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# **The History of Family Business, 1850–2000**

*Prepared for the Economic History Society by*

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# 1

## **Family business: nature and structure**

Despite its relevance, a useful definition of the family firm is elusive. By contrast, the large, managerial enterprise shows very well-defined features. It first appeared in manufacturing in the United States between the 1870s and the 1890s and was stimulated by pervasive waves of technological innovation in transportation and production, which are usually labelled ‘the second industrial revolution’. It spread into capital-intensive industries – mostly chemicals, electrical products, transportation systems, petroleum refining, primary metals, some branches of the food and beverages industry, cigarette making, and several others (Chandler and Hikino 1997). The dimensional growth and the complex activity linking production and distribution triggered an organisational revolution as well; the relatively simple structures employed during the first industrial revolution evolved into the much more sophisticated U- and M-forms of organisation. These management structures were crowded by salaried low, middle, and top managers, more and more autonomous from the property and from the founder’s family, according to the growing specialisation of their roles. Alfred Chandler put it best:

Salaried managers’ specialised knowledge and their firms’ ability to generate the funds necessary for continued expansion meant that they soon controlled the destiny of the enterprises by which they were employed . . . In the large, multiunit enterprise . . . salaried middle managers, who have little or no share in its ownership, have come to be responsible for co-ordinating the flow of goods and supervising the operating units.

(Chandler 1980: 12–13)

Displaced from middle management, the owners soon also lost their role at the top of the firm. As the growth of the corporation demanded more investment and financial resources, the shift from personal, family capitalism to financial capitalism, where bankers and other financiers shared top management decisions, occurred (1980: 13). In the end, however, given the growing complexity of the activities undertaken by the new, modern enterprises, the managers themselves were ultimately responsible for resource allocation and the most relevant strategic decisions. Quoting Chandler again:

No family or financial institution was large enough to staff the managerial hierarchies required to administer modern multiunit enterprises. Because the salaried managers developed specialised knowledge and because their enterprises were able to generate the funds necessary for expansion, *they ultimately took over the top-level decision making from the owners or financiers or their representatives* [who] rarely had the time, the information or the depth of experience to propose alternatives; they could veto proposals, but they could do little else . . . Family members, as a result, soon came to view their enterprise, as did other stockholders, from the point of view of renters; that is, *their interest in the enterprise was no longer in its management but rather in the income derived from its profits*. Firms in which representatives of the founding families or of financial interests no longer make top-level management decisions . . . can be labelled *managerial enterprises*.

(1980: 13–14; emphasis added)

These changes in the ownership structure of the large corporations are documented in the well-known research presented at the beginning of the 1930s by Berle and Means (1932). They presented clear (if partially criticised – see Burch 1972: ch. 1) evidence of the growing separation between ownership and control, as well as of the fragmentation of stock ownership which determined the birth of the so-called ‘public company’. The radical transformation brought about by this new actor in social and political life does not need to be emphasised. Neither does its impact on the intimate structure of nations, and the revolution that occurred in the field of economic science subsequent to the emergence of oligopolistic and multinational corporations (see Galbraith 1967).

With the rise of the managerial corporation, the transformation of the industrial enterprise spread all over the world, bringing about

a revolution in nations' competitive advantage (in a few decades the USA and Germany surpassed the world leader, Great Britain, in both GNP and international trading) (Elbaum and Lazonick 1986:9ff.). It also triggered the birth of some *first movers* able to establish enduring success in their fields and to gain long-standing leadership in national and international markets (Chandler 1990a). In this way, the modern business enterprise can be defined as 'an economic institution that owns and operates a multiunit system and that relies on a multilevel managerial hierarchy to administer it' (Daems 1980: 203–4). Implicitly, this kind of organisation cannot be owned and controlled by a family (Dobkin Hall 1988). Much more relevant is the fact that 'when this definition is accepted, the study of the modern firm becomes a study of when, where, and why business hierarchies were established to manage functional and vertical integration, with a resulting increase in aggregate concentration of assets' (Daems 1980: 204).

### **In search of a definition: quality and quantity**

Contrary to the relatively easy definition of big business and of the modern managerial corporation, it is not as simple to delineate the boundaries and features of the family business, even from a 'residual' perspective. To begin with, the family firm is a form of productive organisation whose origin is impossible to locate precisely in place or time. Family firms were in the absolute majority during the first industrial revolution, as well as in the pre-industrial period, going from the urban artisan's workshop to the famous Medici Bank, investigated by Raymond De Roover (De Roover 1963), to the sophisticated commercial and trading company of Andrea Barbarigo, 'Merchant of Venice', and the sibling partnerships common in the same period among the merchants of the Adriatic Sea Republic (Lane 1944a and 1944b). The family firm is now the backbone of a significant number of recently industrialised economies, and still a lively presence in the 'old industrialisers', as well as in a large number of sectors, from the labour-intensive and craft-based to specialised suppliers.

