Evolutionary Psychology, Organizational Culture, and the Family Firm

by Nigel Nicholson

Executive Overview

The paper aims to show how evolutionary psychology can provide a fresh, compelling, and overarching explanatory framework for contrasting evidence about the special capabilities and vulnerabilities of family businesses, compared to nonfamily firms. It is argued that this encompasses the predominant theoretical frameworks, including the principal-agent perspective, and goes further to explain how family capital can create competitive advantage through the cultures family business leaders are able to build. The key elements are analyzed with case examples. A Darwinian analysis of kinship explains what is unique about family firms in terms of the identity of the business, its continuance over generations, and the character of its leadership. Throughout, the lessons and implications for nonfamily firms are discussed.

Love, hate, inspiration, harmony, faith, loyalty, and honor: These words are not often heard in the corporate world, or in management science as it is taught in most business schools. These are the sentiments of kinship, and they sit uneasily alongside the Weberian and classical management principles of rational order on which the modern corporation is founded. It is widely perceived that family passions have the capacity to undermine the logic that drives markets and shareholder value. According to this logic, detached decision-making, impartial authority, and meritocratic management are the keys to delivering consistency, efficiency, and effectiveness, and they are put at risk by family interests and motives that make it possible for nepotism, favoritism, and personal feuds to hold sway. The family business world, in this view, is primitive—at a lower level of business development than the modern firm whose structures, rules, and internal logic are optimized to navigate resources, demands, and constraints and thereby maximize value.

But this logic points to a problem, a challenge, and a new answer. The problem is that, yes, it is true that family firms have, over the years, exhibited many of the worst excesses their critics might imagine (Gordon & Nicholson, 2008), but it is also true that publicly listed corporations have proven to be equally flawed. Frequent press reports tell of corporate scandals; inconsistent and volatile performance; and failures to honor the needs and expectations of employees, customers, and other stakeholders. There is moral and practical ambiguity about whose interests are being served by leaders and their cohorts (Bebchuk, Fried, & Walker, 2002). In both family and nonfamily firms one can see that the cause is an agency problem—a problem of aligning the interests of the business, its stakeholders, its owners, and its managers—an issue we shall return to shortly.

The inverse is also true. Just as the planet is populated with many highly effective public corporations, many family firms are equally well run. Estimates vary about their prevalence, partly because of debate about what a family firm is. For present purposes it can be defined as any enterprise where a family has a controlling ownership stake in the equity and at least one representative of the family is involved in the management or administration of the firm (Institute for Family Business, 2008). In large firms this controlling stake may be no more than 25% of the stock.

Family firms account for around 75% of firms in most developed economies and a substantial proportion of global wealth production (Shanker

Nigel Nicholson (nnicholson@london.edu) is Professor of Organizational Behavior, London Business School.

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& Astrachan, 1996). Not only are they engines of entrepreneurship and growth, but in many parts of the world large family enterprises occupy the commanding heights of the economy (Colli, 2003). Some of the most admirable and high-performing businesses in the world have had a family interest driving them and shaping their culture—companies like Wal-Mart, Samsung, Cargill, Fiat, Motorola, Tata, and Marriott. Some are extraordinarily enduring—two of the oldest, in Japan, claim 1,300-year histories, and one of Japan's largest, Sumitomo, was founded in 1630. Several European family firms run to 20 generations, and in the United States there are many going back to the middle of the 19th century.

Given their prevalence it is puzzling why, since its birth as a field of study, family business has been somewhat ghettoized—treated as a special niche of minority interest to scholars and business commentators (Litz, 1997). But this is beginning to change (Sharma, 2004). There is increasing recognition of family firms' contribution to the global economy and interest in what they can teach the rest of the business world.

Not only do they abound, but research also shows that if they can survive their early periods of growth and transition, they often outlive and outperform other kinds of businesses (Dyer, 2006). So there is a duality to explain—performance capability vs. vulnerability to dissolution, the evidence for which I shall be analyzing subsequently. Theorists and commentators differ in their appraisal of the evidence, in terms of weight of argument for optimism or pessimism about costs, risks, benefits, and opportunities family firms afford. The debate is not only of relevance to family business scholars; it has implications for our understanding of all corporate cultures and their impact on firm performance. In this paper, I shall aim to show how the new science of evolutionary psychology can help to provide an integrated view of family firms and what the business world can learn from them.

