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Family business continuity: Key factors and main practices

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Abstract:

What do family businesses have to do to survive and thrive? This paper explores management and governance practices associated with family business multi-generational continuity - longer-term success and longevity encompassing both family harmony and firm performance - identified by the family business literature. It is based on a study in two parts that contributes a conceptualization of family business continuity in terms of 7 key factors and 35 main practices that can be used as a tool for understanding, explaining and, possibly, predicting the continuity or otherwise of family firms. In Part 1, a National Survey of Australian family business owner-managers (n=242) was undertaken to determine levels of awareness, acceptance, and implementation of those practices. In Part 2, data were analysed using SPSS for Windows and Partial Least Squares factor analysis establishing relevant construct validity. This research has important implications relating to the development and testing of a theoretical model of family business continuity.

Keywords: family business, lessons learned, best practice, best fit, success and longevity, continuity Sustainability.

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INTRODUCTION

Family businesses are different from other businesses because of the overlap between the family and business systems, and the dual relationships and obligations that the overlap implies (Gersick et. al. 1997). Given the apparent differences, are there identifiable family business long-term success and continuity factors and practices? If so, what are they? Could key continuity factors and main practices be identified from an examination of the plethora of management and governance practices suggested by the family business literature? According to Ward (2004), few family businesses last beyond 60 years in the same family. What do families in business have to do to ensure continuity? Searching for an answer to this question, family business researchers (Poza 2007; Schwass 2005; Ward 2004, 2005) have identified and suggested a number of proactive management and governance practices (sometimes characterized as best practices) the implementation of which would assist families-in-business to survive and thrive. This lessons learned approach (Jaffe & Braden 2003; Ward 2004) to survival and endurance suggests implementation, by family businesses generally, of practices learned from so-called outstanding family businesses, with a view to helping them achieve similar success, continuity, and effective succession.

The main impetus for this investigation originated from the realization that there is an unexplained and, perhaps, even an inexplicable gap between what the family business literature (Poza 2007; Schwass 2005; Ward 2004) suggests as proactive family business management and governance practices and what most families in business actually do to manage their businesses in their efforts to survive and thrive. The gap is evidenced in three principal ways. First, the responses of family business owner-managers to questions relating to family business practices in previous National Australian Family Business Surveys (e.g., Dana and Smyrnios 2010, 2013; Smyrnios and Dana 2006) indicating that approximately half of them either ignore or circumvent these practices. For example, less than half of them have formal Boards of Directors, hold regular Board meetings; have written business, strategic, and succession plans; or have formal management structures, job specifications, and performance appraisal systems. Second, the paradoxical conclusion by certain family business researchers (Miller & Le Breton Miller 2005; Ward 2005) not only that successful families in business in fact skirt around conventional management practices but also that their very flouting of accepted management wisdom might be the reason for their success and longevity. Third, the findings of Miller and Le Breton Miller (2005) that long-term strategic planning was the consistent common factor amongst well performing family businesses.

PRINCIPAL EXPONENTS AND PROPONENTS OF THE LESSONS LEARNED APPROACH

Exploring the issues of longer term success and continuity by studying family businesses that were still thriving after making it to the third generation and beyond, Ward (2004) set out to determine what the families that owned and managed them did right, or what succeeded, over the generations. The outcome of this investigation was a most comprehensive and detailed checklist of fifty family business lessons learned or practices, including: merit based employment compensation and promotion of family members; attracting and retaining key non-family executives; strategic planning; business cultures that encourage responsiveness and change; family mission statement and code of conduct; ongoing education and development of family members, particularly successors; voluntary accountability in the form of boards of independent directors; and building social goodwill. By way of contrast, Schwass (2005) used the umbrella concept of wise or evolutionary growth under which to subsume a number of lessons learned from outstanding family businesses, including: governance structures; values and commitment by, and codes of conduct for, family members; clarity of roles of family members; and strong family leadership over the generations.

In line with the previous two frameworks, Jaffe and Braden (2003) catalogued eight main practices for the management and governance of family businesses: A clear and powerful vision; the cultivation of entrepreneurial strengths; strategic planning to mitigate risks and capture opportunities; building unifying structures to connect family, assets and environment; clarifying roles and responsibilities of family members and helping them to develop competencies; communication; and providing independence, including exit options.

Similarly, setting out to investigate the question of resilience and continuity of fourth, fifth, and sixth generation centennial family companies, Poza (2007) recognized five critical family business practices, structures, and processes for the management of the family-business interaction for continued family ownership and control: hiring and retaining professional non-family managers; establishing influential independent boards; strategic planning; communication in the form of family meetings and a family council; and an equity structure appropriate to continued family control. Poza (2007) indicated that in addition to competitiveness, adaptation and growth, emotional intelligence, family unity, tolerance of differences, and *interpreneurship* (intergenerational entrepreneurial activity), were important factors for family business success and longevity.

Focusing primarily on the challenges of family business continuity and intergenerational succession, Lansberg (1999), emphasized stewardship, the shared visions or dreams that integrate the aspirations of different generations, development of successors, and family members' ability to collaborate and manage conflict.

By way of further contrast, O'Hara (2004) identified eleven patterns, principles, and practices he thought were associated with family business success and longevity: family unity; a product that caters to basic human needs; primogeniture; a role for women; commitment to continuing the legacy; the use of adoption as a means of perpetuating family ownership; allowing the business rather than the family to come first; an obligation to community and customer service; conflict management; plans in writing; and a system of governance.

Overall, the literature suggests hundreds of related practices, most of which are variations on a theme, identified by family business researchers. In Part 1 of the study outlined below these practices were identified and then consolidated into 35 main family business management and governance practices clustered around 7 key continuity factors: Commitment to and planning for the future as a family-in-business; governance; communication and conflict management; professionalisation of the business and use of non-family resources; mentoring and development of family members and definition of roles and responsibilities; continuity, succession planning, and exit options; and philanthropic and charitable activities and building social goodwill (Table 1).

