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FOUNDER INFLUENCE IN FAMILY BUSINESSES: ANALYZING COMBINED DATA FROM SIX DIVERSE COUNTRIES

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ABSTRACT

This study analyzed a combined sample of 593 family businesses in the United States, Croatia, Egypt, France, India and Kuwait to determine how the influence of the founder(s) relates to certain important family business managerial characteristics. Statistical analyses indicated that founder influence has significant correlations with the percentage of non-family managers, the use of a "team-management" style of management, the formulation of specific succession plans, time spent in strategic management activities, consideration of going public, and the use of equity rather than debt financing. These findings provide partial support to the few earlier writings and studies involving founder influence in family firms. The implications of these findings for family business owner/managers and for consultants to family businesses are provided, and suggestions for future research are presented.

Keywords: founder influence, business founder, family business, family firm

INTRODUCTION

In almost all countries, *families* are central to the ownership and management of the majority of businesses (Dennis, 2003). Within the U.S. economy, family businesses comprise an estimated 80% to 90% of the total 15 million businesses (Carsrud, 1994; Kets de Vries, 1993; Poza, 2007.).

They contribute more than 50% of the total Gross National Product (McCann, Leon-Guerrero, & Haley, 1997), 50% of employment (Morris, Williams, Allen, & Avila, 1997), and have higher total annual sales than non-family businesses (Chaganti & Schneer, 1994). Furthermore, it is estimated that about one-third of all *Fortune 500* firms are family controlled (Carsrud, 1994; Poza, 2007), one-third of S&P 500 companies have founding families involved in management (Weber & Lavelle, 2003), and about 60 percent of *all* publicly traded companies remain under family influence (Poza, 2007).

The objective of this study was to investigate family businesses with regard to the degree to which the influence of the founder impacts current and subsequent management. How does the influence of the founder (or of multiple founders) relate to the managerial characteristics of that firm? There is limited prior research to answer this question, and researchers have found mixed results (Packalen, 2007). This study expands this area of investigation, and aids in our understanding of which important family business managerial characteristics are and are not influenced by the founder in family businesses, both during the founder's active role in the firm and in subsequent years.

Furthermore, there has been growing interest in studying family businesses in a multinational context (Carney, 2007; Graves & Thomas, 2008; Oviatt & McDougall, 2005). In answering the question, "where should entrepreneurial research go in the future," Bruton, Ahlstrom, and Obloj stated the need for greater use of multicountry samples and to research multiple nations (2008, p. 7). This study contributes to the literature as it meets these two criteria. This development of multinational family business research will help to move this field toward maturity.

Thus, this current study is important in that it brings new empirical research to this limited area of research, the issue of founder influence in family business management, and that it does so in a multinational context. Furthermore, the results of this research are not only of value to small business and entrepreneurship educators and researchers, but are also of value to consultants to family businesses and to family business owner/managers themselves, both of whom may gain insight into the impact of founder influence in family businesses.

FOUNDER INFLUENCE IN FAMILY FIRMS

The impact of founder influence has been found to be a central component and major factor in influencing the behavior of family businesses (Davis & Harveston, 1999; Kelly, Athanassiou & Crittenden, 2000). The founder's influence can strongly impact the family firm both when he or she is active as an owner/manager and also after he or she retires or dies, leaving the management of the company to other same-generation and/or subsequent-generation family-member managers and/or to non-family-member managers.

Early research regarding founder influence reached conclusions that were mixed, with some researchers arguing that founders have an imprinting effect on their firms, setting them on trajectories from which it is difficult to depart (Boeker, 1988), while others suggest that founders have no enduring influence on their firms because organizations are malleable, sensing and reacting to changes in the environment (Teece, Pisano, & Shuen, 1997). There are only a few more current studies, as discussed below. These more recent studies provide the beginning of a theoretical foundation for the issue of founder influence.