The Theoretical Arena

In recent discussions of family business, agency theory has taken center stage, though its perspective on family firms is somewhat pessimistic (Schulze, Lubatkin, Dino, & Buchholtz, 2001). Agency theory supplies a powerful set of ideas to explain how individuals behave in contractual relationships with each other and with institutions, seeking to advance their interests while minimizing the costs of their actions. In business, agency theory explains the need for controls and incentives to align the goals of the managers with the goals of the owners, and shows how many of the problems that arise in firms stem from poorly designed management control systems (Jensen & Meckling, 1976). The principal-agent perspective has provided a valuable set of insights, with much support from research. However, the framework is narrow and arguably restricted in its assumptions about the nature of rational self-interest and the motives of agents and principals.

Evolutionary psychology can augment agency theory by providing an expanded conception of human nature, giving a more complete account of human interests and a more detailed construction of the processes of human rationality. Evolutionary psychology (EP) is a fast-growing body of ideas and research based on Charles Darwin's ideas. This analysis, of course, originated in biology, but it has rapidly spread to other disciplines, from archaeology to economics. Only recently have the ideas migrated into the business arena (Lawrence & Nohria, 2002; Nicholson, 1997; 1998; Nicholson & White, 2006), where they are the subject of some fierce debate and much misrepresentation (Nicholson, 2005a).

The chief proposition of EP is that we humans, as an evolved species, inherited not just the physical attributes for existence as clan-dwelling hunter-gatherers, but also a mental architecture (Barkow, Cosmides, & Tooby, 1992) whose "design"—biases, instincts, and susceptibilities—has supported our reproductive fitness over the many millennia of our evolution. This has a number of ramifications in how we think and feel, the form and process of social relationships, our behavior in groups, our responses to symbols, and our preferences for specific institutional forms. The goal of EP theory and research is to identify and analyze the contents of our evolved human nature, understand how they are reflected in everyday social life and experience, and consider the implications for human well-being, effectiveness, and change (Nicholson, 2000; Pinker, 1997).

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EP theory agrees with agency theory that much behavior in and out of organizations is a consequence of people pursuing rational self-interest. It goes a step further, however, by reconceptualizing the nature of human interests in terms of a broader array of "proximal" goals than material welfare and satisfaction, such as loyalty or altruism, that are aligned with the "distal" overarching goal of reproductive fitness and its subgoals (e.g., being a trusted and respected member of the human community). It also broadens our conception of what we take to be rational by accepting that some biases, such as uneven reactions to loss and gain, have a sound logic that derives from our primal goals and the conditions that prevailed during the time when our species acquired its design. Because the Darwinian framework has much to say about kinship, family business provides a fruitful arena for its ideas to be applied.

The Family Firm Conundrum

Several studies from different times and perspectives have shown that family firms outperform their nonfamily counterparts. Evidence comes from controlled comparisons of family vs. nonfamily firms on the American (Anderson & Reeb, 2003; Lee, 2006), French (Sraer & Thesmar, 2007), and British (Poutziouris & Barreto, 2006) stock markets. Other studies, including comparisons of privately owned firms cited in Dyer (2007), contain some mixed results on performance, but overall the balance of evidence seems to be positive.

More specifically, researchers who have compared the internal processes of family businesses with those of nonfamily firms have found them capable of generating superior motivational properties (Beehr, Drexler, & Faulkner, 1997). These properties, what we may call "family capital," enable them to secure competitive advantage through their cultures (Tokarczyk, Hansen, Green, & Down, 2007). At the same time, they are vulnerable to spillovers from family dynamics that can undermine their capability.

