

“FAMILY STRUCTURE AND DYNAMICS AND ITS IMPACT IN THE FAMILY BUSINESS SUCCESS.”

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ABSTRACT

THE PURPOSE OF THIS RESEARCH IS TO IDENTIFY WHICH FACTORS, ELEMENTS AND PROCESSES OF THE FAMILY STRUCTURE AND BEHAVIOR INFLUENCE THE FAMILY BUSINESS (FB) SUCCESS. THE AIM IS TO ANALYZE THE AMBITS WHICH FAMILY BUSINESSES DEVELOP TO REACH FAMILY'S OBJECTIVES AND RESPONSIBILITIES REGARDING THE FB, STUDYING THEIR INTEGRATION, GOALS, DYNAMICS, DECISION TAKING PROCESS, ETC., IN ORDER TO DISCOVER WHICH FACTORS CONTRIBUTE TO THE IMPROVEMENT OF THE FB SUCCESS.

RECENTLY, SEVERAL AUTHORS HAVE CENTERED THEIR ATTENTION IN BOTH THE SHAREHOLDER'S AND FAMILY'S ROLE IN THE EVOLUTION AND DEVELOPMENT OF THE FB. THIS RESEARCH FOLLOWS THAT LINE OF WORK.

AT A METHODOLOGICAL LEVEL, INTERVIEWS TO THE CEO'S WERE MADE IN ORDER TO DETERMINE HOW THEY EVALUATE FAMILY CONTRIBUTIONS TO THE FB SUCCESS.

MOST OF THE FAMILY FIRMS STUDIED IN THIS RESEARCH WERE IN MULTIGENERATIONAL AND THE INTERVIEWS WERE MADE TO NON-FAMILY MEMBERS CEO'S WHEN POSSIBLE.

THE RESULTS SHOW THAT ACCORDING TO THE CEO'S EVALUATION, THE LOWEST SCORE IS REACHED BY FIRMS THAT HAVE NOT DEVELOPED SPECIAL AMBITS TO DISCUSS MATTERS CONCERNING THE FAMILY AND/OR THE OWNERSHIP. IN ADDITION, THEY LACK SPECIFIC GUIDELINES REGARDING INCORPORATION AND COMPENSATION OF FAMILY MEMBERS. IN SHORT, THEY DO NOT DEVELOPED A FAMILY PROTOCOL.

ON THE OTHER HAND, FIRMS WITH THE HIGHEST SCORES DEVELOPEDE ADEQUATE INFORMATION AND COMMUNICATION SYSTEMS WITHIN THE FB, AND SOME OF THEM HAVE DEVELOPED FAMILY PROTOCOLS.

EVEN THOUGH THERE IS MUCH MORE TO LEARN ABOUT THE RELEVANT FACTORS REGARDING THE FAMILY SYSTEM, THIS RESEARCH SHOWS THAT SUCCESSFUL FB PAY ATTENTION AND MANAGES THIS DIMENSION IN THE FB.

RESEARCH QUESTION

The purpose of this research is to identify which factors, elements and processes of the family and ownership structure and behavior influence the FB success. The aim is to identify the family features that have an effect in the FB success.

Previous research reveals the influence of the family and firm interaction in the FB performance (Aronoff & Ward, 1991a). Indeed, Kaye (1991) concludes that both systems should co-evolve to assure the FB success. These academic developments were influenced by the study of the singular features of the different systems of the conceptual framework pointed out by Davis & Tagiuri (1982). This conceptual framework has become the paradigm in the FB field. Most of the problems pertaining to this field are analyzed utilizing this approach. A proper methodology requires that FB problems be diagnosed, treated and solved considering all three subsystems and their overlapping areas.

This conceptual framework argues that if the structure of a FB is complex and very dynamic, the problems it faces go beyond the mere distinction between family and firm. This is especially the case when several family branches and more than one business units are involved, and is mainly due to the conflicting roles played by the different groups of interest: owners, executives and family members (Gersick et al., 1997).