The founder's influence on the current and subsequent management of family firms has been given different names by different researchers. Davis and Harveston (1999) specifically studied the founder's influence on *subsequent* managers and they call this influence "generational shadow." In a multi-generation family firm a generational shadow, shed by the founder, may be cast over the organization and the critical processes within it. In such a situation, "succession" is considered incomplete, may constrain successors, and may have dysfunctional effects on the performance of the firm. Yet this "shadow" may also have positive impact, by providing a clear set of values, direction and standards for subsequent firm managers. Specifically, analyzing data from a 1994 telephone survey of family-owned businesses, Davis and Harveston concluded that the strength of the generational shadow of the founder correlated positively and significantly with organizational conflict in third-generation family firms. Although a similarly statistically significant correlation was not found for second-generation firms, the authors did find increases in second-generation family firm conflict when the founder was still involved in the firm's management.

Kelly, Athanassiou and Crittenden (2000), focusing primarily on the founder's influence on *current* managers, similarly proposed that a family firm founder's "legacy centrality" will influence the strategic behavior of family-member managers, with both positive and negative impact. Looking at three dimensions of "legacy centrality" – "betweenness centrality" (which involves the power of the founder), "closeness centrality" (which is a measure of the distance between founder and other firm managers), and "connectivity centrality" (which measures the connections between the founder and various managers) – these researchers postulated that the founder's centrality will impact the strategic management of a family business, in particular with regard to *strategic vision, strategic goals, culture, strategy behavior* and *inward/outward orientation*. Furthermore, family firms with high legacy centrality may be especially vulnerable to significant changes in the economic or competitive environment. Kelly, et al. did not conduct an empirical study but did conclude that family firm founder influence has been underrepresented in the management literature. They conclude that measures of founder influence can be very useful in understanding family businesses and recommend further empirical research in this area.

More recent investigations of founder influence consider this issue in the light of stewardship theory and transformational leadership behaviors (Eddleston, 2008; Zara et al., 2008).

Thus, founder influence in family firms, both on current and subsequent management, and denoted as "generational shadow," "legacy centrality," or by another label, is a valid and important component of the family business system and deserves further study.

HYPOTHESES

As discussed earlier, the objective of this study was to investigate family businesses with regard to the degree of founder influence. How does this influence impact the managerial characteristics of a family firm? Prior empirical analyses of founder influence have not resulted in an accepted theoretical foundation but have been largely limited to only a few narrow focuses, such as the previously-cited Davis and Harveston (1999) focus on organizational conflict among subsequent managers, or Kelly, Athanassiou and Crittenden's (2000) focus on current managers working with or under the founder. Thus, to build a base for a variety of future research studies, a broad analysis would be of value at this time. Therefore we have chosen to test a variety of managerial characteristic variables and hypotheses, which derive not from specific prior findings or developed theories regarding founder influence, but rather from a broad survey of the family business literature, wherever a potentially meaningful family business factor was identified. Future researchers will hopefully choose from among these variables and our research findings for their more in-depth and focused investigations.

Specifically, the variables and hypotheses used for this study are chosen from variables tested in previous studies by Lussier and Sonfield (2004) and Sonfield and Lussier (2004), who investigated a wide variety of family firm management characteristics, which in turn derived from findings and propositions developed by earlier researchers of family business who identified especially important factors in the *system* of family business. Some of these factors may prove to be related to founder influence, and other factors may not. The results of this study can thus provide direction for future research activity into founder influence.

Because of the broad family business literature bases for these hypotheses, only brief introductions to each hypothesis are presented here. A full discussion of each variable is beyond the scope of this article. *Furthermore, due to the limited specific prior research and findings with regard to these various issues, the null hypothesis is used throughout*.

