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# Family-member and non-family-member managers in family businesses

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## Abstract

**Purpose** – The purpose of this paper is to investigate, in a multi-country context, the inclusion of family-member managers and non-family-member managers in family businesses, and the relationship of this variable to certain management activities, styles and characteristics.

**Design/methodology/approach** – This four-country study involved survey research and correlational testing of nine hypotheses. The four countries, Croatia, France, India and the USA, provided a mixture of entrepreneurial contexts. Given limited prior research in this area, this study is exploratory and broadly focused.

**Findings** – There was limited support for the relationship between the percentage of non-family-member managers and the nine management activities, styles and characteristics studied, both between and within countries. The strongest support was for the positive relationship between the percentage of non-family managers and the use of sophisticated financial management methods.

**Research limitations/implications** – Inherent in the choice of countries are some variations among the four country samples. Future research can build on these findings with more focused studies in areas that seem worthy of further analysis.

**Practical implications** – This study, along with further research, should allow family business owner/managers to better understand the possible impacts of bringing non-family managers into their firms. Family businesses may not need to be concerned that their firms will lose their "familiness" if they hire non-family managers.

**Originality/value** – This study begins to fill a gap in the family business literature identified by prior researchers and, as noted above, creates a base for future research and for possible practical implications for family firm practitioners.

**Keywords** Family firms, Managers, Croatia, France, India, United States of America

**Paper type** Research paper

## Introduction

The objective of this study was to investigate family businesses with regard to the degree to which such firms employ non-family members as managers. How does the percentage of non-family-member managers to family-member managers in a family firm relate to the managerial activities, styles and practices of that firm?

There has been limited research into the issue of family managers (FMs) versus non-family managers (NFMs) in family businesses. Chua *et al.* (2003, pp. 102, 103), with very strong empirical experience in the field of family business, concluded that "issues related to non-family managers [in family firms] have received very little attention by

Journal of Small Business and Enterprise Development
Vol. 16 No. 2, 2009
pp. 196-209
© Emerald Group Publishing Limited
1462-6004
DOI 10.1108/14626000910956010

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researchers" and "there is definitely a gap in our understanding of the role played by non-family managers in the family business".

Researchers in the field of family business continue to recognize a significant gap in the literature with regard to the issue of family-member versus non-family-member managers in family firms. Chrisman *et al.* (2005a) stated that many questions remain unanswered and much interesting research remains to be done to determine how family involvement affects firm performance. Ensley and Pearson (2005) concluded that family business research needs to identify the nature of family involvement in top management teams, in response to which Nordqvist (2005) agreed that this is a breach in the literature that has not received much attention. Chrisman *et al.* (2005a, p. 241) also agreed with the need to better understand top management teams in family businesses as "this is a topic of great importance since the decisions of top mangers may determine the extent to which a family business obtains distinctive familiness and superior economic performance".

Furthermore, there has been growing interest in comparing management characteristics and activities multinationally. Oviatt and McDougall (2005) compared entrepreneurial behavior in multiple countries and across national boundaries rich in opportunities and having possibilities to move such research from its infancy into high growth.

This current study is important in that it brings new empirical research to these issues of FMs and NFMs 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 researchers, but should also be of value to consultants to family businesses and to family business owner/managers themselves, both of whom may gain insight into the possible impact of having NFMs in family businesses.

## Literature review

Although most definitions of a "family business" include the criterion of the prevalence of family members in the management team, an extensive review of the family business literature has found few academic papers or journal articles that investigated the impact of NFMs on the management activities, styles and practices of family firms. The papers and articles that did touch on this topic usually did so in a tangential manner and/or in a conceptual or anecdotal method, rather than via empirical investigation. Somewhat more frequently found, but still few in number, were papers and articles that compared family businesses and non-family businesses, an issue quite different in nature. Still another related, but again a different, issue is the use of non-family-members on the corporate or advisory boards (but not in the management) of family firms, a topic occasionally investigated and the (largely anecdotal and conceptual) focus of an entire issue in the first year of publication of the *Family Business Review* (1988).

Still, some prior studies did indeed investigate FMs and NFMs in family firms. Several analyses have focused on the issue of how a family firm CEO should adapt to working with NFMs, and the difficulty of delegating managerial responsibilities to non-family members (Firnstahl, 1986; Goffe and Scasse, 1985; Hofer and Charan, 1984; Mathews, 1984; Perrigo, 1975). The reverse issue – how to facilitate the adaptation by the non-family manager to the family firm's culture and goals – was considered by Dyer (1989) and by Mitchell *et al.* (2003), who pointed out that NFMs must adapt to the family firm and need assistance in doing so.

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Other investigations regarding FMs and NFMs focused on compensation for NFMs (McConaughy, 2000; Poza *et al.*, 1997), and on retention of NFMs (Ward, 1997). Furthermore, Gallo and Vilaseca (1996) and Dorgan *et al.* (2006) looked at the possible performance benefits of family firms with NFMs versus those without.