The presence of the family firm inside a certain economic system is largely – if not completely – due to asymmetric information, a turbulent environment, and a legal system unable to secure

and enforce property rights. Today, at least in advanced Western economies, the firm operates in a much less hostile environment than in the past (Cassis 1997: 123; Casson 2000: 205). However, the 'classic' family firm – in which property and control are firmly entwined, where family members are involved in both strategic and day by day decision-making, and the firm is shaped by a dynastic motive – is still a reality in almost all of the advanced economies, even those, such as the USA, that have been called the 'seedbed of managerial capitalism'.

From the perspective of managerial capitalism, it is theoretically possible to suggest a definition of the family firm based upon its size, whatever its measure. In this manner, the family firm should be considered as only one of the initial stages in the life of the enterprise, following the start-up period and preceding the public company phase (for a synthesis, see Dyer 1986: 4–5). Family firms in this model are generally small and medium-sized; slow growing; characterised by 'flat' organisational structures and internal succession patterns; relying upon self-financing or on local, often informal credit sources and avoiding stock-market finance; implicitly backward from the perspectives of production technology and labour relations; and less profitable than managerial ones. This is the usual perspective suggested by traditional economics (for a summary, see Casson 2000: 205–6). A considerable amount of evidence demonstrates, however, that, on the contrary, it is possible to find many examples of dynamic, large, and profitable family firms. In these examples, the traditional characteristics of proprietary capitalism – paternalism, dynastic motives, internal succession patterns, high dependence on local production systems – successfully mix with relatively 'modern' features of capital markets – internationalisation, technology utilisation, and so on. This is, for instance, the case with a large number of medium-sized and relatively large Italian family firms, well-known corporations in traditional as well as specialised industries such as Benetton, Luxottica, Ferrero, Natuzzi. They are active world-wide and rely on international financial institutions attracted to their high profit ratio. Incidentally, this had also been the experience of a number of *first movers* in almost all the European countries during the first half of the twentieth century, when the second industrial revolution spread all over the continent (see Dritsas and Gourvish 1997 and Cassis 1997). In his contribution to

*Managerial Hierarchies*, Leslie Hannah points out that it is very difficult to demonstrate that British family firms, also in capital-intensive industries, were less efficient than managerial ones, stressing the need for a less deterministic perspective in evaluating the relationship between the ownership structure and the general performance of the enterprise (Hannah 1980: 52ff.). While exploring the issue of organisational innovation, Terry Gourvish points out that the conservatism of British entrepreneurship before the 1960s is only partially connected to family persistence. Equally significant was a more general ‘clubby, gentlemanly approach to such elements as management recruitment, staff development, and the application of organisational science to business’ (Gourvish 1988: 41). In the well-known case of the glassmaking firm of Pilkington, for instance – cited by Alfred Chandler in *Scale and Scope* as a powerful example of the ‘familialism’ characterising British business (Chandler 1990a: 592) – it is true that in 1945 the board considered positively the fact that Alastair Pilkington (who was the inventor of the floating process and thus a powerful resource for the company) was a ‘Pilkington’, even if his branch of the family had had no connections with that owning the firm for at least fifteen generations. At the same time, it should not be forgotten that, as stressed by Theo Barker, the process of managerialisation and the co-optation of non-shareholder directors had started at Pilkington’s between the world wars (Barker 1977: 320ff.), and that in the same minutes quoted by Chandler, the board declared – even if in a very cautious tone – themselves ready to prepare for the future by accepting truly promising candidates (1977: 417–18).

It seems in the end somewhat hazardous to suggest an explicit and direct relationship between a firm’s size and the right form of ownership.

Likewise, it is also wrong to assume that family firms are in general less profitable and consequently less efficient than those run by managers. There has been a long debate on profitability because the field research on the subject provides variable results, differing from time to time, from country to country, and according to the industry (for a discussion and a brief summary, Hannah 1982: 4–5). There is a growing amount of research trying to link business performance to ownership structure but, since it tends to concern well-defined sectors and/or countries in what is usually a relatively short span



of time, it is almost impossible to find incontestable results. (For a general overview, see Neubauer and Lank 1998: 11–12. See also, among the others, Monsen *et al.* 1968 on US major corporations during the 1950s; Burch 1972: 105–6 for the 1960s; Sheehan 1967: 182ff.; Savage 1979: 76ff.; Jacquemin and De Ghellinck 1980 on France during the 1970s; on the UK, Holl 1975, and Leach and Leahy 1991; at a ‘micro’ level, for an example of industry comparative perspective, see Church 1982. A significant case history stressing the comparison between a family firm and a non-family firm is provided by Sluyterman 1997 on the Dutch liqueur-maker De Kuyper.)

