

**FAMILY-MEMBER AND NON-FAMILY-MEMBER MANAGERS IN
FAMILY FIRMS: ADDING A SEVENTH COUNTRY TO THE INTERNATIONAL
DATABASE - KOSOVO**

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ABSTRACT

Extending earlier analyses of the authors in other countries with regard to the inclusion of family-member managers and non-family-member managers in family businesses, and the relationship of this variable to certain management activities, styles and characteristics, this current study analyzes data from Kosovo. Results of statistical testing indicate almost no changes in management attributes as the proportion of non-family-member managers increases in family firms. Implications for practitioners, consultants, and researchers are presented.

Keywords: family business, family firm, family business management

INTRODUCTION

The purpose of this study was to investigate family businesses with regard to the degree to which such firms employ non-family members as managers. How does the ratio of non-family-member managers to family-member managers in a family firm relate to various managerial activities, styles

and practices of that firm? Recent studies by the authors in other countries were replicated in Kosovo, so as to expand the total data base and to strengthen the total set of findings.

Prior research into the issue of family-member managers (FM's) versus non-family-member managers (NFM's) in

family businesses has been limited. Chua, Chrisman and Sharma, with very strong empirical experience in the field of family business, concluded that “issues related to non-family managers [in family firms] have received very little attention by researchers” and “there is definitely a gap in our understanding of the role played by non-family managers in the family business” (2003, pp. 102, 103). Chrisman, Chua, and Sharma (2005) stated that many questions remain unanswered and much interesting research remains to be done to determine how family involvement affects firm performance. Ensley and Pearson (2005) concluded that family business research needs to identify the nature of family involvement in top management teams, in response to which Nordqvist (2005) agreed that this is a breach in the literature that has not received much attention. Chrisman, Chua, and Steier also agreed with the need to better understand top management teams in family businesses as “this is a topic of great importance since the decisions of top managers may determine the extent to which a family business obtains distinctive familiness and superior economic performance (2005, p. 241).

There is also a growing interest in investigating management characteristics and activities in different countries. Oviatt and McDougall (2005) called analyzing entrepreneurial behavior in various countries rich in opportunities and having possibilities to

move such research from its infancy into high growth.

This current study is therefore important in that it brings new empirical research to these issues of FMs and NFM's in family business management, and that it does so in a country not previously studied with regard to this issue. Furthermore, the results of this research are not only of value to researchers, but should also be of value to consultants to family businesses and to family business owner/managers themselves, both of whom may gain insight into the possible impact of having non-family managers in family businesses.

LITERATURE REVIEW

Although most definitions of a “family business” include the criterion of the prevalence of family members in the management team, an extensive review of the family business literature has found few academic papers or journal articles that investigated the impact of NFM's on the management activities, styles and practices of family firms. The papers and articles that did touch on this topic usually did so in a tangential manner and/or in a conceptual or anecdotal method, rather than via empirical investigation. Somewhat more frequently found, but still few in number, were papers and articles that compared family businesses and non-family businesses, an issue quite different in nature. Still another related but, again, a different issue is the use of non-family-members on the corporate or advisory *boards* (but not in the

management) of family firms, a topic occasionally investigated and the (largely anecdotal and conceptual) focus of an entire issue in the first year of publication of the *Family Business Review* (1988 v.1 n.3).

Still, some prior studies did indeed investigate FM's and NFM's in family firms. Several analyses have focused on the issue of how a family firm CEO should adapt to working with non-family managers, and the difficulty of delegating managerial responsibilities to non-family-members (Firnsthahl, 1986; Goffe & Scasse, 1985; Hofer & Charan, 1984; Mathews, 1984; Perrigo, 1975). The reverse issue - how to facilitate the adaptation by the non-family-manager to the family firm's culture and goals - was considered by Dyer (1989) and by Mitchell, Morse and Sharma (2003), who pointed out that NFM's must adapt to the family firm and need assistance in doing so.