Table 1. Seven Key family business continuity factors and related management and governance practices

1: COMMITMENT TO CONTINUITY - ***Commitment to Continuity; Stewardship; Strategic Planning; Growth***

1. Commitment to the long-term viability and continuity of the business
2. Planning for ongoing growth, transitions, and foreseeable contingencies

2: GOVERNANCE - ***Governance of the Business & Family: Values, Vision, Purpose, Rules, Policies, Processes & Structures***

3. Establishing policies to deal with predictable family-in-business issues *before* the need arises
4. Defining a uniting sense of *purpose* and *mission* in relation to the business (shared aims and objectives)
5. Identifying a clear set of *values* the family wishes to perpetuate (i.e., the *human face* of family business)
6. Establishing processes to govern the family-business interaction for continued family ownership/control
7. Setting *rules* to strengthen interpersonal relationships and manage the expectations of family members
8. Establishing a formal dividend policy that pays out according to business profitability

3: COMMUNICATION - ***Communication; Family Meetings; Unity & Cohesion; Conflict Management***

9. Holding regular *family meetings* to share information, build trust, avoid politics, and achieve consensus
10. Accepting that family members will have different perspectives on family business issues
11. Establishing conflict management processes
12. Family members getting together regularly to have fun and pursue non-business activities

4: PROFESSIONALISATION - ***Professionalisation of the Business; Career & Employment Policies; Dealing with Change; Adaptability***

13. Establishing family employment/career planning policies based on qualifications and experience
14. Establishing merit-based policies for the compensation and promotion of family members
15. Benchmarking business practices and performance against the best businesses in Australia
16. Using unconventional strategies/practices to leverage family business uniqueness
17. Making timely use of outside resources/assistance (e.g. advisory boards and professional advisers)
18. Hiring key non-family executives and assuring career growth opportunities for them

5: EDUCATION & DEVELOPMENT - ***Education and Development of Family Members; Definition of Roles & Responsibilities***

19. Actively learning to deal with the challenges that result from combining family with business
20. Actively learning communication skills for family members to operate as an effective team at work
21. Establishing a clear process for successors to develop as individuals, in their roles, and in the business
22. Ensuring attentive mentoring of successors as prospective business leaders and owners
23. Defining clear family member roles, responsibilities, accountabilities and interpersonal boundaries
24. Gradually modifying parent-offspring relationships into ones of 'peers" at work
25. Emphasizing importance of *integrity and commitment to the business* as primary successor attributes
26. Establishing processes for welcoming, educating, and inducting in-laws into the family

6: CONTINUITY PLANNING - ***Continuity: Succession; Succession Planning; Exit Options; Timely Retirement of Incumbents***

27. Committing to being in the best businesses in the future, even if it means leaving the business of origin
28. Documenting 'buy-sell' agreements that provide clearly defined and fair ownership exit options
29. Taking the challenging task of *succession planning* seriously and putting considerable effort into it
30. Designating a mandatory retirement age for all senior executives, especially owner-managers
31. Selecting a family (cf. business) leader to perform the role of holding the family together emotionally
32. Setting a definite date for the transfer of leadership responsibility and control to the next generation

7: CORPORATE CITIZENSHIP & PHILANTHROPY - ***Philanthropic & Charitable Activities; Building Social Goodwill; Assistance for family members in need***

33. Demonstrating a strong sense of corporate citizenship that actively builds social good will
34. Engaging in philanthropic and charitable activities
35. Establishing policy to handle & assist family members who have personal problems & special needs

Note. Adapted from Poza (2007); Schwass (2005); O'Hara (2004); Lansberg (1999); Chrisman et al. (1998); Ward (1997, 2004, 2009, 2011); Jaffe et al. (1991, 2003, 2012).

These form a workable conceptualization of the notion of family business continuity defined as longer-term success and longevity encompassing both family harmony and firm performance. All the

7 factors, and the practices related to them, are designed to achieve family-in-business continuity objectives (Table 2).

Table 2 - Objectives of Family Business Continuity Factors and Associated Practices

Factors	Theoretical Underpinning?	Objectives
1 - STEWARDSHIP Commitment to Continuity, Strategic Planning, Stewardship	Stewardship; Strategic Planning & Management	Being a family in business means having to meet unique and complex challenges one of the most critical of which is long-term viability and continuity. This requires commitment by incumbents to positioning both the family and the business for the long term as well as instilling a sense of stewardship in younger family members making it the responsibility of each generation to transfer a business that is stronger than the one that was passed on to them. It also means forward strategic and business planning that anticipates likely future issues and challenges and increases the chances of achieving positive outcomes for future generations of family members. Without ongoing business renewal and growth the final outcome is likely to be business stagnation and zero sum dynamics resulting in family members dissatisfaction (Ward, 2004; Poza, 2010).
2 - GOVERNANCE Values, vision, purpose, rules, policies, processes and structures.	Strategic Planning & Management; Agency	Important family business continuity requirements include (1) identifying the family's values and its purpose in being in business to provide family members with the requisite sense of direction (vision and mission) and ensure they can tackle the many challenges of combining family and business, particularly as the business develops and the family grows, and (2) establishing developmental-stage-appropriate guidelines, structures and processes to govern the family-business interaction for long-term business success and family harmony. The objective is to provide family members with the requisite coherence and pride to tackle the challenging emotional family issues that are an inevitable part of being in business together (Ward, 2004).
3 - COMMUNICATION Family meetings, unity, conflict management.	Systems Theory	Effective communication is the perennial challenge in relationships. In the family business the issue of communication becomes an even greater challenge due to the different roles and relationships that family members have in the business including personal and family complementary/reciprocal roles, organisational roles, and equity or ownership roles, each of which influences their expectations. When communicating, family members are potentially sending, receiving and interpreting messages from the various roles. As a result, it has been suggested that business-related communications of family members are "ongoing, oral, relatively unplanned, relationally important, emotionally loaded, and topically complex; in a phrase, rich and messy" (Lundberg, 1994). Longer-term family business continuity requires family members to establish structures and processes for effective ongoing inter and intra generational communication to ensure family unity and to anticipate and manage potential areas of conflict. The nature of the interaction between the business and the family constitutes a unique competency and source of value in family-owned and family-managed businesses. When this interaction is characterized by family unity and forward-thinking by family members, businesses are more likely to engage in managerial and governance practices that control agency costs and bank on unique resources that produce idiosyncratic organizational capabilities (Poza, 2010, 177).
4 - PROFESSIONALISATION of the business, dealing with change, adaptability.	Resource Based View; Strategic Planning & Management; Agency Theory	For smaller, younger family businesses managed by their owners and relatives, informal policies and processes are often quite adequate to accomplish their objectives. As a business grows in size and complexity, however, more formal governance and management practices are required to ensure smooth operations. In that context, therefore, professionalizing the family business usually means moving from the entrepreneurial management style of founder-

