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The Influence of Family Business Size on Management Activities, Styles and Characteristics

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This is an empirical study of family firm size, as measured by the number of employees, and the relationship of a firm's size to a variety of management activities, styles, and characteristics. A statistical analysis of data drawn from 159 American family businesses indicates significant differences by size with regard to the number of nonfamily members in top management, use of outside advisors, time spent engaged in strategic management, use of sophisticated methods of financial management, proportion of women family members involved in firm management, and level of conflict between family members. Implications are offered for family firm owner-managers, for those who assist such businesses, and for researchers in the field of family business.

In almost all countries, families are central to the ownership and management of the majority of businesses (Dennis 2002). Within the U.S. economy, family businesses comprise an estimated 80 percent of the total 15 million businesses (Carsrud 1994; Kets de Vries 1993). They contribute more than 50 percent of the total Gross National Product (McCann, Leon-Guerrero, and Haley 1997), 50 percent of employment (Morris et al. 1997), and have higher total annual sales than nonfamily businesses (Chaganti and Schneer 1994). Furthermore, it is estimated that 35 percent of Fortune 500 firms are family owned (Carsrud 1994) and one-third of S&P 500 companies have founding families involved in management (Weber and Lavelle 2003).

Certainly an understanding of the various issues and aspects of family business are of interest to those who own and manage such companies, to those who advise and assist them, and to those who study them. Yet most of the family business literature is conceptual or involves nonquantitative research (Dyer and Sánchez 1998; Litz 1997).

Searches of the family business literature find little prior and specifically focused investigation of issues of firm size, as measured by number of employees or any other measure. Even a broader search of the literature in business and management in general generates only modest results. All of these studies were preliminary investigations, and the total set of quite mixed results underline the complexity of this basic issue. While a company's number of employees may influence managerial and firm activity and performance, considerably more research is needed before solid conclusions and meaningful implications can be reached, and theories can be generated.

The purpose of this current study was to investigate how family businesses change as they grow, as measured by the number of employees. Do management activities, styles, and characteristics change with growth, and if so how? Answering these questions can help family businessowners and managers as they grow their own businesses. It can also help those who advise and assist them, as well as researchers who study family business.

Literature Review

Family Business Research Foundation

The nature of family business research has changed considerably over the years. From modest beginnings it has grown to the point where a substantial conceptual and theoretical body of knowledge existed at the start of the 21st century. Prior to 1975, a few theorists, such as Christensen (1953), Donnelley (1964) and Levinson (1971), investigated family firms, yet the field was largely neglected (Lansberg, Perrow, and Rogolsky 1988). These early studies were generally conceptual rather than empirical, with a focus on the more fundamental issues, such as what makes a business a "family business" or a "family firm" (the terms are used interchangeably), the dynamics of succession, intrafamily conflict, and consulting to such firms (Handler 1989; Sharma, Chrisman, and Chua 1997). In 1988, with the launching of the journal *Family Business Review,* the first and only scholarly publication devoted specifically to family business, the field reached a level of maturity to foster a significant progression and resulting body of research and findings.

Family Business Typologies

Within this body of family business literature, some attempts have been made to categorize such firms, so as to develop typologies. Do different types or groups of family firms exhibit significantly different characteristics and behave differently? Can such a categorization lead to meaningful implications with regard to family firm management, research, and assistance?

One area of recent analysis has been with regard to possible *stages* of family firm growth. Work by Gersick, Davis, Hampton, and Lansberg (1997) and others has led to a proposed model of such stages, each with different family firm characteristics and implications for the management of such firms. This model, derived primarily from consulting experience with family firms, identifies stages along a *business over time* axis and relates them to comparable stages along an *ownership over time* axis and a *family over time* axis, focusing on changes in various management issues, such as leadership, organizational structure, strategy, organizational behavior, and financial management.

Another recent family business categorization has been a focus on *generations* by Sonfield and Lussier (2004, 2005). This research, based on statistically analyzed empirical data, compared first-, second-, and third-generation family firms in light of various researchers' earlier investigations regarding generational issue. In contrast to these earlier findings, these studies found few generational differences in managerial characteristics and activities.

The objective of this current study was to investigate another possibly meaningful family business typology: that of company size as measured by the firm's number of employees. As family businesses grow in terms of number of employees, do managerial activities, styles, and characteristics change? While *stages* may be a difficult measure for family firm owners, advisors, and researchers to use, and *generations* may be an easier way to categorize such firms, the *number of employees* is certainly a still simpler, and perhaps a different measure. If it may have value as an analytical tool for evaluating companies, then this possibility should be explored.