Other investigations regarding FM's and NFM's focused on compensation for NFM's (McConaughy, 2000; Poza, Alfred & Maheshawi, 1997), and on retention of NFM's (Ward, 1997). And Gallo and Vilaseca (1996) and Dorgan, Dowdy and Rippin (2006) looked at the possible performance benefits of family firms with NFM's versus those without.

A study by Chua, Chrisman and Sharma (2003) emphasized the relevance of Agency Theory in explaining and understanding the relationship between

FM's and NFM's in family firms. They empirically investigated the percentage of NFM's in the management team of a family firm and its relationship to the FM's concerns about their relationships with NFM's. Among their conclusions was that past assumptions of zero or low agency costs in family firms require further thinking, as these costs are more complex and asymmetric than previously supposed.

Yet another group of (largely anecdotal and conceptual) studies relate the advantages and disadvantages of family-members versus nonfamily-members as managers of family firms. Some studies see positive benefits of FM's, such as extraordinary commitment (Donnelly, 1964; Horton, 1986), more warm, friendly and intimate relationships within the management team (Horton, 1986; Staff, 1981), the potential for deep firm-specific tacit knowledge, often based on early involvement in the firm (Lane & Lubatkin, 1998), governance advantages (Carney, 2005), and the creation of a synergy in the top management team due to higher cohesion, potency, and positive task conflict (Ensley & Pearson, 2005). Marcus and Hall (1992) see a preponderance of FM's as benefiting the firm's service providers, and Goody (1996) concludes that such preponderance facilitates firm growth as members of succeeding family generations are available to open new branches of the company.

However, some other studies see a downside to a firm's managers being members of the same family. Limiting management positions primarily to family members may lead to hiring sub-optimal people who cannot be easily dismissed (Dunn, 1995; Whyte, 1996), and can lead to greater conflict because of non-merit-based promotion criteria (Leyton, 1970; Wong, 1988). Also, qualified nonfamily managers may avoid family firms where their potential for growth, promotion and remuneration is hampered (Covin, 1994a; Covin, 1994b; Donnelly, 1964; Fiegner et. al., 1996; Horton; 1986; Stewart, 2003). And Dhaliwal (1998) and Song (1999) note that in many cultures, kinship criteria in choosing managers reduce the managerial opportunities and role for female members of the family.

Another group of studies investigate the negative impact of NFM's in family firms. Several researchers conclude that the presence of NFM's can result in "creative destruction" when NFM's create too much firm growth and thus weaken family managerial and/or financial control (Morck & Yeung, 2003; Morck, Strangeland & Yeung, 2000; Olson, 1963, 1982, 2000). The fear of such "creative destruction" may in turn lead to FM's blocking or discouraging NFM's' creativity and innovation and thus stifle desirable company growth. Other studies have found that a mixture of FM's and NFM's in the same firm may lead to greater conflict within the managerial team (Schultz et. al., 2001, 2003).

Therefore, because there are both positive and negative conclusions about the inclusion of NFM's in family firms, several writers focus on the need to socialize new NFM's, clearly communicate to them existing family values and objectives, and tie the interests of the NFM's to the firm, for example via stock ownership and board membership (Astrachan & Kolenko, 1994; Berenbeim, 1990; Dyer, 1989; Gubitta and Gianecchino, 2002; Sirmon & Hitt, 2003).

Finally, some family business researchers have focused on developmental issues or the stages of evolution of family business growth. Gersick et. al. (1997) presents a four-stage model of family firm development, and Peiser and Wooten (1983) focus on the life-cycle changes in family businesses. As family firms grow, these writers see a likelihood of bringing greater numbers of nonfamily managers into the company. Thus, the body of literature specifically relating to FM's and NFM's in family firms provides limited empirical evidence and little consensus or clear conclusions.