		owner start up businesses to the more formal structures, processes, and practices of larger businesses that are managed by professional managers. These practices are often referred to as 'conventional management practices'. They include formal governance structures such as boards of directors, formal agreements such as buy-sell agreements, sharing of relevant information with a wide range of line managers, delegation of authority, as well as clearly documented HR and other policies and practices. The challenge for growing and evolving family businesses is to identify what structures and processes can remain informal and what requires a greater degree of formality (or professionalisation) to manage the interface between family and business.
5 - Education and development of family members, definition of roles & responsibilities.	Systems Theory; Agency Theory; Stakeholder Theory	The efforts of entrepreneurial business founders in creating and growing businesses are usually deemed heroic. To ensure the continuity of these businesses in family control, requires another kind of hero: successors who respect what has been accomplished by their predecessors, but who can also reinterpret the family's business vision, and adapt it for future prosperity. Given that new family business leadership does not emerge by proclamation, a comprehensive successor development program is likely to increase the chances of family business continuity. (Aronoff, CE & Ward. JL 2011). How to select and train successors is a critical issue for families in business. An Australian study conducted in 2000 [6] indicated that integrity and commitment to the business were the two successor characteristics ranked highest by families in business. These were followed in order of precedence by intelligence, self-confidence, and decision-making abilities. Interpersonal and strategic planning skills, creativity, and experience in the business were also ranked well ahead of education levels or technical skills and experience. Interestingly, many owners did not consider some of the principal characteristics usually associated with the entrepreneurial personality (independence, willingness to take risk, and aggressiveness) to be critically important in potential successors. Integrity and commitment to the business contribute to both trustworthiness and the performance of the business, connoting honesty, clarity of intentions, and ability to implement sound business processes. They constitute a powerful combination of attributes in potential successors who can be depended on to make decisions that are in the best interest of the business as well as the family. Without integrity or commitment, competence (important though it is) does not provide that assurance. **(**Dana, L, Smyrnios, K & Romano, C 2000).
6 - CONTINUITY PLANNING Succession, succession planning, exit options, timely retirement of incumbents.	Strategic Planning & Management; Theory of Planned Behaviour	Successful, long lasting business families put considerable thought and effort in dealing with, and planning for, succession. After all, it is the ultimate management challenge. For the business to continue in the family, there must be family successors who are ready, willing, and able to assume control when the incumbents are prepared let go of the reins.
7 - CORPORATE CITIZENSHIP Philanthropic and charitable activities, building social goodwill.	Stakeholder Theory	Practices acknowledges the importance of creating strong relationships with the community and building goodwill that can protect and sustain the business through external changes. Additional benefits include providing the family with a way to 'give back' as an important part of their value system (Ward, 2004).

Theoretical Underpinnings of the Lessons Learned Approach to Family Business Continuity

Strategic planning and management are the main theoretical underpinnings of the lessons learned approach to family business success and longevity (Ward 2004; Poza 2007). Other theories that support identified family business management and governance practices include the Resource Based View (RBV) of the firm that examines enterprises for the specific, complex, dynamic, and intangible resources that are unique to it (Barney 1991); the related Institutional Theory that proposes that a firm’s sustainable advantage depends on its ability to manage the institutional context of its resource decisions (Oliver 1997); Agency Theory that deals with the separation of ownership and control in family firms and the resulting need for supervision and control of managers by owners (Van den Berghe & Carchon 2003); Systems Theory that models the family firm as a system composed of three overlapping family, ownership, and management sub-systems (Gersick et. al. 1997; Tagiuri & Davis 1982); and Stewardship Theory that focuses on incumbent family managers viewing the family business as a legacy to be preserved for future generations as an ongoing concern (Corbetta & Salvato 2004; Davis et. al. 1997).

By thinking forward and planning, families in business can craft better futures (Miller & Le Breton Miller 2005). Ward (2004) was of the view that the identified lessons or practices provided tools with which owner-managers could think through the future implications or consequences for their families and businesses of their current decisions. In other words, thinking ahead and developing foresight capabilities enabled owner-managers to explore and understand a range of scenarios on how their businesses, and the contexts in which they were embedded, might develop in the future, thereby improving not only their decision-making processes but also their ability to create their desired future (Hideg 2007; Horton 1999; Major, Asch, & Cordy-Hayes 2001). Carlock and Ward (2001) emphasized a need for an integrated four-dimensional Parallel Planning Process (PPP), including: a business strategy plan; a business leadership and ownership succession plan; a personal financial plan for family members; and a unifying family continuity plan.