Family Business Size Research

Some researchers have attempted to find relationships between firm size (as measured by the number of employees in the firm) and that firm's characteristics, behavior, and performance. For example, Watson (1996) investigated whether firm size related to failure; Ettlie and Rubenstein (1987) examined the relationship of firm size to product innovation; Goetz, Morrow, and McElroy (1991) and Brush and Chaganti (1999) explored the relationship of size to management styles and effectiveness; Edmunds (1979) studied size effect on management competence; and Bates (1989) probed firm size and its effect on business failure. As discussed above, these studies were preliminary and produced mixed results. Yet none of these studies focused specifically on family businesses.

Others have conducted research that did focus on family firm size, but did so only tangentially. Schulze et al. (2001) focused on agency relationships in family firms. Kets de Vries (1993), Aldrich and Cliff (2003), Stafford et al. (1999), Danes et al. (1999), and Olson et. al (2003) all investigated factors of family business systems and dynamics, and variables leading to success in both the families and the businesses. Firm size was a factor in each of these studies, but not the primary focus.

Thus, given this lack of prior focused *size-related* research, theory, and established findings in family business, the hypotheses used for this current study derive from prior studies of *generational* issues in family business, an area where a moderate number of findings can be found and which may be closely related to size.

Hypotheses

The 11 hypotheses used for this study are based on *generational* hypotheses developed by Sonfield and Lussier (2004, 2005). Their hypotheses in turn were based on findings and propositions developed by earlier researchers who investigated similarities and differences between family firms, sometimes with *generations* as a consideration. Since family firm *size* and *generations* may correspond in some ways, these earlier Sonfield and Lussier studies provide the best bases for the hypotheses in this current study, as these former studies were empirical, had a large multinational sample (2004=161, 2005=367), involved statistical analysis, and thus constitute the strongest prior research that can be related to this current study.

The basis for each of the 11 hypotheses is presented below. Because there are minimal and mixed prior findings with regard to firm *size* as measured by number of employees, and because prior *generational* findings, which may or may not be size-related, found few significant differences, the null hypothesis is used throughout.

Dyer (1988) found that 80 percent of first-generation family firms had a "paternalistic" management culture and style, but that in succeeding generations more than two-thirds of these firms adapted a "professional" style of management. Paternalistic management was characterized by hierarchical relationships, top management control of power and authority, close supervision, and distrust of outsiders. Professional management involves the inclusion, and sometimes the predominance, of nonfamily managers in the firm.

McConaughy and Phillips (1999), studying large publicly owned founding-family-controlled companies, concluded that descendent-controlled firms were more professionally run than founder-controlled firms. These researchers postulate that first-generation family managers are entrepreneurs with the special technical or business backgrounds necessary for the creation of the business, but the founders' descendents face different challenges—to maintain and enhance the business—and these tasks may be better performed in a more professional manner, often by nonfamily members. Both Dyer (1988) and McConaughy and Phillips

(1999) found an earlier basis in Schein (1983), who also suggested that subsequent generations in family firms tend to utilize more professional forms of management.

Since it can be argued that the *size* of a family business often grows in subsequent generations, then "professional" management and the use of nonfamily managers may increase with family firm size. Thus:

Hypothesis 1: Larger family businesses are neither more nor less likely than smaller family businesses to include nonfamily members within top management.

Studying gender issues in family firms, Nelton (1998) stated 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 the rising presence of women managers in family firms is clear, how this phenomenon relates to family firm *size* is not so obvious. Thus:

Hypothesis 2: Larger family businesses are neither more nor less likely than smaller family businesses to have women family members working in the firm.

Another aspect of family business behavior is the distribution of decision-making authority in the firm. 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. Aronoff furthermore reported that 42 percent of family businesses are considering copresidents for the next generation. As *size* may relate to *generations,* then this hypothesis follows:

Hypothesis 3: Larger family businesses are neither more nor less likely than smaller family businesses to use a "team-management" style of management.