Since the late 80's the attention has been centered in the role of the governance in the FB (Ward, 1988). To overcome several of the FB problems, these kind of firms should develop an active Board of Directors (Ward & Handy, 1989). In addition, Neubauer & Lank (1998) the same as Schwartz & Barnes (1991) highlighted the importance of external members in the Board of Directors to assist with the governing tasks of the family firm.

However, these contributions were not enough to solve definitely the FB problems. A further step was needed. Scholars improved the conceptual framework on governance in FB indicating the importance of developing specific meetings for the ownership and the family systems (Aronoff & Ward, 1992). This further design stimulates the discussion of family and ownership issues clearly.

Specific forums are designed to bring on the participation of those that are not employed in the family firm, having instead, an active role managing the ownership issues. The underlying assumption is that owners have to participate and have a say in the decision-making process of specific issues. This mechanisms are developed because family values, preferences and culture are considered essential for the evolution and development of the FB. There are several alternatives in the integration, responsibilities, frequency of meetings and agenda. For the ownership issues, the most common is the Family Council (Neubauer & Lank, 1998). The Family Council has as a premier responsibility to manage the ownership-business relationship.

Family Councils make the flow of information and communication between family and business more fluent. In some cases there is a single family council formed by representatives from all family branches and from all generations, while in other cases several independent family councils for the different family branches coexist. In addition, it is

responsible of supporting the communications and information system, where the interests and views of the shareholders are heard (Vilaseca, 1999).

The Family Council has several decisions to overcome. An increase in the equity, reserve capitalization, dividend distribution and composition of the Board of Directors are, among others, decisions taken by FB owners. Such decisions must be discussed and approved by the owners. The development and performance of this body contributes to rendering owners more professionalism in their role as shareholders, while at the same time the unavoidable interaction with the firm's governance helps to mitigate the goal and interest conflict with the management team.

According to the size of the business, the generational relations and family branches within the FB it could be required to develop additional boards with other objectives. For example, the Junior Committee is developed in order to prevent and tackle any conflicts that may arise regarding the incorporation and subsequent promotion of the younger family members. In this way its members can learn about the firm's expectations for the younger family members who may one day join the company. Family size and the involvement of family members in the ownership, share appreciation or even the buying and selling of shares among family members may, if not handled adequately, affect the goal conflict between the parties. In order to avoid this, some FBes create a specific discussion body called Liquidity Committee. The liquidity committee's main objective is to ensure the existence of short-term contingency assets to meet specific and justified family economic needs, among others.

All these contributions did not tackle the specific FB issues that may become a source of conflict. In order to fulfill the family's requirements and interests, to offer the necessary participation and mitigate potential conflicts, family firms develop a specific forum. It is normally called "Family Assembly". Its main objective is to preserve and strengthen family values, which is the strength of a FB (Gallo, 1995). Family assemblies contribute to reinforce a family's unity and harmony, a distinguishing feature of family businesses.

The previous assumes that the family has a critical role in the FB development and evolution. Carlock & Ward (2001) indicate that the strategic planning of the FB needs to take into account the family values, needs and expectations. The family has a relevant role to enhance the trust and commitment between its members.

In addition, Aronoff & Ward (1992) indicate:

"These periodic gatherings bring the family together to share goals and decisions, discuss common problems, learn about the business and preserved family identity, values and traditions," (Aronoff & Ward, 1992:3).

Gallo et al. (1999), find out that the family has an important task in reinforcing several family values in the firm. Specifically they identify: Excellence, hardworking, initiative, simplicity and austerity as the critical values that the family should develop within the family firm.

Although the importance of the previous contributions, research did not clarify the practical implications on these critical factors that influence the FB success.

In this sense, the purpose of this exploratory research is to identify which factors, elements and processes of the family structure and/or behavior influence the FB success.

For this study, FB success is defined as it is perceived by the CEO. Therefore, a questionnaire was answered by each CEO of the family firm sample in order to determine how they evaluate family contributions to the FB success (Habbershon & Astrachan, 1997).