Agency theorists note that although family businesses avoid the problems of control that arise when ownership and management are separated, they give rise to a fresh and unique range of risks. Chief among these are altruism (people creating a positive link between their own welfare and that of others), adverse selection (the risk of hiring or promoting unqualified individuals), hold-out (individuals blocking decisions or obstructing change), free-riding and shirking (extracting free benefits because of one's privileged position), and a number of what agency theorists call "self-control" hazards (Lubatkin, Schulze, Ling, & Dino, 2005). Empirical research to test these ideas indicates that altruism and free-riding are prominent sources of difficulty, though researchers also note that altruism has benefits (which we shall discuss shortly) (Schulze, Lubatkin, & Dino, 2003).

There is plentiful anecdotal evidence of agency problems in family firms. Witness the case of the Bronfman family—founders of the mighty Seagram drinks empire (Faith, 2003). Through three generations dominant members practiced favoritism about who was excluded from or included in running the business, and they made a string of bad strategic decisions, especially around acquisitions and diversification, and a succession of poor bets against the market.

However, it is notable that some of the troubles that plagued this family were ones about which agency theory is silent, such as individual differences in the characters of leaders, the nature of the goals people were striving for, and the dynamics of interpersonal rivalries and conflict. Yet these are commonplace difficulties facing many family firms and frequent causes of their failure (Gordon & Nicholson, 2008; Kets de Vries, 1993; Levinson, 1971).

Recent research sheds light on another factor in the Bronfman case: the perils of primogeniture, the tradition that the eldest son succeeds to the leadership. A painstaking research study in Denmark, where public records allow for controlled comparison of family succession in private firms, showed that although family firms outperform nonfamily businesses, they suffer a major performance deficit where primogeniture operates (Bennedsen, Nielsen, Pérez-González, & Wolfenzon, 2007). A recent British study reached a similar conclusion (Van Reenen & Bloom, 2007). In the Bronfman case the eldest son of the founder was a principal culprit in the firm's downfall—by

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dint of character flaws, poor preparation, and lack of guidance.

It is perhaps surprising that the practice has persisted given the evidence. However, there are evolutionary reasons for a preference for primogeniture—control, continuity of ownership, and conformity among them, especially when younger siblings may be inclined to take a different view of the future of the firm (Sulloway, 2001).

What we need, therefore, is a framework of ideas that will reconcile the optimists and pessimists through an integrated view of the causes of advantage and risk. This would have to encompass the partial frameworks currently being deployed on one side of the argument or the other. Evolutionary psychology shows a way to do this. It also can help to take family business out of the ghetto and into the mainstream by showing which of the hazards and advantages of family firms are also replicated in the nonfamily sector. The evolutionary approach has much to offer businesses of all types.

Firm Culture and Leadership: An Evolutionary Overview

Evolutionary science suggests that we humans are better adapted for certain ways of organizing and being led than others, yet we cannot just rely on instinct to find them—in fact, we often orient in the opposite direction under perverse incentives. Often our instincts urge us to satisfy our appetites even if we incur heavy costs in doing so. For example, evolution gave us a taste for salt and sugar in an environment where they were scarce; now that they are abundant we poison our bodies to satisfy our appetites (Nesse & Williams, 1995). Our willingness to bear long-term costs for short-term gains—known as "hyperbolic discounting" in the motivation literature (Steel & König, 2006), and no doubt an adaptive trait for our ancestors trying to achieve reproductive fitness under conditions of extreme risk and adversity—no longer serves us so well. In the office environment, desire for status and fear of loss motivate managers to overwork and neglect their family life (Schaef & Fassel, 1988)—securing short-term gains of family security at the cost of longer-term dysfunction.

We cannot harmonize the interests of human psychology and social economy by retreating to some early tribal ideal, at least not for most of society—though some individuals do flee the rat race to find fulfillment in the simpler and more organic lifestyle of communities where work and nonwork are more coterminous than in contemporary society. This boundary is also often much more blurred in family firms. The elision of work and family life is thus arguably one of several aspects of family business that make it closer to our ancestral origins than other types of business. Yet this does not prevent them from having special liabilities in the contemporary context.