HYPOTHESES

As explained above, the objective of this study was to investigate family businesses with regard to the degree to which such firms employ non-family-members as managers. How does the ratio of non-family-member managers to family-member managers in a family firm relate to the managerial activities, styles and practices of that firm? The hypotheses used for this current study

are based on the hypotheses used in previous studies by Sonfield and Lussier (2004, 2005a, 2005b) of family firm management activities, styles and practices, which in turn derived from findings and propositions developed by earlier researchers who investigated family firms. Due to the limited prior empirical research with this specific FM vs. NFM focus, and the exploratory nature of this current research project, a large number of hypotheses involving a wide variety of family business issues have been chosen for testing, rather than focusing on a few specific managerial issues. Thus the significance of the various hypothesis test results may indicate that some factors are more worthy of further research and analysis than are others.

The prior research from which these hypotheses are derived generally did not specifically focus on FM's versus NFMs. Rather, these *various* research studies dealt with other aspects of family firm *growth* – measured in particular by *generations*, and also by *age*, *size*, or *stages*. Because family firm growth may sometimes be accompanied by a rising proportion of NFMs, these studies were used to identify family business variables worthy of investigation in this current study but not to generate specific hypotheses of relationships between the proportion of NFMs and management attributes. For this reason, and because there are minimal and mixed prior findings with regard to FM's and NFM's in family firms, *the null hypothesis is*

used throughout. The following paragraphs briefly provide the basis for each hypothesis.

Nelton (1998) investigated gender issues in family firms and concluded that daughters and wives are rising to leadership positions in family firms more frequently than in the past, and that the occurrence of daughters taking over businesses in traditionally male-dominated industries is increasing rapidly. Focusing on societal trends rather than family firm generational issues, Cole (1997) found the number of women in family businesses increasing. More generally, U.S. Census Bureau data showed women-owned firms growing more rapidly than those owned by men (Office of Advocacy, 2001). While this is an important variable for family businesses, no prior studies have linked this issue to the variable of FMs versus NFMs. Thus:

H1. The percentage of non-family-member managers in a family firm will not have a significant relationship to the percentage of women family members involved in the operations of the firm.

The distribution of decision-making authority in the firm is another aspect of family business behavior. Dyer (1988) found decision-making to be more centralized in first-generation family firms than in subsequent-generation family firms. Aronoff (1998) developed this suggestion further and postulated that subsequent-generation family firms

are more likely to engage in team management, with parents, children and siblings in the firm all having equality and participative involvement in important decision-making, even if one family member is still the nominal leader of the business. Thus:

H2. The percentage of non-family-member managers in a family firm will not have a significant relationship to the use of a "team-management" style of management.

Interpersonal dynamics, including conflict and disagreement among family members, has been a major focus of family firm research (Kellermann & Eddleston, 2004). Conflict can exist in younger, first-generation family firms, when siblings, spouses, or other relatives participate in management and/or ownership, and conflict can also arise between members of different generations in older, subsequent-generation family firms. Beckhard and Dyer (1983) found that conflict among family members increases with the age of the firm and the number of generations involved. Conversely, Davis and Harveston (1999, 2001) concluded that family member conflict increased only moderately as firms grew and moved into the second-generation stage, but there was a more sizable increase in further growth from second to third-generation. Thus:

H3. The percentage of non-family-member managers in a family firm will not have a significant relationship to the

occurrence of conflict and disagreement among family members.

Another major focus of the literature on family firms has been succession. The primary issues here involve the difficulties founders have in "letting go" and passing on the reins of control and authority, the lack of preparation for leadership next-generation family members often receive, and thus the need for, and importance of, succession planning (Davis, 1983; Handler, 1994; Upton & Heck, 1997). Dyer (1988) investigated "culture and continuity" in family firms, and the need for firm founders to understand the effects of a firm's culture and that culture can either constrain or facilitate successful family succession. Fiegenger and Prince (1994) compared successor planning and development in family and non-family firms, and found that family firms favor more personal relationship-oriented forms of successor development, while non-family firms utilize more formal and task-oriented methods. Building upon these and other studies of succession in family firms, Stavrou (1998) developed a conceptual model to explain how next-generation family members are chosen for successor management positions. This model involves four factors which define the context for succession: *family, business, personal and market.*

Some of the earlier family business studies have dealt with various aspects of succession, but none have specifically investigated succession planning and practices in relationship to FM's versus

NFM's. Still, given that the importance of succession has been well established and publicized, and that family firms often experience the trials of succession as they grow, there may be a relationship between the proportion of NFM's and succession planning. Thus:

H4. The percentage of non-family-member managers in a family firm will not have a significant relationship to the formulation of specific succession plans.