Chua *et al.* (2003) emphasized the relevance of agency theory in explaining and understanding the relationship between FMs and NFMs in family firms. They empirically investigated the percentage of NFMs in the management team of a family firm and its relationship to the FMs concerns about their relationships with NFMs. Among their conclusions was that past assumptions of zero or low agency costs in family firms require further thinking, as these costs are more complex and asymmetric than previous supposed.

Another group of (largely anecdotal and conceptual) studies relate the advantages and disadvantages of family members versus non-family members as managers of family firms. Some studies see positive benefits of FMs, such as extra-ordinary commitment (Donnelly, 1964; Horton, 1986), more warm, friendly and intimate relationships within the management team (Horton, 1986; *Management Review*, 1981), the potential for deep firm-specific tacit knowledge, often based on early involvement in the firm (Lane and Lubatkin, 1998), governance advantages (Carney, 2005), and the creation of a synergy in the top management team due to higher cohesion, potency, and positive task conflict (Ensley and Pearson, 2005). Marcus and Hall (1992) see a preponderance of FMs as benefiting the firm's service providers, and Goody (1996) concludes that such preponderance facilitates firm growth as members of succeeding family generations are available to open new branches of the company.

However, some studies see a downside to a firm's managers being members of the same family. Limiting management positions primarily to family members may lead to hiring sub-optimal people who can not be easily dismissed (Dunn, 1995; Whyte, 1996), and can lead to greater conflict because of non-merit-based promotion criteria (Leyton, 1970: Wong, 1988). Also, qualified NFMs may avoid family firms where their potential for growth, promotion and remuneration is hampered (Covin, 1994a, b; Donnelly, 1964; Feigener *et al.*, 1996; Horton, 1986; Stewart, 2003). In addition, Dhaliwal (1998) and Song (1999) note that in many cultures, kinship criteria in choosing managers reduce the managerial opportunities and role for female members of the family.

Still another group of studies investigate the negative impact of NFMs in family firms. Several researchers conclude that the presence of NFMs can result in "creative destruction" when NFMs create too much firm growth and thus weaken family managerial and/or financial control (Morck and Yeung, 2003; Morck *et al.*, 2000; Olson, 1963, 1982, 2000). And the fear of such "creative destruction" may in turn lead to FMs blocking or discouraging NFMs' creativity and innovation and thus stifle desirable company growth. Other studies have found that a mixture of FMs and NFMs in the same firm may lead to greater conflict within the managerial team (Schultz *et al.*, 2001, 2003).

In response to positive and negative conclusions about the inclusion of NFMs in family firms, several writers focus on the need to socialize new NFMs, clearly communicate to them existing family values and objectives, and tie the interests of the NFMs to the firm, for example via stock ownership and board membership (Astrachan and Kolenko, 1994; Berenbeim, 1990; Dyer, 1989; Gubitta and Gianecchini, 2002; Sirmon and Hitt, 2003).

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Finally, some family business researchers have focused on developmental issues or the stages of evolution of family business growth. Gersick *et al.* (1997) present a four-stage model of family firm development, and Peiser and Wooten (1983) focus on the life-cycle changes in family businesses. As family firms grow, these writers see a likelihood of bringing greater numbers of NFMs into the company. Thus, the body of literature specifically relating to FMs and NFMs in family firms provides limited empirical evidence and little consensus or clear conclusions.

## Hypotheses

As discussed earlier, the objective of this study was to investigate family businesses with regard to the degree to which such firms employ non-family members as managers. How does the percentage of non-family-member managers to family-member managers in a family firm relate to the managerial activities, styles and practices of that firm? This study examined a broad family firm database developed by Sonfield and Lussier (2004, 2005a, b) and Lussier and Sonfield (2006), based on earlier studies investigating other aspects of family business. The hypotheses used for this current study are based on the hypotheses used in these previous studies by Sonfield and Lussier of family firm management activities, styles and practices, which in turn derived from findings and propositions developed by earlier researchers who investigated family firms. Due to the limited prior empirical research with this specific FM vs NFM focus, and the exploratory nature of this current research project, a large number of hypotheses involving a wide variety of family business issues have been chosen for testing, rather than focusing on a few specific managerial issues. Thus the significance of the various hypothesis test results may indicate that some factors are more worthy of further research and analysis than are others.

Furthermore, because there are minimal and mixed prior findings with regard to FMs and NFMs in family firms, the null hypothesis is used throughout. A full literature review for each of this study's hypotheses would be quite lengthy and beyond the scope of this article, and readers are referred to Sonfield and Lussier (2004) for the literature supporting the nine hypotheses below:

*H1*. The percentage of non-family-member managers in a family firm will not have a significant relationship to the percentage of women family members involved in the operations of the firm.

*H2*. The percentage of non-family-member managers in a family firm will not have a significant relationship to the use of a "team-management" style of management.