It is therefore necessary to identify the critical elements of organizational culture that bring success and failure, and to establish whether those associated with success are especially associated with family business, as well as whether they can be replicated in other kinds of organizations. For many years I have been poring through the lists of firms that are regularly nominated as the companies people most admire and like to work for, published by journals such as *Fortune* in the United States and *The Sunday Times* in the United Kingdom. Three sets of cultural inputs seem to be strongly associated with success:

1. Communitarian size and structure.
2. Stewardship practices.
3. High involvement culture.

Family firms figure strongly in these lists—firms such as W.L. Gore, the pioneering manufacturers of outdoor waterproof fabrics (Hamel, 2007)—and one can see how these features resonate with evolutionary theory.

First, communitarian size and structure is to be found in firms that organize around decentralized small units. Evolutionary psychologists have found a direct correlation between the troupe size of primates and their brain size—from the small family groups of lemurs to the large communities of baboons and chimpanzees (Dunbar, 1992). This group size effect reflects the cognitive network capacity of individual members of species and thus constitutes the maximum size at which they can

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function as self-organizing social communities. For humans this number comes out at around 150, and there is plentiful evidence that firms that deliberately restrict unit sizes to around or below these dimensions are more able to maintain a unitary than a fragmented culture (Goffee & Jones, 1998). Semco, the Brazilian manufacturing business reinvented along radical lines by the family scion, Ricardo Semler, explicitly followed a rule of having no unit with more than 150 workers (Semler, 1993), without any prior awareness of the EP principle. William Gore was equally ignorant of EP when he set a limit of 200 on his business units (Hamel, 2007). ABB and Virgin, Swedish and British conglomerates respectively, also reaped the benefits of strong communitarian cultures by deliberately restricting unit size during the early years of their growth (Nicholson, 2000).

One firm that has explicitly applied EP principles is the fastest growing travel agency in the world, the Australian-founded Flight Centre. The company was organized into families, villages, and tribes (Johnson, 2005), following the founder's reading about these ideas in Nicholson (1998). Stores are "families" accorded a high degree of self-determination in how they manage their customer base. "Villages" are clusters of stores that meet and share resources, including people. "Tribes" are regional clusters of villages (total size <150) that create their own symbols of collective identity and practices, meeting regularly to celebrate achievements and solve problems.

Second, stewardship practices are commonplace in the most highly rated companies. These are management systems and practices that recognize employees as whole people and community members, taking an interest and lending support to their welfare by such means as flexible working practices, material support when they are in need, and the provision of a range of pro-social activities that encourage a sense of participation and belonging. These practices that invest in people for the long run (Miller & Le Breton-Miller, 2005) partially replicate the condition of a community of shared fate, such as those our ancestors were raised in and adapted to (Ridley, 1986).

Third, although we are instinctively status oriented and hierarchical, all available evidence suggests that we are ill-suited to rigid status systems, preferring fluid self-organizing hierarchies where leadership may move from hand to hand according to ability and need (Erdal & Whiten, 1996). A principal reason for this is what behavior genetics tells us about individual differences. Individual uniqueness in disposition, cognitive abilities, and aptitudes has a strong genetic component, which exists to maximize our opportunities for different kinds of cooperation and pair-bonding (Buss, 1991). Organizations can capitalize on the comparative advantage of being different—a product of which is termed "frequency-dependent selection" in evolutionary dynamics—by giving employees opportunities to demonstrate their talents and to feel that their unique contributions make a difference. Family firms such as W.L. Gore score high in their ability to utilize flexibly individual differences and to bind people together with an inclusive culture. Nonfamily firms such as the Flight Centre are also able to replicate these conditions, by means of their highly participative motivational framework around local profit sharing.

Before we move on to consider specific issues related to family firms, let us pause for a moment to consider the role of leadership. Leadership is a central element of culture, for leaders are both creators and bearers of culture (Schein, 1985). There are many different ways of being a leader, reflecting the character traits of the leader, many of which have a substantial heritable component (Hogan, Curphy, & Hogan, 1994; Judge, Bono, Ilies, & Gerhardt, 2002). These include the desire to lead, a stable individual difference that not all possess (Chan & Drasgow, 2001). It is also the case that there are many different kinds of leadership situation, a key dimension of which is organizational culture. Therefore, congruence—a good fit between leader type and organizational environment—is a critical success factor for a business (Schein, 1985).