LITERATURE REVIEW

Literature in the FB field has studied the consequences of the interaction of the systems presented in FB framework: Ownership, business and family (Davis & Tagiuri, 1982). However, the factors mentioned have been studied with different interest, as is the case of ownership and business. This research focuses the analysis basically on the “Family” system, as a contribution as to which family-firm relationship affects the success of the FB. The subsequent part of this section reviews the previous literature centered on the system variables that influence FB success. The three systems of the framework as well as the intersections areas are examined.

At the business level there are several issues that have been studied: However, more attention has been given to the topics of Professionalism and Succession Plan.

On the one hand, literature regarding professionalism of the FB has prescribed strategic planning (Ward, 1987) as a form of professionalism in the FB in order to perform better, thus affecting the FB success. A proper strategy implementation is necessary to reach the strategy planned, including governing organisms, such as, board of directors, family councils, administrative boards, and family protocols (Nelton, 1986; Gallo & Luostarinen, 1991; Poza, 1988; Schwartz & Barnes, 1991).

Strategic management (Carlock & Ward, 2001) is practiced in a firm, when the managers experiment strategic thinking, that include: Strategy formulation, strategy implementation, and strategic control. However, frequently FB confuses the economic figures (Gallo, 1995) affecting the family firm performance, in issues such as: a) Compensation, where FB does not necessarily pay market value salaries to the employed family members. There is enough evidence that compensates with equal amounts to every family member employed in the FB without any relation to their specific responsibilities or performance. Regarding marketing policies it is frequently verified that FB does not necessarily comply with the equilibrium economic prices when a family member is a client or a supplier. In addition FB enjoy more flexibility to legally elude taxes, hiding benefits to the regulating offices. Therefore, FB success is negatively affected by all the policies and practices mentioned above.

On the other hand, succession planning is perceived as the principal factor directly affecting the FB continuity. Finding the right successor is often the most difficult task a FB faces (Lansberg, 1999). Also, the succession driving process may go through different paths: a) Recycled succession: Involve change in leadership while maintaining the same business form; b) Evolutionary succession: Change in leadership while increasing the complexity of the business; and c) Devolutionary succession: Change in leadership while simplifying the business form. However, family, clients, and suppliers often conspire against the succession planning (Lansberg, 1989). We also have learned that succession depends on the founder. Different types of founders need different processes to be succeeded (Sonnenfeld & Spence, 1989), as is the case of the monarch, general, ambassador, and governor. Finally if there is not a good succession plan, the success of the FB is questioned. We should plan the succession with the active involvement of some governance organisms (Carlock & Ward, 2001).

Although there are other interesting issues researched involving the business system, this review allows to highlight the different dimensions of the contributions. Firstly, academics pointed out the relevance of the business features. Subsequently, researchers clearly identified the effect of these factors on the FB success. Lastly, scholars developed practices to overcome the problems that may arise from an inadequately management of this issues.

The FB definition most commonly accepted assumes that the ownership and management of the firm is carried out by persons of the same family (Gallo & Garcia-Pont, 1989; Barach, 1993; Sharma et al., 1997). According to the agency theory (Berle & Means, 1932; Hill & Snell, 1989; Monsen, Chiu & Cooley, 1968), these characteristics imply that the principal and the agent's interests are aligned. Theoretically, the consequences are lower agency costs, and therefore proving an economic advantage compared to a non family business (Trostel & Nichols, 1982; Ward, 1988; Daily & Dollinger, 1992; Galve & Salas, 1993). However, these studies do not consistently prove that the performance differences are statistically significant in favor to the FB. Agency Theory demonstrates that ownership and control alignment are necessary and sufficient conditions to reach higher economic performance. Although FB corroborates the Agency Theory assumption it is not proved to reach a higher performance. This may be explained arguing that ownership does not necessarily give family members the necessary skills to manage an organization (Gallo, 1995). The preceding leads to the conclusion that ownership should be studied given its importance on the FB success.

At the ownership dimension, previous research has focused on elements and practices that affect the FB success such as life cycle and the transfer of the stock and dividend distribution policies.

