

Family Firm Types Based on the Professionalization Construct

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A large part of family business literature on professionalization tends to explain the phenomenon with the entrance of non-family managers in the firm. The authors opine that this view oversimplifies the professionalization process. Though hiring non-family managers is an important element of professionalization, establishing systems and processes is another crucial aspect. In this study, the authors probed 532 Belgian family businesses to understand how they operated and dealt with family and non-family involvement. They conducted exploratory research to identify other dimensions of professionalization and arrived at a multi-dimensional construct. Family firms were then classified in four categories based on this professionalization construct.

Defining the Construct

Professionalization of family firm is dealt in literature in the context of organizational development. As firms evolve into larger, more complex organizations, they require more sophisticated processes and mechanisms to manage their business. This requires acquisition of new knowledge and skills that is often brought in by hiring non-family professionals. Another change that occurs is the introduction of more formal procedures and control systems. Using statistical analysis, the authors identified five dimensions of professionalization - (F1) Financial Control Systems, (F2) Non-family Involvement in Governance Systems, (F3) Human Resource Control Systems,

(F4) Decentralization of Authority and (F5) Top-Level Activeness (i.e. how active are the top-management and the board).

The authors identified that factors F2, F4, and F5 were related to governance aspects while factors F1 and F3 measured the implementation of formal control systems. Therefore, they arrived at two higher level dimensions of professionalization - **(A) Effective Openness** (F2, F4, F5) – It is the firm's willingness and openness in not only engaging non-family managers but also providing them supporting governance mechanisms *and*

(B) Internal Formalization (F1, F3) – It is the degree of formalization as measured by the implementation of formal financial and human resource control systems.

The higher a firm scored on these parameters, the more professionalized it was considered.

Family Firms' Classification based on Professionalization Dimensions

The authors found that the family firms in their sample could be classified into four distinct clusters based on the two dimensions of professionalization they had identified. These categories are –

(1) Autocracy – These firms exhibit high centralization of authority and informal mechanisms. They score low on both effective openness and internal formalization. Their owners retain most of

the controls and rely on kinship ties to manage business.

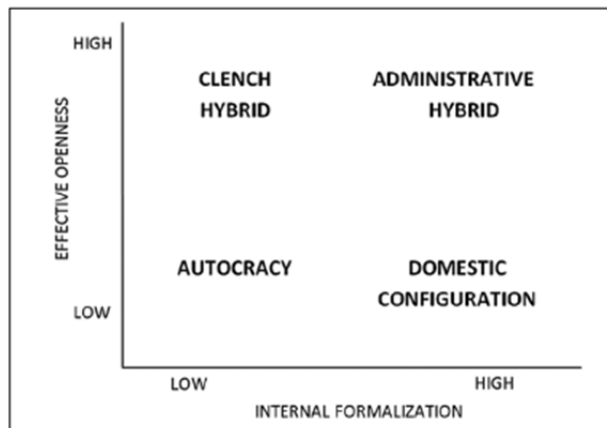


Figure 1. Types of Family Firms Based on Professionalization Dimensions

(2) Domestic Configuration – These firms score low on effective openness but high on internal formalization. They have some non-family members at top management level but the control is largely in the hands of family members. Though the authority remains centralized, these firms have professionalized control mechanisms like formalized budget plans, monitoring systems to measure organisational outputs and action plans to deal with deviations.

(3) Administrative Hybrid – These firms score high on both, effective openness and internal formalization. Among all categories, these family firms have the highest levels of professionalization. Their management team comprises both family and non-family members. Power is decentralized and formalized governance bodies play more important role than the family. They have

professional and objective mechanisms and processes across all management functions.

(4) Clench Hybrid – These firms score low on internal formalization but high on effective openness. These are the family firms that are gradually transitioning towards professionalization. Family management is in the process of opening up to non-family members, who begin to manage some business functions. However, governance and control systems are yet to adapt to this change and remain informal.

Practical Implications

An important implication of this research for a family firm is that it can assess the level of professionalization it practices and identify the ‘category’ to which it belongs. It can then introspect on how to progress on its professionalization journey and the effort required on each dimension. Another application of this research is in benchmarking the firm's level of professionalization with that of its peers. The grid provided by the authors could help in making more grounded, objective and relevant comparisons that could help the firm assess areas of improvement.

Yet another significance is the recognition that inclusion of non-family members in management and governance is only one aspect of professionalization. A family firm, which is not keen on doing that can also professionalize along with other dimensions like delegation of authority and establishing a formal set of control systems.