A sectoral criterion does not function adequately, either. In fact, efficient family firms are found not only in the craft-based, traditional, and labour-intensive industries, but also in scale-intensive industries and especially in specialised, customer-oriented industries. This means that a clear-cut sectoral division is impossible, even if it is evident that research-intensive activities characterised by long-term investments are found in large corporations with institutionalised research and development, while technology-intensive family firms exist largely in well-defined market niches with a limited innovative activity. It is easy to maintain that technology and capital-intensity growth coincide with a decline in the role of family firms (Yasuoka 1984b: 306). Also in this case, however, it is not difficult to find examples of family firms committed to innovation and technological research with considerable capital intensity at the same level as managerial corporations (Cassis 1997: 131). The sectoral typology is crucial; in some cases – for instance, in finance and insurance – the family firm is still resilient and largely present (Rose 1995b: xvi and xxv). David Landes provides a telling example of the role of family dynasties when high-transaction cost sectors are concerned. The story of the Bleichröder House from the mid nineteenth until the second half of the twentieth century provides an interesting example of the rise and fall of a family firm caused by the weaknesses of the dynastic motive – as well as a powerful illustration of the relevance of kinship ties in the early phases of the life of the enterprise. Landes particularly shows this to be the case when a crucial asset for the activity is rapid and reliable information. The author himself is no supporter of personal capitalism and suggests that in such cases the advantages brought by the family in

terms of long-term commitment, know-how, and the cultivation of trust exceed or at least equal the disadvantages (Landes 1975). The twentieth-century history of old industrialisers provides considerable evidence in this respect. For instance, in the case of France, Emmanuel Chadeau has demonstrated the enduring presence of family-owned and family-managed large firms in capital-intensive advanced industries from the first industrial revolution until the present (Chadeau 1993).

A point related to this issue concerns the so-called short-sightedness of the family firm. In this perspective – shared by several historians such as Payne (1984, particularly pp. 196–7), Landes (1949), Sargent Florence (1961), and others – the family firm proves historically to be conservative in its policies of development and investment and, subsequently, unable to sustain growth and innovation, especially in capital and technology intensive industries. This is particularly the case when large size is concerned (for a review see Church 1993: 20–4; for a general critique of this perspective based upon historical evidence see Rose 1995b: xiv and xxi). At the micro level, the lack of commitment on the part of family firms toward innovation, combined with their short time horizons, is often associated with the decline of their dominance in capital-intensive industries. At the macro level, the same phenomenon is considered among the main weaknesses of a national economic system. In this respect Italy provides an interesting example of family firms' inability to cope with the new technological and productive challenges after the Second World War. During the economic boom of the 1950s and 1960s, some of the *first movers* in the capital-intensive industries of the second and third industrial revolutions – firms such as Lancia in the car industry, Olivetti in electronics, and several producers of household appliances, for example Ignis and Zanussi – lost their leadership position and undermined the future performance of the entire national economy (Pavan 1973; Amatori 1997a: 270ff.).

Notwithstanding these examples, it is clearly wrong, especially in a historical perspective, to draw conclusions about the inadequacy of the family business in sustaining the evolution of an industrial economy, both during the initial stages of development and also after (Brockstedt 1984: 261–2; Barker and Lévy-Leboyer 1982: 24; Cassis 1997). On the contrary, some authors, on the

basis of empirical research, conclude that family-run companies are not only more profitable but also generally much more profit-oriented than managerial ones. Further, the inevitability of rapacious appropriation of dividends by a 'hungry' family is far from having been demonstrated (Donnelley 1964: 95; Yasuoka 1984a: 5; Monsen 1996: 26, 28). Likewise, 'short-termism' has been considered a negative feature among large conglomerates, resulting in the mergers and acquisitions wave of the sixties (Chandler 1994: 6; Rose 1995b: xvii). In the Italian example, again, a number of well-managed family firms were able to face the turbulent years of the economic boom and the following crisis of the 1970s (these were located in the already-mentioned household appliances industry and in the food and beverages and mechanical sectors). Meanwhile, during the same period, managerial, often state-owned corporations in technology-intensive industries – ENI in energy and chemicals, Montecatini and Edison in chemicals and electricity – were dramatically unsuccessful.

Another perspective often used in defining family business and implicitly related to the 'stages theory' is that of endurance and continuity. Implicitly, family business is considered, on average, to be not very long-lasting. Relatively quickly, in two or three generations, the entrepreneurial and family firm is supposed to evolve into a managerial, public company or to disappear, given the difficulties for the single family in managing a growing and complex activity. The so-called 'Buddenbrooks effect' (the third-generation dearth of entrepreneurial skills resulting in the decline of the firm) has been extensively investigated, and the resulting evidence challenges the 'three-generations paradigm' (start-up and early growth, consolidation, and decline – for an analysis of the stages, see Dyer 1986: 4–5) previously considered as distinctive of family firms (Barker and Lévy-Leboyer 1982: 10ff.; Rose 1993; Jones and Rose 1993: 5ff.). The recent study by Professor Hidemasa Morikawa (2001) is an impressively well-documented attempt to demonstrate the inescapable destiny of the family firm, i.e. the alternatives of managerialisation or decay. In a chapter which examines 'family enterprise in Japan today', he provides an impressive list of entrepreneurial failures due to the refusal to go public, to familialism and family feuding and to failed leadership succession. As Morikawa concludes:

My persisting view is that future prospects for family enterprises are not optimistic. The first reason for my rather pessimistic outlook is that successful family enterprises . . . are the exception rather than the rule. Also, even successful family enterprises find it difficult to have continued success over long periods of time owing to the problem of continually finding and training new and capable top managers from within the family. The same problem exists to an even greater degree with less successful family enterprises. These two issues . . . strengthen the argument that family enterprises are intrinsically limited in their future prospects.

