in both cases.

The results also confirm that, as the business gains in complexity, the degree of external and family directors' professionalization increases, family firms use a more selective recruitment policy for family members, and they invest more in training employees. However, with regard to payment policies, and independently of the generation, more than 70% of family firms apply two different payment policies, depending on kinship.

In addition to having managerial capacity and expertise, it is also important that firms utilize planning and control techniques that assist in monitoring and controlling performance, as they grow. Growth requires formal management systems with clear definition of jobs, clear lines of responsibility and authority, and greater documentation of management decisions. The results obtained reveal that, as the businesses grow in complexity, there is an increasing concern for director boards to be more formal and efficient in management. Data show that, among second and third generation family businesses, greater care is taken in the decision-making process, there is greater concern in using more formal organisational structures, helping to prevent confusion and intrigue, greater care is taken in the composition, degree of independence and frequency of meetings of the board, and there exists a greater concern to be more efficient in terms of payment policy to members of the board.

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Appendices

Table 1. Generational Distribution of Family Firms in terms of Identity and Participation of Principal Shareholders in Shares Capital of the Firm in 2005

NATURE OF SHAREHOLDERS	Total Number of Firms	X_{FA} % Participation of Family in Shares Capital	X_H % Participation of Family Holding in Shares Capital	X_{EN} % Participation of other National Companies in Shares Capital	X_{EXT} % Participation of Foreign Capital in Shares Capital	X_{EMP} % Participation of the Employees in Shares Capital	X_{FIL} % Participation of Affiliates Companies in Shares Capital	X_{PART} % Participation Of Private Individuals in Shares Capital
<i>FIRST GENERATION</i>								
Only Family Shareholders (FA)	5	$X_{FA} = 100$	-	-	-	-	-	-
Family, Family Holding and Employees	1	$25 \leq X_{FA} < 50$	$25 \leq X_H < 50$	-	-	$25 \leq X_{EMP} < 50$	-	-
<i>SECOND GENERATION</i>								
Only Family Shareholders (FA)	9	$X_{FA} = 100$	-	-	-	-	-	-
Family Holding (H)	1	-	$X_H = 100$	-	-	-	-	-
Family and Private Individuals (FA, PART)	1	$25 \leq X_{FA} < 50$						$X_{PART} < 5^*$
Family Holding and Other National Firm (FA, EN)	1		$X_H = 50$	$X_{EN} = 50$				
Family, Family Holding, Foreign Capital, Employees, Affiliates' Companies (FA, H, EXT, EMP, FIL)	1	$25 \leq X_{FA} < 50$	$25 \leq X_H < 50$		$25 \leq X_{EXT} < 50$	$X_{EMP} < 5$	$X_{FIL} < 5$	
<i>THIRD GENERATION</i>								
Only Family Shareholders (FA)	2	$X_{FA} = 100$	-	-	-	-	-	-
Family (FA) y Family Holding (H)	1	$X_{FA} > 50$	$5 \leq X_H < 25$	-	-	-	-	-
<i>T. Firms with no External Shareholders</i>	18 (81,8%)							
<i>T. Firms with External Shareholders</i>	4 (18,2%)							

Own Elaboration; Note: $X_{PART_i} < 5^*$, where $i = 1 \dots 91$

Table 2. Ownership Structure of Family Firms According to Identity and Participation in share capital of Principal Shareholders in 1994