A central focus of the literature in family business has been the use of non-family members in such firms – the advantages, disadvantages, challenges, opportunities, and other issues involved. Thus this is an important family business factor to test:

H1: *The strength of the influence of the founder of a family firm will not have a significant relationship to the percentage of non-family members within top management.*

As in all areas of business research, recent studies of family businesses have investigated gender issues in greater depth. Thus the factor of women family-member managers is a worthy variable for investigation:

H2: *The strength of the influence of the founder of a family firm will not have a significant relationship to the percentage of women family members involved in the operations of the firm.*

Because of the complex family dynamics involved in family businesses, one characteristic of family business management often investigated has been the nature of managerial decision-making – individual versus team-oriented. Thus this factor is included in this study:

H3: *The strength of the influence of the founder of a family firm will not have a significant relationship to the use of a "team-management" style of management.*

Also due to the nature of family dynamics in family businesses, another frequently-studied aspect of family firm management has been the issue of conflict and disagreement among family-member managers. Thus this variable is investigated:

H4: *The strength of the influence of the founder of a family firm will not have a significant relationship to the occurrence of conflict and disagreement among family members.*

Perhaps the most frequently studied issue in family business is that of succession, from the founder to next-generation family members as well as to subsequent-generation family-member and non-family-member managers. Thus this issue is worthy of study:

H5: *The strength of the influence of the founder of a family firm will not have a significant relationship to the formulation of specific succession plans.*

Because family firm management is often limited primarily to family members who may not have a broad or deep range of expertise, family firms often have a need for outside expertise. Thus:

H6: *The strength of the influence of the founder of a family firm will not have a significant relationship to the use of outside consultants, advisors and professional services.*

Similarly, if the management of family firms is largely limited to family members, then there may be weaknesses in certain management skills, such as strategic management or financial management. Thus:

H7: *The strength of the influence of the founder of a family firm will not have a significant relationship to time spent engaged in strategic management activities.*

H8: *The strength of the influence of the founder of a family firm will not have a significant relationship to the use of sophisticated methods of financial management.*

By definition, family firms may be concerned about maintaining family control and may be wary of spreading firm ownership, and thus control, beyond the family. Therefore equity ownership is a focus of family business research. Thus:

H9: *The strength of the influence of the founder of a family firm will not have a significant relationship to management's consideration of "going public."*

H10: *The strength of the influence of the founder of a family firm will not have a significant relationship to the use of equity financing versus debt financing.*

METHODS

Date Collection and Country Characteristics

Data was gathered in the United States, Croatia, Egypt, France, India and Kuwait. These six countries have different sized populations, different cultures, different economic characteristics and histories, and different *GEM* rates of total entrepreneurial activity (TEA), thus providing a broad-based and diverse total combined sample of family firms. The following Table 1 provides basic information (CIA, 2008) for each of the six countries.

Table 1 – Country Characteristics

Country	Population (millions)	Gross Domestic Product US$	Per Capita GDP US$	GEM TEA Rate
Croatia	4.5	69,980,000,000	16,100	3.6
Egypt	83.1	158,300,000,000	5,400	NA
France	64.1	2,978,000,000,000	32,700	3.2
India	1,166.1	1,237,000,000,000	2,800	17.9
Kuwait	2.7	159,700,000,000	57,400	NA
USA	307.2	14,330,000,000,000	47,000	10.5

Sample

Please note that the objective of this study was not to *compare* family firms in the six countries, but rather to *combine* the data to provide a comprehensive and large sample of family firms that might in turn lead to more general and universal findings than a single-country sample can generate. Thus, the six countries' data were combined into one sample, as Bruton, et al., (2008) suggested. The combined sample was also used because of the possibility of obtaining weak and invalid results whenever a large sample is broken down into smaller sub-samples (Lussier, 1997). The sample (n) from each of the six countries was combined and the weighted average response rate was calculated to be 36.80 percent. See Table 2 for details.

Table 2 – Response Rate

Country	Sample Size (n)	% of Sample (N)	Response Rate (%)	Weighted Response Rate[1] (%)
USA	159	27	28.6	7.72
Egypt	147	25	25.6	6.4
France	116	20	14.6	2.92
Kuwait	81	13	100	13
Croatia	50	8	71.4	5.71
India	40	7	13.6	.95
Totals	593 (N)	100%		36.70%

[1]Response rate x % sample

The survey questions were translated into the language of the country. The university professor/researcher collecting the data in each country made the translation, followed by feedback and revisions by language faculty experts. The survey instrument was then pilot tested with business owners to ensure understanding of the questions. Because of varying difficulties in identifying and contacting family businesses in the various countries, the survey methodologies were somewhat different in each country, as discussed below.