With the incorporation of younger generations into the business, family concern goes through clearly differentiated stages. Regarding private ownership, Ward (1991) indicates that over time the FB undergoes three phases. Initially, it is usually in the hands of the founder. In the second generation, shares of the company are in the hands of the siblings. Then, in the third generation, ownership is held by the family dynasty, i.e. the cousin consortium. Although, there are critical aspects and problems that are specific to each one of these stages. Increasingly complex conflicts emerge among the shareholders as time goes by. These require to develop practices and rules within the ownership and the management of the business in order to lessen the interest conflict between owners who work in the business and those who merely own shares but are not actively involved.

Influenced by the conceptual framework of Ward (1991) on the evolution of ownership in the FB, Gersick et al. (1997) have designed a diagram for what they call The Ownership Developmental Dimension. Although the ownership structure of each FB should reflect its own history and circumstances, in most cases it should also fit into one of the three types. In other words, firms controlled by a single owner (Controlling owner), by brothers and sisters (Sibling partnership) or by a group of cousins (Cousin consortium).

Additional research highlights the importance of shareholders in FB and their influence on the continuity and development of the firm (Gallo, 1995; Gersick et al., 1997). Particularly in the case of non-employed shareholders who have an active stance because they have a responsible, committed and involved attitude and hence comply with the ethical obligations that the right to ownership entails. Until a few years ago a distinction was made between shareholders employed in the FB and those who are not, by calling them active and passive shareholders, respectively. This has led to mistaken notions as to the role played by shareholders that do not work in the FB. Subsequently, Vilaseca (1999) has studied the

factors that influence the interest conflict between the non-employed shareholder and the top management team.

Also Carlock & Ward (2001) identified different policies in the transfer of the property to the next generation with different criteria: a) Distribution of ownership to all family members with equitable criteria; b) Ownership based on family tradition limited to male family members; c) Distribution based on employment in the FB. All the above points should influence the culture of FB and therefore their success.

Regarding the dividend distribution policies, Davis & Tagiuri (1982) using the three system framework pointed out that each generation of FB participants should have a different configuration and diverging interests. In the first generation, the founder worries about how to grow and usually reinvests all the free cash flow, without paying any dividends. While the family expands and starts to participate in the business the dividends become an important issue. Problems appear when a FB hesitates to compensate the capital investments. In third generation is not often seen liquidity policies for the shareholder and this creates problems because there is not a clear process to sell the stock. Thus, all the above empirical corroborations affect the FB success.

Similarly as in the case of the business system it can be concluded that academia has shed light on the significance of ownership issues as well as the identification of its critical factors and the best practices FB should implement to overcome the conflicts that arise from the ownership system.

At the family level literature review indicates that the culture of the firm and the values of the family should be considered.

Regarding FB culture previous contributions conclude that involves family values, premises and artifacts which influence the FB success (Schein, 1985; Dyer, 1988). Gallo et al. (2001), found five main values that influence FB success: Excellence, hard-working, initiative, simplicity, and austerity. Also, Aronoff & Ward (1991b) pointed out that "trust" reinforcement within the FB is a source of competitive advantage. Habbershon & Williams (1999) found out that the family had unique resources and capabilities that represent sustainable competitive advantages that lack in non family business.

Several authors (Gallo, 1995; Rosenblatt et al., 1985; Kets de Vries, 1996) argued that family unity and commitment are the main values that drive FB success. The effects of the family values assuming an adequate interaction between the family and the firm generates shared vision, recognized authority, mutual trust, communication, mutual understanding, and flexibility within the FB. However, when the family-firm interaction is conflictive, the consequences may be divergent objectives, power struggles, jealousy, gossip, mistrust, hate, unwillingness to change. Additional commitment, trust and confidence reinforces several competitive advantages such as loyalty, excellence demanding, personal sacrifice; long-term vision. Instead, when the FB lacks these values the consequences are terrible witnessing lack of loyalty, shelter for the incompetent, prior claim of sacrifices, and own interest objectives.