(2001: 179)

Even if it is true that family firms evolve generally into managerial structures, it is not demonstrated that this is the only alternative to the decline and consequent ‘death’ of the company. The problem in perpetuating the active presence of the family at the head of the firm is without doubt the issue of succession. As is well known, problems of leadership succession arise where the family is not able to produce adequate leaders to take over the entrepreneurial role or, on the contrary, where too many of them are involved in the day-to-day management of the company. A typical and emblematic ‘Buddenbrooks effect’ case study, embedded in a contrast between different corporate cultures and problems of leadership succession, is that of the Austrian forwarding house Schenker, known worldwide (Stiefel 1997). The ‘third-generation effect’, moreover, continues to inspire novels and case studies – an excellent example is Levine’s fascinating account of the decay of the House of Barneys department store chain (Levine 1959). In these cases the family ownership structure proves, according to its critics, to be weak and inefficient, and the consequence is stagnation and decline (in general, see Barker and Lévy-Leboyer 1982; for evidence see Savage 1979: 10ff.; a well-known, qualitative perspective on English experience is provided by Wiener 1981; this is also discussed in Rubinstein 1993; the evidence provided by single-company histories is enormous).

According to very recent research, the leadership succession pattern and its effect on the firm’s survival is linked to such a high number of cultural, institutional, legal, and environmental factors that care must be taken to avoid dangerous generalisations. In a well-known section of his *Strategy and Structure*, Alfred Chandler, drawing on the Du Pont case, agrees that family firms succeed in

maintaining their leadership positions when transition is carefully managed.

Despite the fact that members of the Du Pont family represent a substantial ownership interest in the company and are present in its management and policy making, family relationship, quite obviously, has not been the sole reason for promotion. This restraint on family prerogative, however, stems from Pierre Du Pont's deliberate rejection, in 1910, of the 'long entrenched, inherited attitude that the firm was managed for the family and the family was to manage the firm . . . Pierre did appoint family members to senior posts, but only after they had proven themselves managerially competent' (Chandler 1962: 64).

In some cases, adequately planned succession and training of new generations has proved to be an indispensable asset for the firm's expansion and prosperity. This is consistent with Mark Casson's suggestions about the counter-cyclical behaviour of family firms – slow to innovate in favourable periods, but benefiting from their 'cautious strategy' in times of crisis (Casson 2000: 202).

The chapter has so far presented only a few examples of the difficulty in defining, from a qualitative perspective, exactly what a family firm is (Ward and Aronoff 1996: 2). The task is not made any easier when looking at what are supposed to be more 'precise' parameters, such as ownership and control, stock capital property, number of seats on the board of directors, and so on. Using a quantitative perspective is also problematic. The degree of diffusion of family business in an economic system during a given period largely depends on the definition of the family firm that is adopted. For instance, according to recent research, at the turn of the twentieth century family firms were numerically consistent in most European industrialised countries. In Italy it was from 75% to 95% of all registered companies, in Spain 70%–80%, in the UK 75%, in Sweden more than 90%, in Switzerland 85%, in the Low Countries 80%–90%, and in Germany 80% (Neubauer and Lank 1998: 10; Colli, Perez, and Rose 2000). Similar data obtained from research on the European small and medium-sized enterprises at the beginning of the 1990s – defining family firms as the enterprises with a family shareholding exceeding 60% of the issued capital – found that on average two-thirds of the firms of the sample were family firms (Donckels and Frohlich 1991).

When big business is considered, the data available show a similar situation. At the end of the twentieth century 17% of the top 100 corporations, both in the USA and in Germany, were family firms, accounting for 8% and 12% of GNP respectively. Research published in 1993 demonstrated that among the top 5,000 major Dutch corporations, 46% were family-run companies (quoted in Sluyterman 1997: 106), while in the same period about one-third of the top 100 Swiss corporations were entrepreneurial or family firms (Müller 1996: 19). In Italy, the large family firm has been a permanent feature in the historical evolution of the country's industrial structure (Bairati 1988; Amatori and Colli 2000). In Italy at the beginning of the 1980s, 36% of the top corporations (about 170 in the Mediobanca's ranking), 13% of the capital, 12% of the total sales, and 15% of employees in the country were family-controlled (Gennaro 1985). According to some observers, even if the main corporations were modernising their ownership and organisational structure, the relevance of family shareholding was still considerable and far from declining (Chiesi 1986: 434). In any case, nearly 50% of the top 100 Italian corporations today are family-controlled; a much more comprehensive sample confirms the diffusion of family ownership at every level, sector, and dimension (Barca *et al.* 1994: ch. 1; Corbetta 1995: 3ff.). In 1980, family firms held the absolute majority of assets in the Japanese economy (Yasuoka 1984a: 3), while at the end of the same decade 95% of US companies were family-owned, and there is no evidence of a decline in this figure recently, particularly where traditional sectors are considered (Dyer 1986: ix).