In the United States, survey instruments were randomly mailed or hand-delivered to a variety of New York and Massachusetts companies, which had been identified as family firms (primarily in listings of "family businesses" in local business newspapers). There were 822 surveys mailed or delivered; of these 272 were no longer at the address or responded that they were not family firms. A total of 147 usable returned surveys provided a return rate of 27.1 percent. To increase the sample size and to test for non-response bias in the U.S., after a few months a follow-up request for surveys was made, and 12 more questionnaires were returned and used for a total of 159, providing a final return rate of 28.6 percent.

In Egypt, the survey was sent through the family business network of the Egyptian International Trade Point (EITP) and the Egyptian Ministry of Trade and Industry. Six hundred (600) family business received copies of the survey; 172 businesses responded to the survey, but 25 were found to be non-family businesses or otherwise not appropriate for sampling. This resulted in 147 usable survey responses, providing a response rate of 25.6 percent.

In France and India, large survey mailings lists that identified family businesses were obtained. In France a random sample of 800 was selected to receive the survey in the mail. The survey instruments were mailed to the entire listing in India (312). The net response rate for France was 14.6 percent (n=116) and it was 13.6 percent (n=40) in India.

Family business listings could not be found in the much smaller countries of Croatia and Kuwait. In both countries, randomly selected businesses were contacted and asked if they were family businesses. In Croatia far fewer (70) family firms were identifiable, but an intensive contact effort by mail, telephone, and personal visit resulted in a response rate of 71.4 percent (n=50). A similar data collection methodology in Kuwait produced a 100 percent response rate (n=81).

Analyses of some of these countries' data were previously published by Sonfield and Lussier (2004, 2005a, 2005b).

Identifying family firms from various listings is consistent with that of other family business research studies, which have been constrained by the lack of national databases of family firms (Chua, Chrisman, & Sharma, 1999; Teal, Upton, & Seaman, 2003), and most empirical studies of family businesses have used a convenience sample (Chua, Chrisman & Sharma, 2003). This current study provides an acceptable sample size and response rate for family business research, as it has been reported that 62 percent of prior family business studies included no sample at all, or a sample with less than 100 family businesses, and 66 percent of these were convenience samples (Bird, Welsch, Astrachan, & Pistrui, 2002). In three top-level small business or entrepreneurship-oriented journals (*Entrepreneurship Theory and Practice, Journal of Business Venturing, and Journal of Small Business Management*) around one-third of the articles had a response rate of less than 25 percent (Dennis, 2003), which is less than this study's 36.7% weighted average response rate.

The Survey Instrument

The Sonfield and Lussier (2004) survey instrument was obtained. This questionnaire uses single measures of each variable. Therefore, statistical testing for reliability and validity is not appropriate, such as with multiple measures of the same variable using factor analysis to ensure that each item is measuring the intended variable. This is a limitation, which is addressed later in the "Discussion" section. However, the questions were measured with wide scale points (actual number such as percentage of non-family managers and women, and 7-point Likert scales) to increase reliability when using single measure versus multiple measures. Also, the four commonly used methods for enhancing reliability and validity were used (Cooper & Schindler, 2008):

- The variables in Sonfield and Lussier (2004) were selected from the family business literature. See their article for more details. This study also expands and includes more current family business research, especially regarding the influence of the founder. Thus, this study is founded in the family business literature.

- Second, some of the questions were based on prior research studies. For this research, a survey instrument from a prior study was used. The Sonfield and Lussier questionnaire was originally published in a top tier journal in the field of family business (*Family Business Review*, 2004).

- Also, Sonfield and Lussier (2004) developed clear measurable operational definitions in their study. For this study, the hypotheses are clear and measureable and they are founded in the literature.

- Finally, Sonfield and Lussier (2004) used a panel of experts when developing the survey instrument. And since the questionnaire was published in Family Business Review (2004), this indicates that another outside unbiased panel of experts (that journal's reviewers) validated the survey instrument.

