

## Why Can't a Family Business Be More Like a Nonfamily Business? Modes of Professionalization in Family Firms

— Alex Stewart and Michael A. Hitt

Scholars have repeatedly argued that in order to be efficient and sustainable, family businesses must professionalize their management and become more accountable to minority shareholders. They reason that this transition would help family businesses overcome their traditional weaknesses and make them more effective. In some sense, they call upon family firms to become more like non-family firms. Yet, despite the apparent benefits, family firms either totally fail to professionalize or only able to attain partial success in doing so. The authors examine the reasons for this and identify six distinct modes of professionalization that family firms adopt.

### Multiple Dimensions of Professionalization

Though professionalization is commonly denoted as a single construct, the authors argue that it is a multi-dimensional phenomenon. Various combinations of these dimensions result in different modes of professionalization in family firms. The authors listed six categories of variables that one must pay attention to, in order to understand these combinations. These categories are -

(i) **The Environment** in which the firm operates such as legal or competitive environments.

(ii) **Family Characteristics** like generation leading the firm, family orientation.

(iii) **Business Characteristics** like firm size and governance.

(iv) **Managerial Approach** like use of external or internal knowledge and principle of merit.

(v) **Performance Outcomes** like financial market measures and noneconomic benefits.

(vi) **Effects for various stakeholders** like minority shareholders of non-family managers.

Authors suggest that each of the above factors peculiarly influence a family firm's professionalization.

### Modes of Professionalization

Based on different combinations of the factors listed in the previous section, authors categorized six distinct modes of professionalization in which family firms can be classified. These modes are the following -

(a) **Minimally Professional Family Firms** - These family businesses are the ones that fail to professionalize themselves due to lack of adequate skills and/or willingness to change. This can be due to reasons of

emotional and cultural barriers, or inability to attract good quality outside talent.

**(b) Wealth-dispensing Private Family Firms** - These family businesses may partially professionalize operations, but their managements seek private benefits of maintaining control and freedom from external governance (such as from minority shareholders). This is because managements view external responsibilities as threat to their private benefits over business like - privileged access to resources, value derived from non-economic benefits and privacy.

**(c) Entrepreneurially Operated Family Firms** - The interest of some family firms are better served by the informal and idiosyncratic methods of entrepreneurial management than by the formal, standardized professional management (for e.g. a business that requires traditional knowledge may be benefitted more by the family reputation, experience and traditional manner of operations).

**(d) Entrepreneurial Family Business Groups** - These family firms pursue the opportunities made available within the network(s) of group firms embedded in kinship. This is because kinship networks have the capability to provide beneficial linkages like knowledge sharing and collusion. In such cases, maintaining privacy

may override the need to professionalize the business.

**(e) Pseudoprofessional Public Family Firms** - These firms 'appear' to be professionalized in terms of management and governance systems but follow it more in form than in substance. They lack professionalism in practice and are often marred by malpractices like manipulative transfer pricing, related-party transactions and tunneling of value.

**(f) Hybrid Professional Family Firms** - These are large professionally managed, family-controlled firms which aim for dual benefits of professionalization (like better systems, processes and governance) and family influence on the business (which research proves to be a valuable contribution).

#### **Implication for Family Businesses -**

Professionalization is a multi-dimensional phenomenon that applies distinctly to every family firm. Each family firm must aim to arrive at its own optimum mix of family control and professionalization that maximizes the overall benefit, given the firm's unique set of family and business characteristics, objectives, managerial approach and operational environment.

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