Interpersonal dynamics, including conflict and disagreement among family members, has been a major focus of family firm research. Conflict can exist in 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 subsequent-generation family firms. Beckhard and Dyer (1983) found that conflict among family members increases with the number of generations involved in the firm. Conversely, Davis and Harveston (1999, 2001) concluded that family member conflict increased only moderately as firms moved into the second-generation stage, but there was a more sizable increase from second to third generation. Again, as *size* may relate to *generations,* then:

Hypothesis 4: Larger family businesses are neither more nor less likely than smaller family businesses to have conflict and disagreement between 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 and 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. Fiegener and Prince (1994) compared successor planning and development in family and nonfamily firms, and found that family firms favor more personal relationship-oriented forms of successor development, while nonfamily firms utilize more formal and task-oriented methods. Building on 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 that define the context for succession: *family, business, personal,* and *market.*

While these and other studies have dealt with various aspects of succession, none have specifically investigated succession planning and practices with regard to either *generation* or *size* in family firms. Thus:

Hypothesis 5: Larger family businesses are neither more nor less likely than smaller family businesses to have formulated specific succession plans.

Several researchers of family firms have postulated that, as these firms age and/or move into subsequent-generation family management and ownership, 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 and Wolken 1995; Coleman and Carsky 1999; Dyer 1988; Filbeck and Lee 2000; McConaughy and Phillips 1999; Miller, McLeod, and Oh 2001; Schein 1983). "Professional" management may involve the following:

1. The use of outside consultants, advisors and professional services
2. More time engaged in *strategic* management activities
3. The use of more sophisticated financial management tools

These conclusions lead to several size-related hypotheses:

Hypothesis 6: Larger family businesses are neither more nor less likely than smaller family businesses to use outside consultants, advisors and professional services.

Hypothesis 7: Larger family businesses are neither more nor less likely than smaller family businesses to spend time engaged in strategic management activities.

Hypothesis 8: Larger family businesses are neither more nor less likely than smaller family businesses to use sophisticated methods of financial management.

Another issue of interest in the investigation of family business is "generational shadow" (Davis and Harveston 1999). In a multigeneration 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, Athanassiou and Crittenden (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 management in both smaller family firms (often with only the founder in control) and in larger family firms (perhaps with the founder having strong presence even if not actually there) may be influenced by the objectives and methods of the founder.

Hypothesis 9: Larger family businesses are neither more nor less likely than smaller family businesses to be influenced by the original business objectives and methods of the founder.

Family firms need not always be privately owned. As they 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. 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:

Hypothesis 10: Larger family businesses are neither more nor less likely than smaller family businesses to have considered "going public."

The capital structure decision is important for family business (Romano, Tanewski, and Smyrnios, 2001). Following from the preceding discussion, larger family firms may use equity financing rather than debt financing as they grow through the sale of company stock. Cole and Wolken (1995) and Coleman and Carsky (1999) found that older and larger family firms use more equity financing and less debt financing than younger and smaller family firms.

On the other hand, other researchers have found that family businesses, and especially first-generation ones, are reluctant to use debt financing (Bork et al. 1996; Gersick et al. 1997). Thus, with the literature pointing in both directions:

Hypothesis 11: Larger family businesses are neither more nor less likely than smaller family businesses to use equity financing rather than debt financing.

Methodology

Sample

Past researchers have concurred on the difficulties in obtaining reliable data on family businesses. In particular, there is no fully reliable way to identify family firms *a priori*. Therefore, it is generally necessary to sample broader populations of businesses and use self-reporting to identify *ex post* those which are family firms (Wortman 1994; Daily and Dollinger 1992, 1993; Handler 1989). For this study, this issue was largely resolved, as survey instruments were randomly mailed or hand-delivered to a variety of New York and Massachusetts companies that had been identified as family businesses in local business periodicals' listings of such businesses. A net distribution of 550 surveys yielded 159 usable returned, a 29.0 percent return rate.

The survey instrument provided a variety of descriptive information about each respondent family business, including the number of employees. There is no universally accepted definition of a "small" or "large" business; the U.S. Small

Business Administration uses different break-points for different industries (U.S. Small Business Administration 2004), and this definition is in flux (U.S. Chamber of Commerce 2004). In Europe, a variety of definitions are also in use (European Union 2004). Thus, for this study, the objective was to compare smaller and larger family firms within the sample. The 159 companies in the sample appear to provide a typical range of family firms, which can be small or large, but more frequently small. The mean number of employees was 195, the median was 25, and the mode was 3. The range was from 1 to 6,454 employees. Thus, the sample seems representative of American family businesses, as it included a large proportion of small firms but also a few very large companies. The respondent firms were categorized into "small" and large," using a breakpoint of < 50 and≥ ≥ 50. With no standardized American definitions of "small" or "large," the 50-employee break-point was derived from the European Union (2004) break-point between *large/medium* and *small/micro*. As in the U.S. economy, the sample has more small than large businesses with 101 (63%) small and 58 (37%) large firms.