NATURE OF THE SHAREHOLDERS	Total Number of Firms	X_{FA} % Participation of the Family in Shares Capital	X_H % Participation of the Family Holding in Shares Capital	X_{EN} % Participation of Other National Firms in Shares Capital	X_{EF} % Participation of Financial Entity in Shares Capital	X_{EMP} % Participation of Employees in Shares Capital	X_{FIL} % Participation of Affiliates Companies in Shares Capital	X_{PART} % Participation of Private Individuals in Shares Capital
Only Family Shareholders (FA)	16	$X_{FA} = 100$	-	-	-	-	-	-
Family (FA) and Non-Family Executive Employees (EMP)	1	$X_{FA} > 50$	-	-	-	$25 \leq X_{EMP} < 50$	-	-
Family (FA) and Non-Family Executive Employees	1	$X_{FA} > 50$	-	-	-	$X_{EMP} < 5$	-	-
Family and Private Individuals (FA, PART)	1	$5 \leq X_{FA} < 25$	-	-	-	-	-	$X_{PART} < 5^*$
Family Holding and Other National Firms (FA, EN)	1	$X_{FA} = 50$	-	$X_{EN} = 50$	-	-	-	-
Family Holding, Employees and Affiliates Companies (FA, H, EMP, FIL)	1	$25 \leq X_{FA} < 50$	$25 \leq X_H < 50$	-	-	$X_{EMP} < 5$	$X_{FIL} < 5$	-
Family, (FA) and Financial Entity	1	$5 \leq X_{FA} < 25$	-	-	$X_{EF} > 50$	-	-	-

Note: $X_{PART} < 5^*$, where $i = 1 \dots 91$

Own Elaboration

Table 3. Generational Distribution of the Firms in terms of degree of Concentration of the Shares in the hands of Family Shareholders in 2005

	FIRST GENERATION			SECOND AND THIRD GENERATION			TOTAL		
	Number of Firms	%	Number of Shareholder On Average	Number of Firms	%	Number of Shareholder On Average	Number of Firms	%	Number of Shareholder On Average
A1 Only one Shareholder Exercising Majority Control	2	33,3	4	4	25,0	3	6	27,4	3
A2 Two Shareholders Exercising Majority Control	3	50,0	3,7	7	43,8	3,7	10	45,5	4
A3 Three Shareholders Exercising Majority Control	-	-	-	2	12,5	4	2	9,1	4
A5 Five Shareholders Exercising Majority Control	-	-	-	1	6,3	48	1	4,5	48
A6 Six Shareholders Exercising Majority Control	-	-	-	1	6,3	27	1	4,5	27
A6 Six Shareholders Exercising Effective Control (with a percentage of capital of less than 50%)	-	-	-	1	6,3	100	1	4,5	100
A8 Eight Shareholders Exercising Majority control	1	16,7	8	-	-	-	1	4,5	8

Table 4. Differences in the percentage of Active Family Shareholders between Generations

	FIRST GENERATION	SECOND & THIRD GENERATION
$\frac{\text{Active Family Shareholders}}{\text{Total Family Shareholders}}$ (in percentage)	88,1	65,1

Own Elaboration

Table 5. Mechanisms of Governance of the Business Family (2005)

FAMILY ASSEMBLY & FAMILY BOARD	1 ^a GENERATION		2 ^a & 3 ^a GENERATIONS	
	N	%	N	%
Firms with Family Assembly	1	16,6	4	26,6
Firms with Family Board	2	33,3	3	18,8

Table 6. Means, medians and statistics from tests of differences in means and medians for size, age and growth variables between first generation and multigeneration family firms (1994-2005)

	First Generation Family Firms		Second-Third Generation Family Firms		t-student differ (means)©	Kruskal Walis Test Chi-Square differ (medians)
	Mean	Median	Mean	Median		
Sales♣	4.594	3.755	42.308	12.702	-4.3***	50.9***
Assets♣	4.709	3.890	57.718	13.389	-3.7***	29.7***
Value Added ♣	1.601	1.182	15.451	3.579	-4.0***	47.0***
Employees	41	20	213	73	-4.3***	44.6***
Age of the Firm	21	21	36	32	-7.5***	33.3***
[Sales's GrowthT-Sales's Growth(T-1)]/Sales's Growth (T-1)	0,03	-0,08	0,03	-0,07	0,3	0,2
Number of Observations	264		264			

Note:

The number of firm-year observations totals 264 for the period 1994-2005. Data collected from the balance sheet, income statement and annual reports that firms have to report to Spanish Mercantile Register.

©Control variables of time and industry dummies in all regressions although the coefficients are not reported.

♣ Millions of Euros

*** $p \leq 1\%$; ** $p \leq 5\%$; * $p \leq 10\%$

Table 7. Growth and size of first and second or more generation family firms (1994-2005)

The table presents the results from tests for differences in size and growth between first and second or more generations family firms. The dependent variable is Log Assets in year 2005. Model 1 tests for differences in size. Model 2 tests differences in size controlling for age. Model 3 tests for differences in growth rate. In all models, control variables of industry. T-student in parenthesis.