The RBV (Barney 1991) and institutional theory (Oliver 1997) provide another perspective within which to ground the lessons learned approach to family business success and longevity. Resources here include both a unique set of competencies and distinctive organisational routines that provide family firms with a source of competitive advantage (Habbershon & Williams 1999). Poza (2007) observed that family businesses possess idiosyncratic, inimitable, and intangible resources that, properly harnessed, could not only provide them with competitive advantage but also lead them to achieve superior performance. What was required, however, was the judicious management of the unique interface and interaction between each owning-controlling family and its business – characterized primarily by family unity, forward thinking, and managerial and governance practices that control agency costs.

Individual family businesses have particular agency relations within and between the overlapping systems of family, ownership, and management. Based on the propositions and explanations espoused by agency theory (Eisenhardt 1989; Van den Berghe & Carchon 2003), boards of directors, family councils, family meetings, family charters, and other governance processes, structures, and practices are suggested as ways of minimising issues resulting from the separation of ownership and management, and as a means of reducing agency costs in family businesses.

The lessons learned approach also draws on systems theory that forms the basis for models of family business represented by three overlapping sub-systems: family, ownership, and management (Gersick et al. 1997; Tagiuri & Davis 1982). Poza (2007) argued that implementation of governance, communication, and business professionalisation practices led to joint optimization of the three sub-systems; control of agency costs through positive family-business interaction; and exploitation of the resources available to business families to achieve competitive advantage. These factors, together with stewardship, led to family business sustainability and continuity. Finally, the stewardship perspective on family business emphasizes a commitment to hand on a healthy business to subsequent generations and the implementation of practices that facilitate continuity and succession (Lansberg 1999; Sharma 2006). These include not only commitment to, and planning for, the future as a family business but also relevant governance, communication, conflict management, developmental, and philanthropic practices that demonstrate and support that commitment.

Notwithstanding the application of these theoretical approaches the field has, nevertheless, been described as *pre-paradigmatic* (Sharma 2006, p. 25). There is no consensus on a definition of family business, and about the nature of the field and how to deal with its issues and challenges (Klein, Astrachan & Smyrnios 2005). Given this relatively unstable and eclectic foundation and theoretical background, it is sometimes difficult to detect a consistent or agreed theoretical basis for the selection and characterization of family business lessons learned.

The subsequent section outlines the two principal parts of the study comprising this research. Part 1 reports on the levels of implementation of the practices and Part 2 details the findings of a confirmation of a theoretical model of family business continuity in terms of 7 key factors and 35 main practices developed on the basis of an in depth review of the relevant family business literature.

PART 1: IMPLEMENTATION OF MANAGEMENT AND GOVERNANCE PRACTICES

METHOD

The Family Business Continuity Questionnaire

To determine the levels of implementation by Australian family businesses of management and governance practices identified by the family business literature, a questionnaire incorporating the list of practices shown in Table 1 was developed. This conceptually driven model of family business continuity was then incorporated into a Family Business Continuity Questionnaire that sought to determine the levels of awareness, acceptance and implementation of those practices by family businesses. Items were rated on 5-point Likert scales ranging from *not aware of the practice* to *practice fully implemented*. Questions were listed under seven broad headings including: Background information on the business (e.g., date of establishment, industry, legal structure); background information on the owner (e.g., age, gender, education level); potential sale of the business (e.g., whether the owner is planning sale of the business, reasons for sale); family business characteristics (e.g., generation, underlying ownership); succession (e.g., feasibility, transfer of equity; likely successor(s); issues and challenges (e.g., critical issues); and management and governance practices (e.g., conflict management processes, merit based compensation policies).

Definitions

For the purposes of this study, an enterprise was considered to be a family business if it involved two or more related individuals, who worked together (or were otherwise associated), in a commercial enterprise controlled by one or more of them. The relevant generation of the family business was considered to be the generation of the family member that held either the most senior managerial position or had a controlling ownership interest in the business.

Procedure

A random sample of 5000 Australian family businesses based on location by state, industry, number of employees, and sales turnover was obtained from Dun and Bradstreet who randomly selected companies in the proportions found in the Australian population of employing small-to-medium enterprises. Additional selection criteria included: names with the words ‘bros’, ‘brothers’, ‘son’ or ‘daughter’; multiple directors of the business with same surname; shareholders with the same surname owning 50% or more of the business. Public sector, social services, agricultural, and micro businesses were excluded, as were companies whose revenue was less than AU$2 million. Questionnaires were mailed with a covering letter explaining the purpose of the study and were returned in stamped, self-addressed envelopes. Participants were also given the option of completing the Survey on-line. Data were analysed using SPSS for Windows and Partial Least Squares (PLS).

Most and less frequently implemented practices

Table 3 shows levels of implementation in full or in part by Australian family businesses of the 35 management and governance practices listed in Table 1. The most frequently implemented practice is *The family gets together regularly to have fun & pursue non-business activities* indicating that family business owners recognise the importance of family and make time for family interests and fun apart from the business (Ward, 2004). Other practices include: *Engaging in philanthropic & charitable activities*, and *Demonstrating a strong sense of corporate citizenship that actively builds social good* acknowledge the importance of creating strong relationships with the community and building goodwill that can protect and sustain the business through external changes; *The family has made a commitment to the long-term viability & continuity of the business* positions the business for long-term gain. This practice demonstrates the commitment of family members to the family’s vision and purpose, and to the continuity of the business within the family in response to the question: How does owning an business make sense to our family (Schwass, 2005; Ward, 2004).