This means that one cannot generalize about leadership types, except to note that there may be a need for leaders with different characters as circumstances change—as can be observed in times of peace and war, for example (Nicholson, 2005a). The importance of this congruence was

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illustrated for me personally during a field trip to visit a remote Maasai tribe in Kenya, whom I studied as if they were a family business (which in one sense they surely are). Here I found, for example, that the warrior chief model of leadership was based entirely on selfless endeavor, intermediation and peace-making, emotional intelligence, and deference (Nicholson, 2005b). This style works because it enshrines the powerful collectivist values of the tribe. In other words, organizational cultures get the leaders who fit them—by selection, conditioning, or the self-selection of the leaders themselves. There are examples of leaders molding cultures, but more often one finds different types of leaders prevailing in different types of business (Schneider, Smith, Taylor, & Fleenor, 1998).

This process also helps to explain the dearth of women leaders in business—their motives and values are often a poor fit with the single-minded competitive striving that dominates many business cultures. They are eliminated in the mid-career tournaments that favor aggressive males, and they often have no desire to take leadership roles in the business cultures that are constituted around this model.

Thus far, I have outlined key elements of the analytical framework that EP brings to the study of business in general and family business specifically. This is an account of overarching goals and predispositions that motivate and guide leaders, owners, and managers. It is consistent with agency theory, but goes beyond it in offering a compelling account of the special strengths and liabilities of the family business, highlighting especially the role of culture and leadership.

Now let us dig deeper to examine what is really different about family firms, and how a Darwinian analysis of kinship explains their unique risks and capabilities. We need also to consider the question of what lessons, if any, there are to be derived for nonfamily businesses from this analysis.

Family Firms: The Kinship Effect

Family firms exhibit many of the features we have identified as congruent with our evolved human nature, but so do some nonfamily firms. Through the formative influence of its owner/founder, the Flight Centre has created a family ethos in the absence of bloodlines running through the business. So what does family add that benefits a business or puts it at risk? We need to identify what is unique about family firms and then consider what these attributes bring in terms of potential added value or added hazard, and whether they can be mimicked by nonfamily firms. Three properties are unique:

1. Genetic identity.
2. Intergenerational transmission.
3. Wildcard inheritance.

Feature 1: Genetic identity

Ownership is the key. It is the time-honored ancient relationship that makes a hunter-gatherer look at the tools in hand and say, "I made these functional yet beautiful objects for the use and profit of my people." It is the closest kind of identification a person can have with labor. Writ large at the level of the firm it is the spirit that says, "This business is in my blood; this commonwealth is my family; what it produces is a symbol of our worth and social contribution." Agency theory comprehends this benefit as the alignment of interests around a shared entity. More than that, identification of the products of the business with the family name also aligns the interests of producers and consumers—the firm's reputation is also the family's. The benefits of this family capital extend beyond family members, of course, to all other internal stakeholders. For the past five years I have been chairing a competitive awards program for the best family businesses in the United Kingdom and Ireland and conducting case study investigations of the winning firms[1]. It has been striking how, in focus groups and interviews, nonfamily employees at all levels have testified that they feel the positive difference of working for a family firm. It is also striking when one looks across the business firmament how many large firms can retain a strong residual benefit of their family origins, long after the family has become a

[1] The JPMorgan Private Bank UK and Ireland Family Business Honours Programme. Since 2003 my role has been to oversee the data collection, chair the judging panel, and write case study reports on the winners.

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minor voice in the governance of the business (for example, Ford, Wal-Mart, Goldman-Sachs, and Danone).