	Model 1	Model 2	Model 3
<i>Constant</i>	16.79*** (29.8)	15.4*** (16.7)	16.2*** (17.7)
<i>First Generation</i>	-1.59*** (-2.2)	-0.98 (-1.3)	
<i>Age</i>	-	0.03** (1.9)	0.04*** (2.3)
<i>FG*Age</i>	-	-	-0.03** (-1.0)
<i>Observations</i>	22	22	22
$\overline{R^2}$	0.12	0.22	0.20
<i>F</i>	2.2**	2.7***	2.9***

Own Elaboration

*** $p \leq 1\%$; ** $p \leq 5\%$; * $p \leq 10\%$

Table 8. Commercialization and Internationalization

KEY FACTORS TO COMPETITIVE ADVANTAGE	1 ^a GENERATION		2 ^a & 3 ^a GENERATION	
	N	%	N	%
COMMERCIALIZATION				
Promotion of Own Brands	2	33,3	7	43,8
Percentage of Sales Destined to Promotion of Own Brands		1,0		30,0
Have changed Presentation of Products/Brands in last Three Years	2	33,3	10	62,5
INTERNATIONALIZATION				
Export	2	33,3	10	62,5
Percentage of Exports over Sales:		25,0		27,3
Distribution of Exports by Country				
Europe		75,0		83,6
United States and Canada		0		2,0
Latin-American		6,3		3,4
Asia y Oceania		12,5		6,4
Africa		6,3		4,6
Firms has Commercial Affiliates Abroad	0	-	6	60,0
Business has Production Plants Abroad	0	-	2	20,0

Own Elaboration

Table 9. Innovation

KEY FACTORS TO COMPETITIVE ADVANTAGE	1ª GENERATION		2ª & 3ª GENERATION	
	N	%	N	%
INNOVACIÓN				
Firms having New Products (less than 5 years)	2	33,3	8	50,0
Percentage of Sales of New Products (less than 5 years)		26,0		41,9
Use Patents in the Sector	0	-	5	31,3
Have R+D Department	0	-	8	50,0
Number of Patents	0		10,8	
Number of Persons dedicated full time to R+D	0		8,1	
Graduates dedicated full time to R+D	0		2,5	
Persons with Vocational Training dedicated full time to R+D	0		0,8	
$\frac{\text{Total Internal Expenses I + D}}{\text{Total Sales}}$ (in percentage)	0		1,2	
$\frac{\text{Total External Expenses I + D}}{\text{Total Sales}}$ (in percentage)	0		0,9	

Table 10. Quality

KEY FACTORS TO COMPETITIVE ADVANTAGE	1ª GENERATION		2ª & 3ª GENERATIONS	
	N	%	N	%
QUALITY				
Has ISO or other quality certification	4	66,7	13	81,3
Percentage of staff participating in Quality Teams		8,1		35,58
Uses European quality model as reference	0	-	4	25,0
Uses other quality management models	0	-	2	13,0
Applies environmental protection policy	1	16,7	12	75,0
Percentage of Products returned		0,44		0,5

Table 11. Family Recruitment Policies and Job Security

RECRUITMENT POLICY	FIRST GENERATION	SECOND & THIRD GENERATION
$\frac{\text{Active Family Shareholders}}{\text{Total Family Shareholders}}$ (in percentage)	88,1	65,1
$\frac{\text{Family Executives}}{\text{Total Executives}}$ (in percentage)	72,6	50,7
$\frac{\text{Family Executives}}{\text{Total Active Family Shareholders}}$ (in percentage)	55,1	91,8
$\frac{\text{Active Family with Technical or Higher Education}}{\text{Total Active Family}}$ (%)	47,2	60,7
$\frac{\text{Permanent Employees at the End of 2004}}{\text{Total Employees at the End of 2004}}$ (in percentage)	64,4	80,1
$\frac{\text{Training Employees Expenses}}{\text{Total Personnel Expenses}}$ (in percentage)	1,1	2,1