The last 6 practices highlighted in Table 3 are those that were not implemented by two thirds or more of family businesses. Heading the list of least frequently implemented practices are *Designating a mandatory retirement age for all senior executives, especially owner-managers*, and the related practice *Setting a definite date for the transfer of leadership responsibility and control to the next generation*. Among other things, Ward (2004) considered that the objective of these practices was to make retirement and leadership transfer decisions clear and final, so as to create opportunities sooner rather than later for organization and leadership renewal. Responses confirm the reluctance of family business owner-managers to commit themselves to a specific timeline either for retirement or for transfer of leadership responsibility and control.

Table 3. Implementation of family business management and governance practices

The Family …	*Not implemented %*	*Implemented in full or in part %*
gets together regularly to have fun & pursue non-business activities		**80.3**
engages in philanthropic & charitable activities		**78.9**
has made a commitment to the long-term viability & continuity of the business		**76.4**
demonstrates a strong sense of corporate citizenship that actively builds social good will		**74.7**
emphasizes importance of *integrity* & *commitment to the business* as primary successor attributes		**72.8**
has planned for ongoing growth, transitions, & foreseeable contingencies		**72.0**
has identified a clear set of *values* it wishes to perpetuate (i.e., the *human face* of family business)		**70.0**
accepts family members having different perspectives on family business issues		**69.7**
is actively learning to deal with the challenges that result from combining family with business		**69.1**
is actively learning communication skills to operate as an effective team at work		**66.3**
makes timely use of outside resources/assistance (e.g. advisory boards & professional advisers)		**66.1**
has defined a uniting sense of *purpose* & *mission* in relation to the business		**65.4**
has defined clear family member roles, responsibilities, accountabilities, & interpersonal boundaries		**58.9**
uses unconventional strategies/practices to leverage its uniqueness		**55.6**
holds regular *family meetings* to share information, build trust, avoid politics, & achieve consensus		**54.5**
has a family (cf. business) leader who performs the role of holding the family together emotionally		**54.0**
has a policy on how to handle & assist family members who have personal problems & special needs		**53.9**
hires key non-family executives & assures career growth opportunities for them		**51.7**
accepts the need gradually to modify parent-offspring relationships into ones of 'peers' at work		**50.7**
takes the challenging task of *succession planning* seriously & puts considerable effort into it		**50.6**
ensures attentive mentoring of successors as prospective business owners & leaders	**50.2**	
establishes policies to deal with predictable family-in-business issues *before* the need arises	**52.8**	
has established a clear process for successors to develop as individuals, in their roles, & in the business	**52.9**	
has established processes to govern the family-business interaction for continued family ownership/control	**53.5**	
benchmarks business practices & performance against the best businesses in Australia	**53.5**	
is committed to being in the best businesses in the future, even if it means leaving the business of origin	**54.6**	
has established a formal dividend policy that pays out according to business profitability	**55.2**	
has a set of *rules* to strengthen interpersonal relationships & manage the expectations of family members	**59.3**	
has established family employment/career planning policies based on qualifications & experience	**63.8**	
has established conflict management processes	**66.6**	
has established merit-based policies for the compensation & promotion of family members	**68.5**	
has established a process for welcoming, educating, & inducting in-laws into the family	**68.6**	
has documented 'buy-sell' agreements that provide clearly defined & fair ownership exit options	**72.0**	
has set a definite date for the transfer of leadership responsibility & control to the next generation	**82.5**	
has designated a mandatory retirement age for all senior executives, especially owner-managers	**92.8**	

Participants

Participants were 242 family business owner-managers. Half of the family businesses were established less than 25 years ago, and 83.6% of family businesses were established less than 50 years ago. Almost 64% of enterprises can be classified as small businesses (1-19 employees) with 34.7% having less than 10 employees (Table 4). As Table 4 shows, 42% are aged between 50 and 59 years, and 29% are 60 years and over. The main motivations of family business owner-managers for starting or remaining in business are: *to be self-employed and independent* (59.7%); to *enjoy the challenges of building a successful enterprise* (40.3%); and *to create wealth* (54.9%). Revealingly, fewer than 20% of family business owner-managers mention *passing on the business to the next generation,* and fewer than 10% mention *employing family members* as motivations either for starting or for remaining in business.

Table 4. Descriptive demographics of family businesses and owners

Characteristic	%
Age of businesses	
1-24 yrs	49.1
25-49 yrs	34.5
50-74 yrs	9.1
75 yrs and over	7.3
Size of business (number of employees)	
Small (1 - 19 employees)	63.6
Medium (20 - 199 employees)	32.2
Large 200+ employees	4.2
Age of owner-managers	
Less than 50 yrs of age	29.0
50-59 yrs of age	41.7
60 yrs and over	29.3
Motivations and objectives of owners	
Personally oriented motivations	
1. To be self-employed and independent	59.7
2. To create wealth	54.9
3. To enjoy the challenges of building a successful enterprise	40.3
4. To pursue a vision, dream, or passion	31.2
Family oriented motivations	
1. To improve family lifestyle	25.3
2. To pass on the business to the next generation	18.6
3. To follow in the footsteps of role model parents/mentors	13.8
4. To employ family members	9.5
Intentions in relation to future leadership and ownership	
1 - Intend to have a family member (s) manage the business in the future	63.0
2 - Intend to keep the business in continuous family ownership	57.4
3 - Intend to keep the business small	53.5
4 - Are actively planning the sale of their business (original intention 12.6%; concern for the future 10.8%)	45.0
5 - Would seriously consider selling their business if approached (retire 30.6%; lack of successor 18.9%)	61.3

Table 4 also shows that 57.4% of family business owners intend to keep the business in continuous family ownership, and 63.0% intend to have a family member manage the business. Almost 60% of respondents are first generation**,** 31% second generation, and 11% third and subsequent generation businesses. Similarly, about 60% indicated that two generations of family members were involved in operations and 6% that three or more generations were involved (Dana & Smyrnios, 2010b).