This analysis also suggests that only under certain conditions can these benefits be secured, and that changes and inequalities in ownership weaken the linkage. Indeed, research shows that firms can fall apart as easily as they come together if groups of owners are moved to pursue differing goals, which many kinds of ownership distribution will encourage. Trusts and other devices are often used by family firms to make this unlikely. Agency theory encompasses these possibilities, but may exaggerate the scope for conflict, for in family firms ownership means more than just owning shares. One may also talk meaningfully of "emotional ownership," connoting the degree to which family members, whether or not they are owners, feel they are part of the business and the business is part of them (Nicholson & Björnberg, 2007). Where material ownership is unequally distributed or concentrated, many family firms strive to achieve this wider psychological identification through family councils, constitutions, collective events, and other mechanisms that help to reinforce collective identity (Neubauer & Lank, 1998). In the language of Darwinism, family firms are benefiting from "inclusive fitness," which is the principle that kin will make sacrifices for each other because they carry the same genes (Barrett, Dunbar, & Lycett, 2002), and the firm is the device that acts as the bearer of the heritable benefits.

A related point concerns leadership. As Kaiser and colleagues point out in a recent article (Kaiser, Hogan, & Craig, 2008), the leadership literature systematically confounds the fate of leaders' careers with the fate of organizations. The agency problem, that the interests of leaders and those of their businesses may diverge, evaporates in family firms—potentially giving them a powerful and consistent advantage.

The payoffs from such unitary purpose and spirit are the envy of many a nonfamily business, yet, although the lists of the most admired companies are thickly populated with family firms, they are not so exclusively. In other words, through share ownership schemes, cultural events, and other commitment-inducing strategies, nonfamily companies may achieve comparable benefits, though perhaps not so durably.

There is a dark side to genetic identity. It is overidentification with the firm and its products—which may be associated with the agency hazard of hold-up, e.g., family members being unwilling to relinquish some aspect of a business that is in need of restructuring. Bad strategic decisions may easily come from an excess of love for the firm and attachment to what it does. In any business there may be a need to switch product lines, diversify beyond traditional areas, or kill off defunct brands. Emotional attachments to products and processes as part of the family identity can clearly impede the ability to make rational and dispassionate judgments about needed disposals.

Feature 2: Intergenerational Transmission

A family firm cannot really be considered as such until there is the possibility and intention for ownership to pass from one generation to the next. Many of the most successful family firms have managed this smoothly, the oldest over hundreds of years with ownership successions well into double figures. From a Darwinian perspective the key factor in reproductive fitness is not just to ensure that your offspring survive but that they inherit material advantages that will help to sustain the transmission of the family genes through successive generations (Barrett, Dunbar, & Lycett, 2002; Davis & Daly, 1997).

The clan structure is a time-honored method for doing this; holding the family property in common minimizes the possibilities for divided interests among siblings, for example, and the likelihood of tensions is further diffused by the stream of benefits extending forward to the next generation and beyond. In agency theory terms, this effectively mitigates problems by aligning current material interests rather closely with genetic interests, as defined by Darwinian theory. To put it more plainly, the business becomes coterminous with the bloodline, and it is in everyone's interests to keep it healthy.

The difference with family businesses is that there will be less inclination to fatten the business for sale, or for short-term gain over longer-term

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strength, when the potential heritage of future generations is in one's hands. This has some important side effects for business performance. It means, for example, that leaders can afford to have an orientation that is less one of personal self-interest than one of stewardship (Greenleaf, 1991; Miller & Le Breton-Miller, 2006). It also fosters the maintenance of long-term strategic perspectives on the business, even beyond those of privately owned companies (Ouchi, 1980). Knowing that you are working and planning for your children's children is a great corrective to short-termism. This argument applies to ownership generally. Nonfamily owners have long-term interests in preserving wealth for their children, but there is no necessary attachment to the firm. They might as well sell up and reinvest in some other heritable vehicle. Family business owners have more than a material stake in the enterprise for the longer term.

One problem with this optimistic picture is the speed bump of succession. Difficulties tend to arise out of succeeding generations' differing perspectives. Darwinian theory predicts two kinds of conflict inherent in kinship relations. One is parent-offspring conflict (Trivers, 1974). Parents want to determine the destiny of their genes by exerting control over their children long after the children have begun to throw off the yoke, and children wish to form their own conception of family interests in the light of their experience, needs, and anticipation of the future of their anticipated offspring.