RESEARCH METHODOLOGY

This investigation is an exploratory research. Its purpose is to make a contribution regarding the critical factors of the family that influence the FB success. Given that the topic of family issues has not been studied deeply in FB literature, there are no models against which to test literal or theoretical replicability (Hersen & Barlow, 1976) therefore it is reasonable to broaden the framework of this field with exploratory research regarding family issues.

Family issues have no precedents in the FB literature. Therefore, it is reasonable not to undertake a demographic survey, supported by sophisticated statistical tools for large samples. The purpose is to determine what results are can be attributed to the family structure and dynamics. In this regard semi-structured interviews prove to be the most suitable tools (Yin, 1994).

This means that, in order to achieve the objectives of this research, both quantitative and qualitative data must be obtained and analyzed. Quantitative data were obtained by administering questionnaires among the CEO of the FB. Qualitative data on the other hand were obtained through semi-structured interviews with the CEO.

Quantitative data are necessary to identify significant relationships, in order to contribute to the development of the conceptual framework. Qualitative data on the other hand, enable a better understanding of the characteristics of the family dynamics, fostering an understanding of the influence of the family structure processes in the FB success.

The combination of quantitative and qualitative methods will allow us to obtain a clearer understanding of the variables subject to analysis (Easterby-Smith, Thorpe & Love, 1991). To measure the FB success a questionnaire of twenty items was designed. These items were established in order to include the three dimensions of the FB. That is, family, ownership and business issues affected by the family discussions. The replies are evaluated according to a Likert scale with five ranks which go from strongly disagree to strongly agree.

The criteria established for choosing the sample arose from a set of variables that determine the complexity of the interaction between the family and the firm. Family size, firm size, their age and competitive environment are some of the elements that reflect the dynamics of the relationship between firm and family. In addition the firms were selected from three different countries: Argentina, Colombia and Uruguay. By establishing the screening criteria based on these factors, the significance and consequences of the family influence in the FB success were partially ensured.

The general characteristics of the sample firms are shown in Table 1.

Table 1 about here

Regarding the statistical analysis of the data, means and standard deviations of the variables were calculated in order to obtain a summary of the sample. Likewise, the correlation coefficients between the variables was determined in order to identify those that have a strong relationship with the Score variable. That is, the FB success (see Table 2).

The statistical tools applied throughout the research are the following:

- a) Pearson correlations, to determine the direction and magnitude of the relationship between the variables;
- b) Simple regression analysis, to determine the significance and strength of the relationships between the variables;
- d) Multiple regression analysis, with the purpose of identifying the level of success that can be explained by several independent variables.

For these calculations the SPSS statistical program was used.

Table 2 about here

RESULTS AND DISCUSSION.

This research intends to determine the family and ownership elements –as well as their behaviour- that influence the FB success or its organizational effectiveness. Given the exploratory methodology applied, looks forward to serve as the basis for a future deeper analysis.

Analyzing the CEO’s evaluations, the firm-sample was divided in three categories according to the average score obtained by each company of the sample: firms with high, low and medium average score.

From the analysis of the scores provided by firms that obtained a high average score in efficiency assessed by the CEO –as compared to the rest of the sample- arise two features related to family dynamics that strengthens the result:

- 1) The FB manages the firm in unity and harmony.
- 2) The Family shares common values that influence the firm.

With regard to the ownership dynamics that contribute to the FB success, the following features can be mentioned:

- 3) There is a good *affecto-societatis* among the owners.
- 4) Adequate flow of communication and information between the owners and the company.
- 5) In general, owners share the same long-term business vision.
- 6) The relationship between the CEO and the ownership is very good.

Concerning the FB governance style –which impacts on organisational effectiveness- the study yielded the following findings:

7) The decision making process of the FB of this sample, is made considering the company as a whole –its needs and future development- and the family –its harmony and unity.

8) There are specific rules regarding the incorporation of family members to the company.