These figures need to be carefully qualified. Variations in the definition of 'family business' can bring considerably different results. One interesting case is that presented in research published in 1972 by Philip Burch (Burch 1972). From the author's perspective, Berle and Means's findings on the emergence of the big corporation and the separation of ownership from control are fascinating and provocative; they are, however, misleading as they are based upon a too-restrictive definition of family business. Private ownership is described as holding more than 80% of the voting stocks; majority ownership is more than 50%; minority ownership is from 20% to 50%. In this way, the two authors neglect to consider a significant entity: the family firm in American industrial capitalism during the

twentieth century. According to Burch, the persistence of family management and control among the top US corporations was still pervasive well into the twentieth century when a looser definition – 4%–5% minimum capital in the hands of an individual, a family, or a group of families, *and* inside *or* outside presence of one or more family members on the board of directors – had been adopted. In 1965, among the first 300 *Fortune*-ranked, publicly owned industrial concerns, only about 41% were under managerial control, nearly 43% were *probably* family-controlled, and the remaining were *possibly* under family control (Burch 1972: ch. 5, and p. 68 for the data). Figures provided for the 1950s on the 175 largest US corporations suggested that over 50% of them had ‘close relatives or in-laws holding management jobs’ in the same company (Donnelley 1964: 96). Adopting the same measure of ownership used by Berle and Means, by 1963, of the top 200 US corporations, more than 80% were under managerial control, only about 3% were labelled as ‘majority ownership’, and *none* could be considered under private ownership (Larner 1966). Another interesting inquiry into *Fortune*’s top-ranked corporations, published at the end of the sixties (Sheehan 1967) noted that under a ‘conservative’ definition of control – ownership of at least 10% of the voting stock by a single owner or by a family – about 150 out of the top 500 US corporations could be considered as family firms, concluding that ‘the demise of the traditional American proprietor has been slightly exaggerated and that the much-advertised triumph of the organisation is far from total’ (1967: 179). Again according to Larner (1970), at the beginning of the 1970s – the apex of the so-called ‘American Century’ – more than one-quarter of the top 300 US corporations were under family control. A recent report on family firms in the US economy (Shanker and Astrachan 1996) highlights this point. The authors provide an interesting taxonomy of mostly reliable statistics relative to US family firms, stressing the high variability of the results, not only with regard to the source considered, but also where different definitions of ‘family firm’ are taken into account. The definition of family firms is in fact highly subjective and far from being standardised (1996: 110–11). For instance, in the above mentioned report the estimated number of family firms present in the US industrial system varies from more than 20 million (more than 90% of the total of the firms) if a ‘broad’ definition (‘some degree

of family control') is adopted, all the way down to 4 million if a much more restrictive definition (multiple generations involved; direct family involvement in strategic decisions; 'more than one family member having managerial responsibilities') (109–10) is employed. There is also a considerable difference in GNP contribution (49% against 12%) and employment (59% of the workforce against 15%). Yet it is largely accepted as a matter of experience that, where a relatively large size requires some degree of separation between ownership and control, compelling the owner family to float a part of the stock capital, the 'proprietor' can maintain a *de facto* control over the enterprise with a small minority shareholding. This is so especially where this arrangement is accompanied by other devices which 'multiply' the voting power (for instance, the issuing of shares with reduced voting rights) or grant stability to the board members (shareholders' agreements). This is very common, as the following sections will describe in much more detail, in some countries where financial holdings and groups are largely dominant – thanks usually to favourable legislative frameworks – replacing the mechanisms of vertical integration. In Italy, for instance, but also in France and Belgium, historically the major privately owned corporations have been able, during the second industrial revolution and up to the present, to raise capital on the stock market while leaving – thanks to financial holdings, family trusts, pyramidal financial groups – the power of control in the hands of individuals or families. (On Italy, see for instance Amatori 1997b, and Bianchi, Bianco, and Enriques 2001; on France, in a historical perspective, Lévy-Leboyer 1984: 214ff., Chadeau 1993: 187, and more recently Fridenson 1997, who, however, emphasises the pattern of convergence of French big business toward managerialisation after the Second World War; and Schröter 1997: 187ff.; on Great Britain, see Kirby 1994.) In the case of the USA, well into the twentieth century, family control was possible thanks to similar financial 'tricks'. For example, at the end of the 1960s only about 10% of the outstanding shares of the Ford Motor Company were in the hands of the founder's nephews. But they were Class B shares (i.e., with a voting power of 3,492 votes per share), which granted the Fords control of 39% of the company. In the case of Du Pont, the family controlled 30% of Christiana Securities Ltd, which itself was entitled to 29% of the chemical corporation's shares (Sheehan 1967: 181). A large



number of examples can be provided in this respect. Today some of the most important Italian industrial corporations, including Fiat and Pirelli, are family-controlled thanks to pyramidal arrangements and to shareholders' agreements, and nobody would deny the intense relationship existing between the Agnelli family and the strategic management of the whole group.