PART 2: CONFIRMATION OF A THEORETICAL MODEL OF FAMILY BUSINESS CONTINUITY

We employed Smart-PLS (Ringle, Wende & Will 2005) for data analysis. PLS is a structural equation modelling (SEM) technique that uses a component-based approach to estimation. Recent discussions on PLS-SEM (e.g., Gefen et al. 2011; Goodhue et al. 2012; Ringle et al. 2012) provide an overview of the reasons to use PLS-SEM. For this study, the choice of variance-based PLS-SEM (such as PLS Graph) over a covariance-based SEM tool (such as LISREL) was based on the following reason: PLS-SEM is *primarily for the exploratory work and for prediction* (Ringle et al. 2012, p.11). Similarly, Chwelos et al. (2001, p.311) point out that PLS-SEM is *better suited when the focus is on theory development, whereas LISREL is preferred for confirmatory testing of the fit of a theoretical model to observed data.*

Given that research in this area has been predominantly qualitative and anecdotal, based on small numbers, Part 2 can be regarded as exploratory focusing on theory development of family business continuity rather than testing an existing theory.

Instrument validation

Prior to conducting the confirmatory factor analysis (CFA), we ran an exploratory factor analysis (EFA) on all indicators. Principal axis factoring with direct oblimin rotation yielded consistent groupings with our hypothesized measurement models. All constructs were tested for reliability and validity.

We first used SPSS to verify construct validity and reliability for the reflective first-order factors. Convergent and discriminant validity are confirmed by exploratory factor analysis. All items loaded on the expected factors with a loading score greater than 0.50. Moreover, the own factor loading scores are higher than all cross loading scores. All eigenvalues of the first-order constructs are larger than the suggested value of 1.0. The communality scores are all higher than the suggested value of 0.50. These results indicate adequate reliability (Hair et al. 1998).

Tables 5 and 6 show Pearson correlation coefficients and descriptive statistics, and measurement properties of constructs. As reported below, instrument validation proceeded through four steps: calculation of construct reliability; variance extracted estimates; and evaluation of convergent and discriminant validity.

Table 5. Correlation matrix, mean scores and standardized deviations

	Mean	SD	1	2	3	4	5	6	7
1.F1	**3.94**	**.95**	.92						
2.F2	**3.51**	**.91**	**.59****	.79					
3. F3	**3.71**	**.85**	**.45****	**.64****	.77				
4. F4	**3.42**	**.77**	**.51****	**.62****	**.56****	.75			
5. F5	**3.59**	**.81**	**.59****	**.74****	**.67****	**.72****	.75		
6. F6	**3.15**	**.74**	**.47****	**.59****	**.56****	**.60****	**.73****	.71	
7. F7	**3.89**	**.91**	**.44****	**.57****	**.54****	**.52****	**.63****	**.52****	.85

Note. *p <.05. **p <.01. The diagonal elements are the square root of the AVE.

Table 6. Confirmatory factor analysis: Standardized loadings and reliability

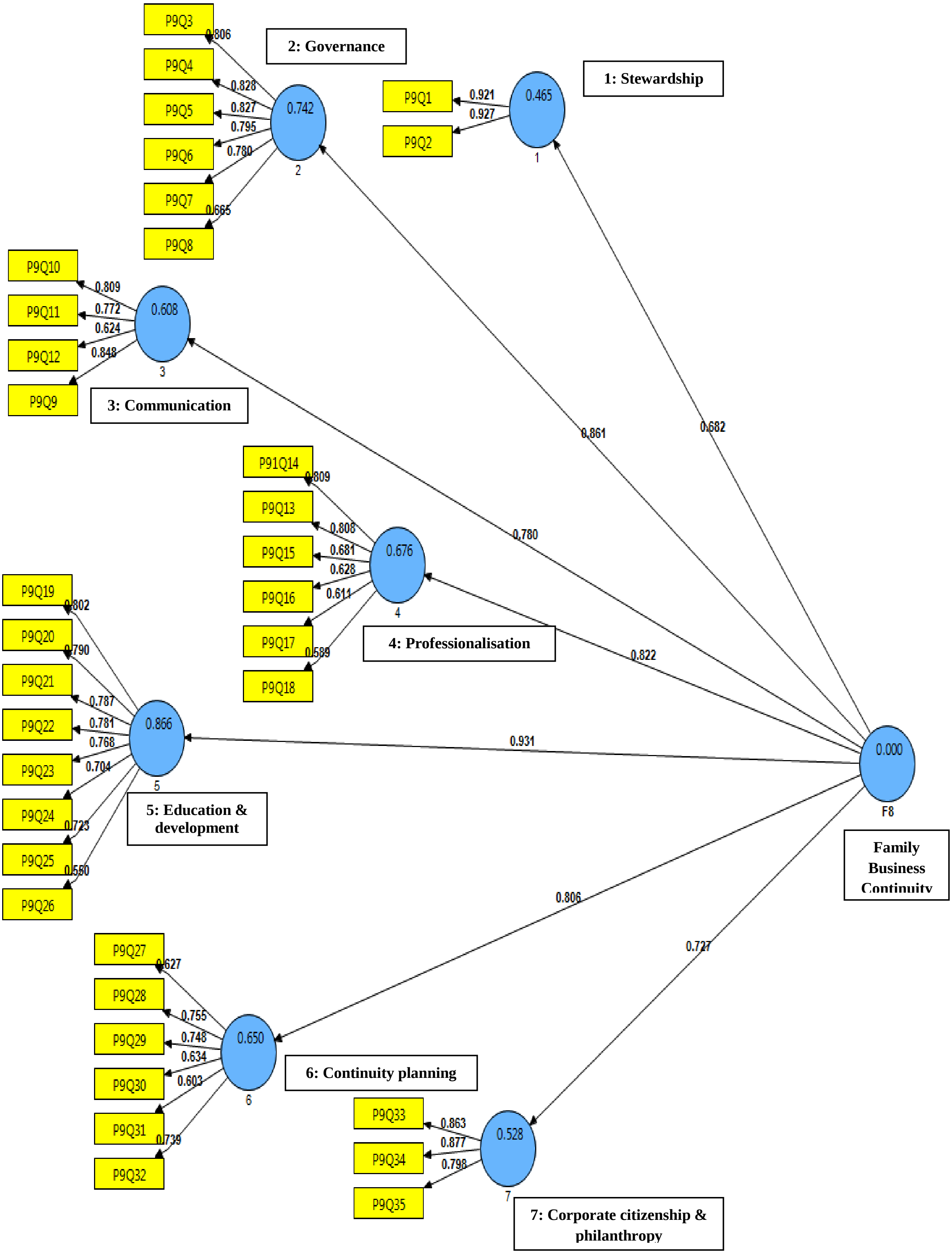
Constructs	Cronbach's α	Construct Reliability	Variance Extraction	Range of Standardized Loadings	Range of Indicator Reliability
1. F1	**.83**	**.92**	**.85**	**.92-.93**	**.85-.86**
2. F2	**.87**	**.91**	**.83**	**.67-.83**	**.45-.69**
3. F3	**.76**	**.85**	**.72**	**.62-.85**	**.38-.72**
4. F4	**.78**	**.84**	**.71**	**.59-.81**	**.35-.66**
5. F5	**.77**	**.91**	**.83**	**.55-.80**	**.30-.64**
6. F6	**.88**	**.84**	**.71**	**.60-.76**	**.36-.58**
7. F7	**.77**	**.88**	**.77**	**.80-.88**	**.64-.77**