Likewise, the analysis of the answers provided by the firms of the sample which obtained a low average score on FB success as assessed by their CEOs –compared to the rest of the sample- found the following features associated to family-ownership dynamics:

1) There are no explicit guidelines to determine the kind of assistance the companies may provide to the owners facing economic and financial needs.

2) FB lack specific mechanisms to redeem stock in case a shareholder wants to forgo ownership.

3) There are no procedures for stock purchase or sale.

As regards the family-firm relationship, the study unearthed the following characteristics:

4) These companies do not have Family Protocols worked out by the whole family through a broad discussion of relevant issues leading to an agreement that rules the family firm relationship.

5) These companies have not developed ambits for the discussion of family and ownership issues –for example, Family Council.

In terms of Governance, the following features surfaced as influencing final scores:

6) There are no rules regarding salaries, retirement and dismissal for family members working in the company.

The qualitative analysis revealed that in the least efficient FB, the families have not managed to reach an agreement on any of the relevant issues shaping the relationship between the family and the firm.

On the contrary, the FB showing a higher average score, have all reached an explicit or implicit agreement in establishing the relationship between the family and the business, which serves to ensure unity, harmony, ownership continuity, economic results and excellence in company governance. (66% of these companies have made their agreement explicit through a Family Protocol, while 34% have done so implicitly).

This confirms what Gallo (1995) indicates of Family Protocols. From the family firm point of view, a Family Protocol would help to develop strategic management processes and to institutionalise basic family values within the company. From the family's point of view, a Family Protocol would help to enhance unity and harmony among its members, to make them professional as company owners and to preserve the family values which make the family business strong.

Another outstanding finding in the least successful FB of this sample is the overlapping between companies and families, which precludes the existence of isolated environments to discuss ownership or family issues.

CONCLUSIONS

Based on the results showed in Table 2, we find that periodical family meetings influence family harmony. Family meetings are the consequence and expression of sharing daily events and values which are inherent to each family.

This sharing is based on family endearment, trust and unity. It does not mean that family meetings in themselves generate unity and harmony within the family. Rather, they are the output of an existing process.

FB success is enhanced in the cases where the family leader is the same individual who leads the FB. Problems arise when family, ownership, governance and business leaderships are in the hands of different people. Communication and relationship harmony between the family leader and the business leader is a critical FB success factor.

As the number of family branches grows within the ownership, the family ties become weaker. Meetings are more sporadic and shared values are not consistent due to the increasing number of relatives involved. In addition, family harmony and unity are harder to achieve –which jeopardises adequate family-firm overlapping and impairs FB success.

This negative effect on the FB success may be also explained in ownership terms. When the family size becomes larger, it is more difficult to ensure *affecto-societatis* among the numerous family members. An additional reason may be that the flow of information and communication from the business to all the owners tends to decrease. Therefore, it is also more difficult to reach a family vision alignment.

When a FB belongs to several families, there is yet another requirement to reach success: Management has to promote direct communication and debate between the owner families in order to respond to those who want and are able to know more about the FB and participate in the shareholders meeting more frequently.

For owner families, having a family house or estate where they can gather together and share special moments contributes greatly to family dynamics and bears a highly positive impact on FB success.

Another feature that does not help –and must be object of further research- is a larger proportion of women owners over men. CEOs perceive this ratio negatively, and therefore its influence on FB success.

This may be due to several reasons. The negative influence of in-laws may be perceived as being greater when related to female family members. In Latin America, this notion may also be associated with a male-chauvinist vision of female within FB ownership.

It may be concluded that concepts such as unity among owners prove to be critical regarding FB success. The fact that family members meet, share a house and have a family leader who is also the business leader, contributes to family unity and members' commitment to the FB, which enhances the FB success. The family size reinforces this notion since its increase endangers company performance.

It should be highlighted that this research is only an exploratory approach to this topic. Its main limitation lies in the firm sample size.

Research interests and current findings seem to show the future research path that should be followed in order to deepen the research in the family system framework. This will shed light on the critical elements of FB success. Future research agendas may test hypothesis based on this study and findings with larger samples and more countries.

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