It is possible to conclude that in both the qualitative and the quantitative perspective it is difficult to give a complete and accurate definition of what exactly a family business is. We are in the presence of the classic 'concept too many', i.e., one so wide as to be necessarily inaccurate, especially in a statistical context. Whatever the definition given of 'family business', it is at best subjective, or has to be related to a defined context or period. It is possible to make an almost infinite taxonomy of suitable definitions (for example, see Neubauer and Lank 1998: 21–2). Today 'common sense' identifies the family firm with a small, labour-intensive unit at the initial stage of development, while a large number of family-run big businesses are to be found also in old industrialisers. Economists usually employ definitions capturing the essence of the phenomenon, implicitly referring to common sense and to well-defined contexts: for instance, the differences in the economic, legal, and institutional frameworks among, say, Italy, Korea, the USA, and Brazil will produce a different definition of family business (very similar considerations are in Rose 1994: 62). To define a family firm in the USA as one controlled with less than 5% of the voting capital is really too 'loose' a definition, while, thanks to the peculiar legal environment in Italy, the same quota there can be considered perfectly sufficient to exert control over the firm. The structure of the board of directors is also relevant, since, in the English case, even if often coincident, the inside director's role is legally and formally separated from that of the outside director. In several other European countries – with the notable exception of the German two-tier system – this distinction is not valid, and the same board covers jointly both the outside and inside functions. Given these limitations, in a historical perspective it is probably better to rely upon a loose definition of the family firm, flexible enough to cover all the possible situations while also encompassing the changing nature of the family itself, according to the period and geographical area considered.

The family (and the cultural and hence legal concept of ‘family’) is quite variable too. The European extended families of the early industrial period were in fact more similar in their economic behaviour to their counterparts today in Asia, India, the Far East or Africa, or to the Italian subcontracting family firm of the industrial districts, than to the present modern nuclear Western family. Jürgen Kocka emphasises, in his studies on the rise of the modern German corporation, the role of both family and bureaucratic culture in shaping the structure of the giant corporations (Kocka 1971, esp. pp. 136ff.). Hence, there are diverse structures to the family firm, and the need for different definitions. Very broadly, a family firm presents jointly the three elements of: kin (as defined accordingly within a particular cultural framework), property (the ownership of a significant fraction of the enterprise’s capital), and control (authority over the strategic management of the company).

Mark Casson suggests splitting the definition into two parts – family-owned and family-controlled firms. This means that:

a firm is said to be family owned when family members own sufficient voting shares, or occupy sufficient places on the board of directors, to determine the appointment of the general manager or chief executive. A firm is said to be family controlled when the general manager is a member of this family. The definition of family ownership implies that the ownership of a significant minority stake by a single family does not necessarily qualify a firm to be a family firm . . . the stake . . . must be large enough to block any rival coalition of shareholders. The definition of family control refers to family members occupying key positions in management.

(Casson 2000: 199)

In this book a similar definition of family business is used since the key issue is not only ownership but above all that of control. The power to appoint the chief executive and possibly other components of the board coincides with the opportunity to manage the firm according to a family’s values and culture. From another perspective, it allows the family to rely upon its own resources – in terms of reputation, knowledge, reduction of uncertainty, and low transaction costs – to run the business. It is a sufficiently broad and appropriate notion to describe a non-homogeneous concept like that of ‘family business’.

The difficulties in finding a viable definition of ‘family business’ and the vagueness of the idea itself – variable according to place

and time – raises another relevant question, particularly intriguing for the historian. As described at the beginning of this chapter, the transition from family firm to professional management has often been taken for granted, in the sense that it is technologically driven by the imperatives of scale and scope economies. This created the belief that, in general, family businesses are scarcely adequate to contribute to industrial growth in the capital- and research-intensive industries of the second and third industrial revolutions. In this way of thinking, the family business was considered as a legacy from a period where labour intensity, poor communications, and markets were of large but generally regional dimensions. In this way, family business was implicitly considered as appropriate for traditional labour-intensive industries but unsuitable for scale-intensive ones. According to this perspective, the convergence paradigm toward the model of managerial capitalism was in some senses unavoidable and, above all, almost self-imposing (Rose 1995b: xv). On the contrary, however, the history of family business demonstrates that the transition to the model of managerial capitalism has been generally slow and variable according to place and time. Meanwhile, in the big, capital-intensive corporations typical of the second and third industrial revolutions, families and dynasties have continued to play a significant role (Gourvish 1988: 34; Cassis 1997: 123). As Leslie Hannah has stressed:

Family majority shareholdings (and quite small minority interests, which, in a corporation with otherwise widely-depressed shareholding, may be sufficient for voting control) have been found to survive more widely than some early investigators suggested. In Europe, even more clearly, while there is an unmistakable degree of managerial control, the power of owners remains strong. It is evident that the ‘Managerial Revolution’ is a misnomer – at the very least the process is one of evolutionary change, and it proceeds at relatively slow pace.