Measures and Statistical Testing

Correlations are the appropriate statistical test to determine the relationship between one independent variable and multiple dependent variables (Lussier & Sonfield, 2004), as regression analysis is not appropriate using multiple dependent variables with only one independent variable. The independent variable for all 10 hypotheses tests is the influence of the original founder, which is correlated with the 10 dependent variables stated in each hypothesis and in Table 4. The influence of the original founder and dependent variables in H1-9 are interval and ratio levels of measure. Therefore, Pearson correlations were run to test H1-9. H10 with a nominal measure (use of debt or equity) was correlated using the non-parametric Kendall's tau, and the stronger t-test was also run to test for differences.

RESULTS

Descriptive Statistics

The sample has mature businesses with a mean number of years in business of 38, but there is a large s.d. of 30 years. The mean number of employees is 601, with extremely large business outliers resulting in a standard deviation (s.d.) of 3,543. The distribution of businesses by size is more meaningful, and the firms are fairly evenly distributed, when respondent firms are categorized into the four European Union (EU) categories (European Union, 2004), as denoted in Table 3, which provides descriptive statistics. Note that Table 4 also includes descriptive statistics (means and standard deviations) for each of the 10 dependent variables correlated with founder influence.

Table 3 - Descriptive Statistics

Variable	**Total** (N = 593)
Generation (n / %)	
1st	193 / 33%
2nd	268 / 45%
3rd	132 / 22%
Years in business (mean / s.d.)	30.51 / 26.8
Industry (n / %)	
Product	297 / 50%
Service	296 / 50%
Ownership (n / %)	
Corporation,	298 / 50%
Partnership,	148 / 25%
Sole proprietorship	147 / 25%
Number of employees (mean / s.d.)	431.43 / 2820.9

Distribution of Sample by Size (European Union Categories)

Size Category	**Number of Employees**	**Sample (N =593)**
Large	≥ 250 (250 +)	n = 95 / 16%
Medium	< 250 (50-249)	n = 155 / 26%
Small	< 50 (10-49)	n = 233 / 39%
Micro	< 10 (0-9)	n = 110 / 19%

Hypotheses Testing

All 10 correlations were testing the *null hypotheses* that there are *no relationships* between the founder influence and the 10 dependent variables. See Table 4 for the results of the 10 hypotheses tests. To conserve space in Table 4, all hypotheses are denoted by summary phrases. In the actual survey instrument, the questions or statements used to collect the data were more substantial.

Table 4 - Correlations Hypotheses Tests (N = 593)

Variables	*Mean/s.d.* (frequency)	*Co-efficient*	*P-Value*
Influence of original founder (7-1) relationship to each of the 10 variables:	4.60/2.11		
H1. % of non-family managers	31.28/32.49	-.096	**.019**
H2. % of women involved in operation of business	24.40/27.46	-.034	.413
H3. Use of team-management decision style (7-1)	4.48/2.23	.128	**.002**
H4. Occurrence of conflict and disagreements (7-1)	2.42/1.85	-.059	.152
H5. Formulation of specific succession plans (7-1)	3.80/2.41	.159	**.000**
H6. Use outside advisor/professional services (7-1)	4.25/2.26	.029	.488
H7. Time spent in strategic planning (7-1)	3.46/1.91	.184	**.000**
H8. Use sophisticated financial mgt methods (7-1)	4.08/2.16	.043	.293
H9. Consider going public (7-1)	2.01/1.97	.095	**.021**
H10. Use of debt vs. equity financing (n / %)	321 / 54% 272 / 46%	.150	**.000**

(7-1) Likert interval scales of "Describes our firm" 7 6 5 4 3 2 1 "Does not describe our firm."