A number of earlier researchers of family firms have postulated that, as these firms grow, they also progress from one style of management to another. Informal, subjective and paternalistic styles of leadership become more formal, objective and "professional" (Aronoff, 1998; Cole & Wolken, 1995; Coleman & Carsky, 1999; Dyer, 1988; Filbeck & Lee, 2000; McConaughy & Phillips, 1999; Miller, McLeod & Oh, 2001; Schein, 1983).

"Professional" management may involve the following: (a) the use of outside consultants, advisors and professional services, (b) more time engaged in *strategic* management activities, and (c) the use of more sophisticated financial management tools. These conclusions lead to three hypotheses:

H5. The percentage of non-family-member managers in a family firm will not have a significant relationship to the use of outside consultants, advisors and professional services.

H6. The percentage of non-family-member managers in a family firm will not have a significant relationship to time spent engaged in strategic management activities.

H7. The percentage of non-family-member managers in a family firm will not have a significant relationship to the use of sophisticated methods of financial management.

Still another issue of interest in the investigation of family business is "generational shadow" (Davis & Harveston, 1999). In a multi-generation family firm a generational shadow, shed by the founder, may be cast over the organization and the critical processes within it. In such a situation, "succession" is considered incomplete, may constrain successors, and may have dysfunctional effects on the performance of the firm. Yet this "shadow" may also have positive impact, by providing a clear set of values, direction and standards for subsequent firm managers. Kelly et al. (2000) similarly proposed that a family firm founder's "legacy centrality" will influence the strategic behavior of succeeding generations' family member managers, with both positive and negative impact. Davis and Harveston (1999) also investigated generational shadow, but reached mixed conclusions regarding its impacts. If "generational shadow" and "legacy centrality" are valid components of the family business system, then it is of value to investigate whether the

increased presence of NFMs will related to stronger or weaker “generational shadow” or “legacy centrality. Thus:

H8. The percentage of non-family-member managers in a family firm will not have a significant relationship to the degree of influence by the original business objectives and methods of the founder.

Although most family firms are privately owned, some are not. As family firms grow, opportunities and needs for “going public” may arise. The family may not be able, or may not choose, to provide sufficient management or financial resources for growth, and outsider ownership can resolve this situation. And even publicly owned companies can continue as “family businesses,” if management or financial control is maintained by the family. In the United States, McConaughy (1994) found that 20 percent of the *Business Week 1000* firms are family-controlled, while Weber and Lavelle (2003) report that one-third of *S & P 500* companies have founding families involved in management. Thus:

H9. The percentage of non-family-member managers in a family firm will not have a significant relationship to management’s consideration of “going public.”

METHODOLOGY

Country Selection

The opportunity to collect data in Kosovo provided continued expansion of the authors’ data base of family

businesses. Earlier analyses of family businesses have been conducted in Croatia, Egypt, France, India, Kuwait, and the United States.

The Republic of Kosovo, with a population of about 2 million, is located in the center of the Balkan Peninsula. Kosovo is a new country which is in the early stages of creating a market driven economy with minimal intervention from the government. Kosovo imports mostly come from Macedonia and Serbia, as well as from other European countries.