(Hannah 1982: 2)

The persistence of the family firm as an economic actor – not only in the early phases of industrialisation and in small and medium-sized enterprises, but also in fields usually dominated by big managerial corporations – demonstrates that this institution maintains a considerable role and relevance in modern advanced economies. It is worthy of much more attention than has been given to it in the past (Rose 1995b: xiii–xiv).

Even if the presence of managerial hierarchies has often been implicitly seen as an alternative to that of family ownership and control, there is plenty of evidence that entrepreneurial dominance inside the firm is not necessarily exclusive. On the contrary, as Harold Livesay has stressed, looking at the US case:

Bureaucracy...has not inevitably obliterated the entrepreneurial spirit necessary to the maintenance of capitalistic business systems. In the hands of the right protagonists it has become an instrument to cope with the complexities of doing business in the modern world. Bureaucracy, then, has not inevitably proven the nemesis of the entrepreneur; it has rather become a necessary tool of his trade. The success of men like Carnegie, Stoddard, and Ford [II, the founder's grandson], and the failure of so many others, demonstrates that the survival of the entrepreneurial spirit occurs because of bureaucracy, not in spite of it.

(Livesay 1977: 443)

### **Changing perspectives on family firms**

The evolution of studies dealing with family business mirrors the growing dissatisfaction with the traditional perspective on the effectiveness of the institution in modern economies (Rose 1995b: xiii). Before the 1970s, in fact, the family firm was scarcely considered by social scientists and, when it was, the focus was generally on issues other than family firms' proper nature and structure. In fact, both the research on the transformation in the financial and ownership structure of big business, and the 'technocratic' approach – stressing the necessary separation of ownership and control – view the family firm as a 'step' toward more advanced organisational structures (see, for instance, Chandler 1962, Marris 1964 and Galbraith 1967). From the perspective of business history, both the 'robber barons' literature and the much more advanced research of the Center for Entrepreneurial History at Harvard, even while offering an impressive bulk of case studies on family firms, rarely went beyond the analysis of individuals, and did not take into account the issue of the family firm *per se*.

During the 1960s and 1970s a considerable body of literature and research on family firms was published by academics and consultants. Organisational scientists in particular produced some work on the strategy and structure of family firms, trying to analyse their

strengths and weaknesses under a more systematic perspective, even if adopting a simple and schematic approach (Corbetta 2001). From this standpoint, the coincidence of property and control, especially when the corporate size was considerable, was assumed to be an obstacle to growth and competitive strength, particularly where the issue of succession was concerned (see, for instance, Levinson 1971; Barry 1975; Barnes and Hershon 1976; McGivern 1978).

A change took place at the beginning of the 1980s and continued into the 1990s. The process of restructuring undertaken by major corporations, the 'de-merger' movement, and the crisis and decline, especially in Europe, of state-owned enterprises, together with the unquestionable success of a 'familialistic' Japanese model, provoked a reconsideration of the structure and dynamics of family firms. The model could be perceived now as providing a potential advantage in periods characterised by uncertainty and market failures. In some cases, this development was almost ideological in the sense that the decline of the American multinational was perceived as the symbol of the defeat of capitalism. The family firm, however, presented a human dimension where 'people mattered'. It also held out the prospect of a new production model – one much more creative and less impersonal, moulded by elements like friendship and kinship.

From a less impressionistic point of view, the continuing presence of family firms in almost all the advanced economies was validated by the existence of efficient alternative forms of productive organisation. These were based upon networks and groups of enterprises which had spread all over the industrialised world, from the Japanese *keiretsu* to the clusters of small enterprises in the industrial districts of Italy. These well-established developments presented undeniable evidence of an enduring legacy. The transaction cost theory became a very powerful instrument with which to emphasise the positive nature and role of family firms in modern economies. (See the seminal article of Ben-Porath 1980 and Pollak 1985: 585ff., 591.) This was especially true in sectors such as insurance and financial services where 'moral hazard' was particularly relevant, or where agency costs were relatively high (Pollak 1985: 591). Naomi Lamoreaux tested this point in her research on New England, where, from the beginning of the industrialisation process in the early nineteenth century, personal connections and family networks in banking played a crucial role in providing

financial resources for early manufacturing enterprise (Lamoreaux 1994: 24ff.).