Four correlations were not significant ($p > .05$). Therefore H2, H4, H6, and H8 are accepted. Thus, the degree of founder influence does *not* correlate with:

H2: *The percentage of women family members involved in the operations of the business*

H4: *The level of conflict and disagreement among family members*

H6: *The use of outside consultants, advisors and professional services*

H8: *The use of sophisticated methods of financial management*

On the other hand, six hypotheses had significant correlations ($p < .05$) and are rejected because there *is* a relationship between the level of founder influence and the dependent variables. One of the correlations had a negative correlation:

H1: *As founder influence increases, the percentage of non-family managers decreases.*

Five of the hypotheses had significant positive correlations:
As the degree of founder influence increases, there is an *increase* in:

H3: *The use of a "team-management" style of management*

H5: *The formulation of specific succession plans*

H7: *Time spent engaged in strategic management activities*

H9: *Management's consideration of going public*

H10: *The use of equity rather than debt financing*

DISCUSSION AND IMPLICATIONS

This exploratory study, based on a combined sample of 593 family businesses in six diverse countries, indicates that the strength of the influence of a family business' founder or founders has certain significant impacts upon a variety of management characteristics of both current and subsequent management of such firms. Thus, this multinational study provides partial support to prior studies involving family firm founder influence. Although Davis and Harveston (1999) found a positive relationship between founder influence and subsequent organizational conflict, no such relationship was found in this study. On the other hand, Eddleston (2008) and Kelly et al. (2000) postulated a wide variety of ways in which family business founder influence impacts succeeding generations' family managers, and this study found some such effects.

A limitation of this study is the use of single measure variables. Therefore, future family business researchers can increase the rigor of this research. The survey instrument can be further developed by adding multiple questions for each variable to additionally validate the variable measures, which can lead to deeper, more complex analyses of the relationships between the variables, which in turn may lead to the development of a theory. However, with multiple measures, researchers will need to use factor analysis to test the validity of the measures.

The field of Family Business is still relatively young. Only in recent years have a significant portion of family business studies involved the use of quantitative testing rather than conceptual and qualitative analysis (Chrisman, Steier & Chua, 2008; Dyer & Sanchéz, 1998), and most empirical studies have focused upon North American family firms (Oviatt & McDougall, 2005). Thus, most of the conclusions and postulations presented in the current body of literature are preliminary in nature and geographically limited in scope. There is a recognized need for replication and for further and geographically broader research in the field to strengthen the body of literature and move toward the development of models and theories (Bruton, et al., 2008). This study adds a significant step in that direction.

Although qualitative analysis may identify the influence of the founder of a family firm as an important factor impacting such firms, considerably more research is needed before clear conclusions can be reached. Future research on this topic should replicate prior studies and selected components of this current study, focus more specifically on these and other issues involved, and use data from a variety of countries. For example, the possible impacts of founder influence on different generational stages and on different types of businesses are worthy of study, as such impacts may differ for various reasons. This study should be considered a building block in the construction of a strong body of family business literature.

This current study is important in that it brings new empirical research to this issue of founder influence in family business management and that it does so in a multinational context. Because this study is broad and exploratory, its results may have the greatest value to current and future researchers, who can use this research as a base from which to further investigate various more specific aspects of founder influence in family firms.

This study, and future studies which take this research focus further and deeper, may also be of value to consultants to family businesses and to family business owner/managers themselves, both of whom may gain insight into the impact of founder influence in family businesses. Greater insight can lead to both better management practices and to better consulting assistance.

More specifically, both family firm owner/managers and consultants to family businesses, can benefit from understanding which aspects of management are more likely to be affected by strong founder influence. In firms where founder influence is acknowledged to be strong, then owner/managers and consultants can watch out for, and deal appropriately with, such impacts. For example, if further studies confirm this current study's finding that strong founder influence *reduces* the likelihood of hiring managers from beyond the family, then owner/managers or consultants can consciously work to offset this influence if the hiring of non-family-member managers is deemed to have potential value to the firm. Similarly, if strong founder influence *increases* the likelihood company managers engaging in strategic management activities, and in succession planning, and if these management activities are deemed desirable for the long-term performance of the firm, then both owner/managers and consultants might cultivate and support the founder's influence in this respect. For both owner/managers and consultants to family businesses, having an understanding of the strength of the founder's influence and furthermore understanding how this influence might impact the firm's management can be of value, allowing these individuals to identify those management characteristics where encouragement or discouragement is appropriate.

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