Note. All factor loadings are significant at p <.001.

Construct reliability, a measure of consistency, assesses the degree to which items are free from random error. Indicator and composite reliability are two measures of construct reliability (Fornell & Larcker 1981). While indicator reliability represents the proportion of variation that is explained by a construct it purports to measures, composite reliability reflects the internal consistency of indicators (Werts, Linn & Jöreskog, 1974). In the present study, indicator reliability values range between .50 and .88, and composite reliability values exceed the recommended value of .70 (Nunnally & Bernstein 1994).

Variance extracted estimate reflects the overall amount of variance in indicators accounted for by a latent construct (Fornell & Larcker 1981). In this study, all estimates exceed the recommended value of .50 (Hair et al. 2006). Construct validity was established by measuring convergent and discriminant validity of measurement items (Phillips & Bagozzi 1986). Convergent validity assesses the consistency across multiple operationalization. Values for t-statistics for all factor loadings were found to be significant (all ps<.001), indicating that measures satisfy convergent validity criteria (Gefen, Straub & Bourdreau 2000). According to Fornell and Larcker (1981), average variance extracted for each construct should be greater than the squared correlation between constructs when assessing discriminant validity, the extent to which different constructs diverge from one another. In this case, results suggest that items share more common variance with related than non-related constructs, with all constructs meeting this criterion (Figure 1).

As theorized in the Conceptual Model section, F8 is a higher-order construct comprising multiple dimensions with significant loadings (all p-values<.001). All paths from the second-order construct to first-order factors are of high magnitude, close to and exceeding a suggested cutoff value of 0.7 (Chin 1998). Given solid theoretical and empirical grounds, and the parsimonious nature of the second-order factors, the conceptualization of F8 as a high-order, multidimensional construct of family business continuity seems justified. This is the first time that a measure of family business continuity based on 7 key factors and 35 main practices has been developed using practices identified by the family business literature.



2: Governance
1: Stewardship
P9Q3
P9Q4
P9Q5
P9Q6
P9Q7
P9Q8
0.806
0.828
0.827
0.795
0.780
0.665
0.742
2
P9Q1
P9Q2
0.921
0.927
0.465
1
P9Q10
P9Q11
P9Q12
P9Q9
0.809
0.772
0.624
0.848
0.608
3
3: Communication
0.861
0.682
P91Q14
P9Q13
P9Q15
P9Q16
P9Q17
P9Q18
0.809
0.808
0.681
0.628
0.611
0.589
0.676
4
4: Professionalisation
0.780
0.822
P9Q19
P9Q20
P9Q21
P9Q22
P9Q23
P9Q24
P9Q25
P9Q26
0.802
0.790
0.787
0.781
0.768
0.704
0.723
0.550
0.866
5
5: Education & development
0.931
0.000
F8
Family Business Continuity
0.806
0.727
P9Q27
P9Q28
P9Q29
P9Q30
P9Q31
P9Q32
0.627
0.755
0.748
0.634
0.603
0.739
0.650
6
6: Continuity planning
P9Q33
P9Q34
P9Q35
0.863
0.877
0.798
0.528
7
7: Corporate citizenship & philanthropy

Figure 1. Confirmatory Factor Analysis (CFA) of conceptualization of family business continuity in terms of 7 key factors and 35 main management and governance practices