Kosovo’s GDP in 2008 was 3.8 billion Euros, just above 1,800 Euros per capita, the lowest in the Balkans. Kosovo’s economy relies heavily in remittances from abroad, which represent up to 15% of the GDP, as well as foreign direct investments. Kosovo is one of the poorest countries in Europe with 70% of the population younger than 35. The data on the unemployment rate and poverty are not that reliable. International Financial Institutions such as World Bank and IMF have different perceptions on the employment rate. It is believed that unemployment in Kosovo ranges from 25 to 40%, the highest in the Balkans.

There are 90,929 registered businesses in Kosovo, 89,447 (98.3%) of which are micro enterprises with 1-10 employees. Another 1,218 enterprises are registered as small enterprises with 10-49 employees. The above figures are good illustrations on how much the Kosovo

economy relies on micro and small businesses which mostly are family businesses where the families are involved in the operations of these

enterprises. See Table 1 for a summary comparison of Kosovo to the other six countries.

Table 1 - Country Data

Country	Population (millions)	Gross Domestic Product US\$	Per Capita GDP US\$	GEM TEA Rate
Kosovo	1.8	5,000,000,000	2,300	NA
Croatia	4.5	69,980,000,000	16,100	3.6
Egypt	83.1	158,300,000,000	5,400	NA
France	64.1	2,978,000,000,000	32,700	3.2
India	1,166.1	1,237,000,000,000	2,800	17.9
Kuwait	2.7	159,700,000,000	57,400	NA
USA	307.2	14,330,000,000,000	47,000	10.5

Sample

The sample of Kosovo businesses were collected using personal interviews. The process resulted in 80 family businesses with a response rate of 85 percent. This is an excellent sample size and response rate for family business, as it has been reported that 62 percent of prior family business studies included no sample at all, or a sample with less than 100 family businesses, and 66 percent of these were convenience samples (Bird, Welsch, Astrachan & Pistrui, 2002). In three highly-rated small business and entrepreneurship-oriented journals

(*Entrepreneurship Theory and Practice, Journal of Business Venturing, and Journal of Small Business Management*) around one-third of the articles had a response rate of less than 25 percent (Dennis, 2003).

Measures and Statistical Analysis

With correlations, the results are the same regardless of which variable is dependent or independent. Thus, for statistical testing of all nine hypotheses the test variable is the percentage of non-family-member managers, which is a ratio measure. The nine hypotheses

variables in hypotheses testing are interval or ratio levels of measures. See Table 3 for a listing of variables with a brief explanation of operationalization and measure for each variable. To conserve space in this table, all hypotheses are denoted by summary phrases. In the actual survey instrument, the questions or statements used to collect the data were more substantial. Likert interval scales were used: “Describes our firm” 7-1 “Does Not Describe Our Firm.

Based on level of measures, Hypotheses 1-9 were tested using Pearson

Correlations. Higher level statistical regression is not appropriate because the purpose of the study was to determine relationships between variables, not to predict the percentage of managers based on the nine independent variables.

RESULTS

Descriptive Statistics

See Tables 2a and 2b for a summary of descriptive statistics discussed below. Also, see Table 3 for a comparison of the means and standard deviations for each variable.

Table 2a - Descriptive Statistics

Variable	Total (N = 80)
Generation (n / %)	
1 st	40 / 50%
2 nd	31 / 39%
3 rd	9 / 11%
Years in business (mean / s.d.)	11.81 / 8.35
Industry (n / %)	
Product	18 / 23%
Service	62 / 77%
Ownership (n / %)	
Corporation,	2 / 3%
Partnership,	13 / 16%
Sole proprietorship	65 / 81%
Number of employees (mean / s.d.)	19.49 / 36.29

Table 2b - Descriptive Statistics

Distribution of Sample by Size (European Union Categories)

Size	Number of Employees	Sample (N =80)
Large	≥ 250 (250 +)	n = 0 / 0%
Medium	< 250 (50-249)	n = 8 / 10%
Small	< 50 (10-49)	n = 27 / 34%
Micro	< 10 (0-9)	n = 45 / 56%

Table 3 - Correlations Hypotheses tests (N = 80)