Measurement

The independent variable was size (< 50 and ≥ 50). The dependent variables to test hypotheses 1–11 were as follows:

1. Does the firm have nonfamily managers? The percentage of family to nonfamily managers.
2. The percentage of male and female family members involved in the operation of the firm. Hypotheses 3–10 were Likert interval scales of: "Describes our firm" 7 to 1 "Does not describe our firm."
3. Full family involvement in decisions.
4. Level of family conflict.
5. Formulation of succession plans.
6. Use of outside advisors.
7. Long-range planning.
8. Sophisticated financial management tools.
9. Influence of founder.
10. Going public.
11. The use of debt or equity financing was a nominal measure of one or the other.

Descriptive statistical data included number of years the firm was in business, number of employees, industry (product or service), and form of ownership. Table 1 includes all 11 dependent variables, with their measures.

Statistical Analysis

Hypotheses 1-10 compared the dependent variables by size using the t-test. Hypothesis 11, having nominal measured variables, compared debt to equity by size using chi-square.

Results

Descriptive Statistics and Hypotheses Testing

See Table 2 for a summary of descriptive statistics. This table includes a generational breakdown of the sample, since the hypotheses derive from earlier research with a generational focus. Table 1 provides the summary of the hypotheses statistics testing.

Discussion

This study analyzed a sample of family businesses in the United States. The statistical analysis supported 5 of the 11 null hypotheses. Thus, for 5 of the 11 management activities, styles and characteristics measured, no significant differences between larger and smaller firms were found.

Of interest, then, is that the statistical analysis found that *larger* family firms were more likely than *smaller* family firms to

1. use non-family members within top management;
2. use outside consultants, advisors, and professional services;
3. spend time in strategic management activity; and
4. use sophisticated methods of financial management.

Furthermore, and also of interest, is that this analysis found that *smaller* family firms were more likely than *larger* family firms to

1. have conflict between family members, and
2. have women family members working in the firm.

And finally, the supported null hypotheses indicate that there was no significant difference between *larger* and *smaller* family businesses with regard to

1. use of team-management,
2. formulation of specific succession plans,
3. degree of influence by the original business objectives and methods,
4. the company's founder,
5. consideration of going public, and
6. use of debt versus equity financing.

Conclusions

Given the very limited prior empirical research on family firm *size*, the results of this study can not be directly compared to prior studies. Yet most of the statistically significant differences and similarities found in this study seem logical and consistent with the largely conceptual prior literature in the field.

It is logical that, as family firms grow in size, the number of family members available for management positions, and the skills and expertise they possess, will be less sufficient to meet the growing needs of the company. Therefore, it should be expected that nonfamily members will be brought into

Table 1. Hypotheses Test Comparison by Size (N = 159)

Hypotheses	*Small (n = 101)*	*Large (n = 58)*	*t*	*p*
1. Use of nonfamily members within top mgt (% nonfamily mgt)	17.94	53.49	-7.30	**.000**
2. Women family members working in firm (% of women)	33.18	24.07	2.14	**.033**
3. Use of team-management style (7-1)[1]	4.01	3.79	.56	.576
4. Having conflict between family members (7-1)	2.69	2.00	2.51	**.013**
5. Formulation of specific succession plans (7-1)	2.88	3.27	-1.03	.300
6. Use of outside consultants, advisors, and professional services (7-1)	3.87	4.67	-2.13	**.034**
7. Time spent in strategic mgt activity (7-1)	2.88	3.67	-2.96	**.003**
8. Use of sophisticated methods of financial mgt (7-1)	2.71	4.48	-5.29	**.000**
9. Degree of influence by original business objective and methods of the founder (7-1)	5.01	5.10	-.28	.778
10. Consideration of going public (7-1)	1.26	1.55	-1.72	.088
11. Use of debt financing rather than equity (proportion debt/equity)	63/38 62/38%	44/14 76/24%	3.04[2]	.081

1. Likert scales—Mean of: Describes our firm 7 6 5 4 3 2 1 Does not describe our firm
2. Chi-square, not t value.

top management positions. Also, as these firms grow, management issues and problems may become more complex and greater use will be made of outside consultants and other experts.

It is also logical that, as family firms grow in size, their managers will adopt the management techniques of larger companies in general, including strategic management activities and the use of more sophisticated financial management methods. As more nonfamily members join the firm's management team, they may bring with them the management practices from their former positions, often in larger companies.