DISCUSSION

According to Corbetta and Salvato (2004), family businesses are embedded in widely different economic, cultural, historical, and institutional settings. These factors not only shape the choice of business activity but also make certain places and cultures more favourable to long-term family business success and endurance than others. In addition, family related contingencies and peculiarities affect and dictate the management and governance practices they are likely to implement and that best fit their situation or circumstances. The main family related contingency variables that influence the family enterprise include: ownership structure; composition and experience of managerial teams; organizational life-cycle stage and related firm complexity; and culture (Astrachan, Klein & Smyrnios 2002). Along similar lines, Landes (2006), concluded that long-term family business performance is largely determined by a few key factors including: the nature of the business activity, its context (or how particular societies view and regulate the activity), and family considerations. Positive family considerations include capable family members that are suitably trained and steeped in a system of reciprocal trust, duty, habit, and affection, ready to see the business as interesting and rewarding, and able to work effectively together. Part 1 findings indicate that most family businesses are relatively young, early generation, small businesses, with three or fewer family members employed in the business, and two or fewer family members in senior management positions. Moreover, even though half of owner- managers indicate that they intend to keep the business in continuous family ownership, they also intend to keep the business small (Table 2). As a result, for most of these family businesses two main situations manifest themselves: First, they have limited organisational capabilities and expertise to establish internal processes and structures either to professionalize the business or to create organizational competencies that would enable the business to adapt to changing market conditions so as to endure (Astrachan & Kolenko 1994); Second, the owner-managers of these businesses may consider that several of the lessons learned from large, long-lived, multi-generation family businesses are irrelevant to them not only because of their relatively small size and lack of desire for business growth, but also because of the particular contexts in which their businesses are embedded. These factors may well be the main reasons for the low level of implementation of several of the practices and, potentially, the shorter lifespan of many of these firms. Just under half of all family business owner-managers are actively planning to sell their businesses either now or later, and approximately two thirds would seriously consider selling if approached (Table 2). These findings confirm that while all family business owners might want their businesses to succeed, not all of them want their businesses to continue under family ownership and control. For many family business owners, the main objective for starting or remaining in business is improving family lifestyle by the creation of family wealth and its realisation via the eventual sale of the business. When selling the business is, or becomes, the ultimate objective and preferred exit strategy for family business owner-managers, as it usually is for privately held non-family businesses, the game changes and so do the rules; practices the principal objective of which is continuity of family ownership and control, or succession, are no longer seen as either critical or relevant. The distribution of life-cycle stages in the Australian family business population: 58.3% 1st generation, 31.0% 2nd, and 10.7% 3rd and subsequent generations (Dana & Smyrnios, 2010b) provides another indicator of reasons why many of the lessons learned from later stage/generation family businesses, and the practices that are based on them, important and useful though they may be in principle, might be of lesser interest or practical relevance to the earlier stage/generation businesses that constitute the overwhelming majority of family businesses.

Family Business Continuity: Alternative Perspectives

Miller and Le Breton Miller (2005) provide an intriguing alternative perspective on family business long-term success and continuity. Exploring the competitive advantage of outstanding, large, and old family businesses, these authors found that these firms behaved in incomprehensible ways embracing different ways of competing, managing, and governing including: ignoring market trends, displaying only a passing interest in quarterly financial statements, little bureaucracy, rudimentary controls, systemic role ambiguity, blurred roles and reporting relationships, and scary informality. They were peculiar, non-conforming, rule breaking firms that marched to a different drum, driven more by a desire to make their mission relevant to their customers, rather than by the practices of their competitors. Similarly, Simon (2009) opined that family business champions went their own way rather than doing what is acceptable or usual, with common sense as their only secret success formula.

IMPLICATIONS

Following an extensive review of the relevant family business literature, this study set out to develop a compilation of the most comprehensive list of suggested family business management and governance practices currently available comprising hundreds of lessons or practices (many of them variations on a theme) contributed by prominent family business authors in this field of research (e.g., Jaffe & Braden 2003; Poza 2007; Schwass 2005; Ward 2004). These investigators are regarded as having addressed the relevant issues at some length. Consolidation of the practices by grouping similar or related practices culminated into a list of 35 related practices and 7 factors representing a conceptualization of family business continuity. Next, the investigation examined the theoretical underpinnings of the lessons learned approach to long-term family business success and continuity. A theoretical model of family business continuity was developed and tested. The EFA and CFA confirmed the validity and reliability of the conceptualised factors and practices as factor indicators. This process resulted in a new way to assess or measure family business continuity and its operationalisation in terms of 7 key factors that can be used as a tool by family businesses and their advisors. The factors and related practices could potentially also be used as criteria in family business award programs that seek to evaluate steps taken to increase the chances of family business longer-term success and longevity.

LIMITATIONS

Our study confronts two main limitations associated with cross sectional research and definition of family business. Collecting date at one point in time from one informant raises questions concerning reliability of data and method bias. Clearly, longitudinal and multi-level design are superior, but have other costs including relatively small numbers of individuals across cohorts responding and issues involving mortality or drop out of participants. Moreover, whereas a previous family business survey (e.g., Smyrnios & Dana 2006) allowed respondents to self-identify as family businesses, the survey reported in this article provided a guiding definition of family business that may or may not have been taken into consideration by respondents. Accordingly, it is possible that different definitions, if adhered to by respondents, might lead to different findings.

CONCLUSION

Family businesses are characterized and distinguished by the influence of the families that own and manage them. Researchers such as Poza (2007), Schwass (2005), and Ward (2004) sought to improve the chances of family-in-business continuity by addressing the question: What do families in business have to do to ensure long-term success and continuity? These investigators interviewed and observed outstanding, long-lasting, family businesses with the objective of learning from them what they did better than others, and with a view to inspiring others to put that learning into practice in their own businesses. The insights and lessons obtained, and the management and governance practices identified, have the potential to assist aspiring families in business to find answers to that challenging question. However, the effective implementation of pro-active practices such as meetings, boards of directors, family councils, and codes of conduct is context dependent and conditional on the attitudes and aptitudes of family members as well as their levels of mutual trust, commitment, and cohesion. Therefore, in the selection and implementation of suggested practices, best fit is even more critical than best practice. Accordingly, in terms of future research, the more challenging, and potentially more revealing, question to ask and answer is likely to be: What do families in business need to be and to have, so that what they do can contribute effectively to their long-term success and longevity?

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