In a theoretical context, the new institutionalism provides a convincing explanation of alternative forms of economic organisation within the two extremes of markets and hierarchies (Granovetter 1996; Hamilton and Feenstra 1996). It is particularly useful in the study of those economies – such as the new industrialisers of the Far East – where big business is consistent with family-based organisational forms (Hamilton 1996; Fruin 1998). On the basis of transaction cost theory, however, it has been possible to build another conceptual framework relevant to the analysis of the family firm in a historical and comparative perspective. Evolutionary theory (for a general description, see Nelson 1994) stresses the diversity in organisational forms created by historically determined routines which in turn affect the choice of technology. From this perspective, the prevalence of a particular business institution is the result of a set of choices concerning technology and organisation taken over time and in a particular cultural context (Langlois and Robertson 1995: 150).

It is the combination of evolutionary theory, transaction cost theory, and the analysis of trust-based institutions and networks that provides an important conceptual framework to explain the family firm's persistence in the era of big business (Casson 1993: 43; Casson 2000: 215–16; Rose 1999).

From the 1980s onwards new research has considered the way the family firm has contributed to general economic development in a positive light. On the micro side, the main themes have been the relationship between strategies and structures of firms and family ownership, the introduction of professional managers, and the succession process. In a macro perspective, the research has examined the contribution of family firms to the wealth of the nation and the relationship between the diffusion of family firms, their persistence and the cultural and institutional environment.

Economic historians have contributed to this debate from the very beginning. Their work has provided a considerable amount of single-case research – providing company histories focusing both on succession and on leadership transmission strategies. It has also analysed the evolution of the institutional environment that shaped the different strategies and behaviour of the economic actors

involved. As a consequence, the new institutionalism in its 'macro' perspective provides useful analytical tools. The complex system of formal and informal rules in which decisions are undertaken is relevant, while history is vital in explaining its evolution (North 1990). Especially relevant is the institutional context where family firms are concerned:

Since the institutional environment is clearly influenced by historical forces it has especial relevance for the study of the behaviour of all firms, and in this context of family firms, in an international or even an intra-national perspective. The development of laws are path-dependent, so that there can be, for example, significant international differences in both the privilege and restrictions faced by family businesses. The legal status and degree of regulation of particular types of company-form, or the level of tariff protection enjoyed, may therefore vary between countries. As a result, even where ownership and control are united, family firms in different environments may display varying characteristics, capabilities and degree of longevity.

(Colli and Rose 1999: 28)

In other words, the presence and persistence of family firms is not to be seen *solely* as the result of a particular set of technological, financial, legal, and market conditions, but also as able to influence the political context and hence the legal system and framework in which they operate. This is for instance true where *business elites* are concerned.

(Cassis 1994: 243–4; Cassis 1997: 225ff.)

The discussion of the role of family firms in modern industrial development increasingly emphasises the extent to which the organisational structure adopted by an enterprise is the result of a complex array of forces rather than simply being related to technological issues. The relationship between the evolution of production technologies, capital intensity, and organisational structure is not therefore perceived mechanically, while considerable emphasis is given to the impact of institutional variety. In this context, efficiency becomes the result of a compromise in which culture and history play a significant role.

As a result, research on family firms has recently highlighted the connection between national cultural values and the diffusion of the family firm as a privileged way of organising economic activity well beyond the initial stages of the industrialisation process. This connection can be fully understood only through historical analysis. The diffusion of family ownership and control at any level in the

countries of continental Europe, from France to Italy and even to small highly internationalised economies like the Dutch, Belgian or Swiss (Schröter 1997; Whittington and Mayer 2000: 87ff.), is a product of a kind of capitalist culture emphasising continuity, long-term perspective, and collusive behaviour. The persistence of this culture is clearly crucial for the long-lasting success of the so-called ‘Rheinisch capitalism.’ It also explains the difficulties in the way of, and the resistance to the transition toward, a ‘third way’ between the Anglo-American and continental models of capitalism (Albert 1991; Cassis 1997: 71; Dore 2000).

In conclusion, what has emerged in recent years is a growing awareness of the need both to move beyond the dichotomy between family and managerial firms, and to abandon the determinism of convergence. Current research on family firms has become multi-disciplinary, drawing upon sociology, politics, and management just as much as on economics and history. There has been a growing tendency to analyse the role of family firms at the different stages of growth of a defined national economic system. Significant case-study evidence in Western economies now shows that family firms may have a positive influence in some sectors, especially in services, as compared with publicly owned and managerial companies in other spheres. The persistence of family firms in the capital-intensive industries of the second and third industrial revolutions should not be considered as the consequence of a supposed incapacity of European and Asian entrepreneurs to understand and adopt the managerial models of the American corporation. Instead, the enduring presence of a particular form of business organisation can be seen as the best demonstration of its ‘efficiency’ against a defined institutional framework, rather than as a failure.