The second is sibling conflict. Shared genes represent shared interests, and therefore siblings should be motivated to cooperate. Yet their interests are divided vis-à-vis the context of family resources. The elder holds the superior position by virtue of prior claim and resents the intrusion of the younger, while the younger seeks to rebel against the order that upholds the elder's precedence (Sulloway, 2001).

Consider the case of the mighty Reliance business empire in India, controlled by the Ambani family. The father, unwilling to relinquish control while still active, made no provision for succession and then unexpectedly died, without leaving a will. The sons fought a bitter battle until by the mother's decree the business was unbundled into two coherent noncompeting entities. This division fortuitously turned out to be a good business outcome, but the internecine conflict that preceded the split was painful. In many other cases such conflicts have destroyed family firms (Gordon & Nicholson, 2008). Yet in many firms one also finds siblings operating in partnership, because they have figured out how their interests aligned outweigh their interests divided (Gersick, Davis, Hampton, & Lansberg, 1997).

What is the relevance for nonfamily firms? Succession does loom large in all businesses, and in many nonfamily firms one can find leaders acting like fathers disposing among their children. The results are as unhealthy as in many family firms. On the positive side, it suggests that if firms can maintain a conception of their destiny beyond immediate shareholder value they may reap benefits of more confident and farsighted strategic leadership.

Feature 3: Wildcard Inheritance

In nonfamily business there is a good deal of happenstance about the selection of leaders, but in both family and nonfamily firms the logic of congruence between the character of the individual and the demands of the situation applies. Many family firms seek to professionalize their leadership cadre. But in many others bloodlines play a part, with leadership of the family, and often of the business, determined by family status. Behavior genetics, a cousin discipline to EP concerned with the heritability of individual differences (Ilies, Arvey, & Bouchard, 2006), sheds light on this phenomenon. It says that family succession is a lottery because of the counterintuitive fact that although the genes for character and many leader-related abilities are genetically inherited, they do not necessarily run in families (Lykken, McGue, Tellegen, & Bouchard, 1992). Although every child gets 50% of her genes from each parent, many of the leadership traits of most interest to us are the product not of single genes but of gene sequences (nonadditive inheritance) (Ilies, Arvey, & Bouchard, 2006). Moreover, at the point of conception a lot of switching and some modification take place that affect the ex-

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pression of the genes (Ridley, 1999). The result is that although identical twins are at least 60% similar in character, nonidentical twins, siblings, parents, and children are close to zero with each other, similarities occurring simply by chance (Lykken et al., 1992). No amount of parental conditioning can reverse this (Plomin, 1994). It is through this randomizing that two conservative parents can be disconcerted to find themselves rearing an out-and-out risk-seeker. It also explains why so often family business leaders try but fail to groom an heir apparent to take on not only the mantle of their leadership, but also the style with which it is executed.

The problem of succession often involves founders/leaders searching in vain for one of their children to emulate them. Primogeniture, of course, eliminates even this degree of freedom. The risks are obvious, and they increase with demographic shifts toward the "beanpole" family structure—multiple generations but no breadth (Markson, 2003). Conversely, the ascendancy of family businesses in many parts of Asia and the Middle East has depended on the choices open to them with large extended clan structures. Demographic change in these regions will pose a challenge to this model.

However, in surprisingly many cases the gene lottery can work in a business's favor in unexpected ways. The next generation can often effect reform and change to the founder's conception, which otherwise could have found itself outpaced by a fast-changing world. The radical visionary Ricardo Semler relied on his instincts to throw away the rule book his father used to build Semco, a solid traditional business manufacturing pumps in São Paulo, Brazil (Semler, 2003). Ricardo, a mercurial and intensely creative personality, a man quite unlike his father, turned the business into one of the most radical and successful experiments in advanced democratic management ever witnessed, embodying by instinct many of the principles of EP (Nicholson, 2000). In nonfamily firms succession is much more engineered for stability, and incoming nonfamily leaders may lack the legitimacy and power that a family successor has. These factors make the outcome of succession in nonfamily firms more likely to be conservative than in family firms.