Own Elaboration

Table 12. Recruitment, Promotion, Payment and Permanence Policies for Directors

RECRUITMENT, PROMOTION AND PAYMENT POLICIES FOR DIRECTORS AND PERMANENCE OF DIRECTORS	FIRST GENERACIÓN		SECOND & THIRD GENERACION	
	N	%	N	%
RECRUITMENT AND WORKING CRITERIA				
Main Selection Criteria is Professional Capacity. Family Relation is not taken into account.	4	66,7	11	78,6
There is only One Promotion Policy. Family Relation is not taken into account.	4	66,7	10	71,4
The same weight of consideration is given to Proposals from both Family and Non-family Directors.	4	66,7	10	71,4
PERMANENCE OF GENERAL DIRECTOR				
Six to ten years	0	-	3	18,7
Eleven to fifteen years	0	-	3	18,8
More than fifteen years	4	100	10	62,5
TOP MANAGEMENT PAYMENT POLICY				
Receives Fix Salary	4	80,0	8	53,0
Receives Fix Salary + Variable Salary	1	20,0	7	47,0
$\frac{\text{Sum of the Percentage of Variable Salary}}{\text{Number of Firms with Variable Salary}}$		30,0		24,3
Identical payment, regardless of kinship	1	16,7	4	25,0
Pay scales fixed by owners	5	83,3	12	75,0
Pay scales fixed by Board	1	16,7	4	25,0

Own Elaboration

Table 13. Composition of the Board

COMPOSITION	1ª GENERATION		2ª & 3ª GENERATIONS	
	Mean	%	Mean	%
Size and Members of Board of Administration				
Total Members belonging to board	4,7	100	4,8	100
Total Family Members on Board	4,2	89,4	3,7	77,1
First Generation Family Members	3	71,4	0,5	14,2
Second Generation Family Members	1,2	28,6	2,7	73
Third Generation Family Members	0	-	0,5	13,5
Total NonFamily Members on Board	0,5	10,6	1,1	22,9
DEGREE OF INDEPENDENCE OF BOARD (in percentage)	Mean	Median	Mean	Median
Independent Members/Total Members	0	-	0,6	0
CEO is President of Board	66,7	100	53,0	100
$\frac{\text{FamilyShareholders on Board}}{\text{Total FamilyShareholders}}$	100	100	77,5	100

Own Elaboration

Table 14. Tasks of the Board of Administration and Annual Frequency of Meetings

TASKS CARRIED OUT BY THE BOARD OF ADMINISTRATION	1ª GENERATION		2ª & 3ª GENERATION	
	N	%	N	%
Definition of lines of responsibility and authority	1	16,7	11	78,6
Selection, Supervision, Evaluation and Control of managers	1	16,7	7	50
Play an important role in operative policy	3	50	4	33,3
Identify principal risks facing the company	1	16,7	7	50
Ratify and select strategies proposed by management	1	16,7	12	85,7
Control Results of selected strategies and their implementation by the management team	2	33,3	12	85,7
Determine Information and communication policies with all interested parties, "Stakeholders"	1	16,7	2	14,3
Responsible for electing President of the Board	3	50	13	92,9
Ensure Succession in top management	3	50	7	50
FREQUENCY OF BOARD MEETINGS				
Once a year	1	16,7	0	-
Sporadic and unplanned.	2	33,3	6	40
Between 2 and 11 times a year	2	33,3	5	33,3
More than 11 times a year	1	16,7	4	26,7

Own Elaboration

Table 15. Payment Policy to the Members of the Board

PAYMENT POLICY	1ª GENERACIÓN		2ª & 3ª GENERACION	
	N	%	N	%
Payment received	2	33,3	13	76,9
Fix Payment	2	100	4	30,0
Fix Payment + Expenses	-	-	5	40,0
Variable Payment depending on Results	-	-	4	30,0
$\frac{\text{Fix Payment}}{\text{Total Payment}}$ (in percentage)		100		65,0
$\frac{\text{Variable Payment}}{\text{Total Payment}}$ (in percentage)				
$\frac{\text{Expenses Payment}}{\text{Total Payment}}$ (in percentage)				

Own Elaboration