	Mean/s.d. (frequency)	Co-efficient	P-Value
Dependent Variable: Percentage of Non-family managers	18.00/27.10		
Independent Variables:			
H1. % of women involved in operation of business (percentage of women) (7-1)	27.2/25.63	.080	.480
H2. Use of team-management decision style (7-1)	5.31/1.91	-.055	.631
H3. Occurrence of conflict and disagreements (7-1)	2.16/1.64	.272	.015
H4. Formulation of specific succession plans (7-1)	3.69/2.43	-.138	.224
H5. Use outside advisor/professional services (7-1)	3.59/2.35	.123	.279
H6. Time spent in strategic planning (7-1)	4.66/1.99	.090	.428
H7. Use sophisticated financial mgt methods (7-1)	5.36/1.97	.076	.502
H8: Influence of original founder (7-1)	5.55/1.77	.220	.050
H9. Consider going public (7-1)	3.03/2.42	.112	.324

(7-1) Likert scales “Describes our firm” 7 6 5 4 3 2 1 “Does not describe our firm.”

Hypothesis Testing

The results of the statistical testing are presented in Table 3. There was only one significant (positive) correlation ($p < .05$): between the percentage of non-family-member managers and the level of conflict: H3. As the percentage of

non-family-member managers increases, so does the amount of conflict ($p = .015$).

DISCUSSION AND IMPLICATIONS

Earlier analyses of these same variables in other countries produced a somewhat greater numbers of significant relationships than in this Kosovo study. For example, there were six significant

relationships in France, five in the United States, and three in India. Thus this current study further indicates the need for additional research with regard to this issue of FM's versus NFM's.

Certainly the very small size of Kosovo – the nation, its economy, and its family businesses – has an impact upon these data results. Smaller than any of the six countries previously analyzed (in population, GNP, and in sample businesses size), generational influences can be expected to be more minimal. The value of this current study is thus not so much in its specific country findings but rather in its expansion of the total international family business database.

This train of research should be of both interest and value to practitioners, consultants, and researchers. The findings of this study, combined with comparable and derivative future studies, should enable family business owner/managers to better understand the possible impacts of bringing non-family managers into a family business. Would there be likely changes in management activities, styles and characteristics, and would these changes be desirable and beneficial or dysfunctional for the firm? This is also a question that consultants to family businesses must consider as they analyze such firms and make recommendations regarding alternative strategies for growth.

For researchers in the field of family business, these findings build upon earlier and generally non-quantitative studies, provide some results that future research can focus on, replicate, and build upon, and may indicate some specific factors especially worthy of further investigation. Furthermore, this research raises many ideas for future research which, for example, might focus on factors not considered in this study, such as gender issues, the varying levels of profit motivation among family firm owners, or the influence of different national cultures upon family business management practice. The potential scope for future research relating to family-member and non-family-member managers in family business is indeed extensive.

CONCLUSIONS

Through its investigation of family-member managers versus non-family-member managers in family firms in Kosovo, this study further fills an identified gap in the family business literature. As discussed earlier, the limited prior writings on this specific family business issue reached few conclusions, with some writers postulating that NFM's strengthen a family firm (Coven, 1994a, 1994b; Donnelly, 1964; Dunn, 1995; Fiegenger et. al., 1996; Horton, 1986; Leyton, 1970; Stewart, 2003; Whyte, 1996; Wong, 1988) and other researchers concluding the opposite (Carney, 2005; Chua, Chrisman and Sharma, 2003; Donnelly, 1964; Ensley & Pearson, 2005; Goody, 1996;

Horton, 1986; Lane & Lubatkin, 1998; Marcus & Hall, 1992; Staff, 1981). As most of these earlier writers reached their deductions and findings through non-quantitative analyses, the authors' current series of empirical and quantitative analyses in various countries adds to the literature. As this research focus continues to be developed by scholars, this combination of qualitative and quantitative analyses should allow us to better understand this issue of FM's versus NFM's (Guillén, 1994).

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