Conversely, it can be argued that smaller family firms will logically have more conflict between family members, for as these companies grow in size the addition of nonfamily managers will dilute the "family" culture in the firm and lead to more objective decision making, less encumbered by emotional family dynamics and the conflicts they can create.

Yet some of the findings are not so "logical" and perhaps were not to be expected. As for the greater ratio of women family member managers in smaller family firms, there are several possible explanations. The inclusion of women family members as managers in family (and nonfamily) firms is a relatively recent trend, and since younger family firms tend to be smaller than older ones, these smaller and younger family firms are more likely to include women family members. Also, there is a trend of women starting their own firms which tend to be smaller than businesses founded by men.

Table 2. Descriptive Statistics

Variable	*Small (n = 101/63%)*	*Large (n = 58/37%)*	*Total (N = 159)*
Generation (n/%)			
1st	40/80%[1]	10/20%	50/31%
2nd	32/53%	28/47%	60/38%
3rd	29/59%	20/41%	40/31%
Years in business (mean)	35.32	44.31	38.33
Industry (n%)			
Product	24/57%	18/43%	42/26%
Service	77/65%	40/35%	117/74%
Ownership (n/%)			
Corporation	67/57%	51/43%	118/74%
Partnership	15/88%	2/12%	17/11%
Sole proprietorship	19/79%[2]	5/21%	24/15%

1. As in the population, there are significantly more small than large firms, and small firms have significantly more first-generation businesses ($p = .011$).
2. Small firms in the sample have significantly more partnerships and sole proprietorships than large firms ($p = .009$).

No significant difference was found between smaller and larger firms' consideration of going public. This finding was not expected, as most of the prior family business literature focuses primarily on *larger* firms' needs to finance through sale of equity to the public. Further analysis of this issue would be desirable.

While it is of interest when research studies produce many "surprising" results, most research tends to confirm prior expectations, as this study largely does. The value of this study's "expected" findings is that they are derived empirically and statistically. This strengthens prior conclusions that may be based on more subjective forms of data gathering and analysis.

What does this mean for family businessowners and managers, for advisors to these companies, and for those who study them? If this and future studies allow us to understand how family firms change as they grow in size, then we can know what to expect in the future for a particular family firm, and this in turn can prepare us for the changing needs and characteristics of that business. With the development of this knowledge, family business managers will be better prepared to lead their companies and to grow them successfully. Those who teach small business and entrepreneurship courses can make this information available to future entrepreneurs who may manage family businesses. Consultants who advise family businesses will be able to provide better guidance to family firms to help them move toward a more professional management style. And researchers will have some basic building blocks on which they can expand our understanding of the dynamics and growth patterns of family businesses.

As previously discussed, the earlier Sonfield and Lussier (2004, 2005) studies of family firms categorized by *generation* found few differences between first-, second-, and third-generation family firms in terms of management activities, styles, and characteristics. Yet this study using size categories did find six significant differences. This suggests that size is a different factor than *generation* (and perhaps other variables as well) with regard to family businesses, and that both factors are important in their own right, and are not substitutable when analyzing and understanding family firms.

This study indicates a need for future research with regard to family business growth. As a family firm grows in size, how are its management activities, styles, and characteristics affected? Given the very limited prior research findings on family firm size, this exploratory study can at present only offer tentative conclusions and lay the groundwork for future research. Additional studies investigating family firm size are necessary to answer these questions: Is size a significant factor with regard to family businesses? How does the variable of *size* differ from the variable of *generation*? Should size be an analytical tool used by family business managers, researchers and/or consultants? As a family firm grows, are there certain management practices that are more likely to lead to optimal performance? Clearly, additional studies must be conducted before definitive answers to these questions can be reached.

Finally, several limitations to this study should be noted. One limitation was the size of the firms in the sample. Of the 159 respondents, only 14 (9%) had 500 or more employees. It would be desirable if further studies were to have a higher percentage of the sample consisting of larger businesses. Also, the mean age of the firms in the sample was about 38 years. Clearly these are successful businesses, and this factor may in some way influence the findings. Future research might include more young and/or less-successful family firms. In the same vein, it would also be desirable if the findings of this study could be related to firm *performance* or *effectiveness*. However, self-reported data on firm performance is problematic with regard to validity, and no attempt to obtain such data was made in this study. This too offers opportunities for future research.

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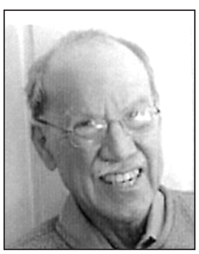

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