The gene lottery thus offers the prospect of people coming into leadership positions who would often be unlikely choices via the normal processes of corporate succession. The best family businesses understand this and hedge their bloodline succession with tests of fitness; infilling with professional executives who complement and compensate for the strengths and weaknesses of family leadership. Little is said in praise of nepotism (Bellow, 2003), but one of its benefits is that leaders, knowing they are in place as much by birth as by merit, are more likely to be unafraid to (a) have a realistic appraisal of their own weaknesses and (b) appoint as co-leaders people with skills and experience they themselves lack. There are counterexamples—another reason for the duality of family firms' performance. But this awareness can be seen as one of the strong markers of leadership effectiveness in family firms: the ability to forge complementary family and nonfamily assets into effective leadership teams (Nicholson & Björnberg, 2005).

The gene lottery gives family firms more varieties of character than you tend to find in many parts of the corporate world, where deviations from the norm are screened out at successive levels of advancement and selection. Naturally occurring diversity is one of the ingredients that gives family businesses their edge—the ability to forge distinctive cultures out of the characters that populate them, for culture is surely one of the inimitable sources of competitive advantage a firm can possess.

The implication for nonfamily businesses is that they should take care not to clone their leaders. The formulas for past success, including selecting successors to replicate previous leadership models, can be a recipe for future failure, as it fosters increased predictability, control, and narrowing of strategic capability, making a business easy prey for fleet-of-foot innovators (Audia, Locke, & Smith, 2000). Rather than randomizing succession, however, the optimum is what the savviest family businesses do. They look at the leadership cadre and, instead of choosing someone who will fit in as a clone, select someone who by

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character and ability will provide the stimulus of contrast. Many nonfamily firms already recognize the truth in this. The question is whether they are able to tame and reverse the well-documented processes that lead to cultural and leadership homogeneity (Schneider et al., 1988; Smith, 2008).

Implications for Family and Nonfamily Firms

The kind of human community in which humans evolved, and for which our psychology and social instincts are adapted, is the tribal structure: an aggregation of moderate size where kinship groups form interlocking networks by pair-bonding (marriage) outside of immediate kin, and where work and nonwork are not rigidly separated. In this networked society kin and non-kin work toward a common interest. The community has the full diversity of human types and little or no contact with "strangers," since the only way into the tribe is by birth and the only way out is by death (or very rarely by excommunication).

Our psychology follows this model. Although our feelings for kin are intense, we find it easy, if not unproblematic, to extend inclusive sentiments to non-kin. We are able to pair-bond with non-kin and adopt others' offspring. We are ready to build trusting and cooperative relationships with people we scarcely know, because we know that reputation within the bounded community is a most precious asset not to be put at risk and that acts of betrayal will bring retribution. Yet in the modern context we have continual crises of mistrust, free-riding, and cheating on the social contract because we lack these essential conditions, and hence we institute elaborate formal systems of incentives and sanctions for self-protection (Price, Tooby, & Cosmides, 2002).

In business, the best family firms forge an organic and communitarian unity of kin and non-kin. This also has been a marked feature of the case studies on the winners of the U.K. and Ireland family business awards program. In every case the overall winners have been marked by their capacity to attract, retain, and motivate top-quality professional executives in leadership roles, and harness them to work alongside family members as fully included members of their community. Nonfamily firms can claim the same benefits by replicating elements of the model: a culture based around values of familial inclusion, a wide diversity of human types and talents, fluid and organic structures, flexible and multiple models of leadership, high-involvement methods of working and making decisions, and a commitment to the enduring legacy of the firm beyond the stewardship of its current owners and managers.

The absence of a bloodline makes this last part difficult but not impossible to achieve. Moreover, one can argue, as do the agency theorists, that one may often be better off without the intensity of family passions and their possible spillovers. But the evidence suggests that with good governance and leadership both family and nonfamily firms can thrive and continue to shine as stars in the business firmament.

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