*H3*. The percentage of non-family-member managers in a family firm will not have a significant relationship to the occurrence of conflict and disagreement among family members.

*H4*. The percentage of non-family-member managers in a family firm will not have a significant relationship to the formulation of specific succession plans.

*H5*. The percentage of non-family-member managers in a family firm will not have a significant relationship to the use of outside consultants, advisors and professional services.

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*H6*. The percentage of non-family-member managers in a family firm will not have a significant relationship to time spent engaged in strategic management activities.

*H7*. The percentage of non-family-member managers in a family firm will not have a significant relationship to the use of sophisticated methods of financial management.

*H8*. The percentage of non-family-member managers in a family firm will not have a significant relationship to the degree of influence by the original business objectives and methods of the founder.

*H9*. The percentage of non-family-member managers in a family firm will not have a significant relationship to management's consideration of "going public."

## Country comparisons

To strengthen and expand the scope of the analysis, data relating to *H1-H9* were gathered in the USA, Croatia, France and India. These four countries have different sized populations, different cultures, different economic characteristics and histories, and different GEM rates of entrepreneurial activity (Croatia = 3.6, France = 3.2, India = 17.9, USA = 10.5. Higher scores indicate greater entrepreneurial activity in the business population). The following information may be of value.

### *Croatia*

In 1991, the Republic of Croatia declared its independence from Yugoslavia, and is today a parliamentary democracy with a population of about 4.4 million, about 57 percent of which is urban. Gross domestic product was estimated to be $24.9 billion in 2000. Of a total 148,000 business enterprises in Croatia, about 90,000 are one-person operations and another 54,000 are small (annual sales of 2 million US dollars or less) (*World Almanac*, 2003). Family-controlled businesses in Croatia have a long history in the country, prior to the institution of a socialist Yugoslavia following the Second World War. Today, most family firms are single-generation small businesses, oriented toward autonomy, self-employment and stability. Only since the 1991 independence have growth-oriented family-controlled businesses become a significant factor in the economy (Denona and Kraman-Aksentijevic, 1995; Galetic, 2002).

### *France*

France has a population of about 60 million people. A total of 75 percent of the population lives in urban areas. In 2000, the gross domestic product was estimated at $1.448 trillion (*World Almanac*, 2003). Family-owned and controlled businesses in France, called "patrimonial" businesses, play a major role in the economy: 98 percent of companies with less than 100 employees, 75 percent of those with 100 to 3000 employees, and 20 percent of those with over 3000 employees (Gattaz, 2002; Lyagoubi, 2002; Mahérault, 1999).

### *India*

Home to one of the oldest civilizations in the world, Britain relinquished control of the Indian subcontinent following the Second World War, and the Republic of India was

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established in 1950. India has a population of over one billion people and had an estimated gross domestic product of $2.2 trillion in 2000 (*World Almanac*, 2003). The economy consists of a large state sector with a number of very large state enterprises, a relatively small number of multinational companies, and a large private sector. The private sector, with few exceptions, is controlled by families who may or may not hold large shareholdings in their companies. Thus, most of the large Indian companies, though they may be publicly traded, are controlled by families and their management succession is generally maintained within the family. Members of their boards of directors also hold their positions at the pleasure of the controlling family (CMIE, 2003; Manikutty, 2000).

*USA*

In 2006, the population of the USA passed 300,000,000, with a gross national product (GNP) of approximately $11.75 trillion (Central Intelligence Agency, 2006). Business ownership and management in the USA tends to run in families (Dennis, 2002). Within the US economy, family businesses comprise an estimated 80 percent of the total 15 million businesses (Carsrud, 1994; Kets de Vries, 1993), contribute more than 50 percent of the total GNP (McCann *et al.*, 1997), and 50 percent of employment (Morris *et al.*, 1997).

## Methods

*Sample*

In the USA, survey instruments were randomly mailed or hand-delivered to a variety of New York and Massachusetts companies, which had been identified as family firms (listings of "family businesses" in local business newspapers). These surveys were addressed to the presidents or CEOs of these companies, with the instruction that the addressee complete the survey, but only if they were an "owner-manager" and if they viewed their firm as a "family business." There were 822 surveys mailed or delivered; of these 272 were no longer at the address or responded that they were not family firms. (The survey instrument included the question: "Do you consider your company to be a family business?" and the cover letter defined "family members" as parents, children, siblings, spouses, and other close relatives.) A total of 149 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 USA, 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. Responses of the late participants were compared to the original respondents and compared for difference, and no significant differences were found.

In France and India, large survey mailings to identified family businesses were possible (France = 800, India = 312), and net response rates for France of 14.5 percent ($n = 116$) and for India of 12.8 percent ($n = 40$) were obtained. 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 ($n = 50$).

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 *et al.*, 1999; Teal *et al.*, 2003), and most empirical studies of family businesses have used a convenience sample (Chua *et al.*, 2003). This is

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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 *et al.*, 2002). Similarly, in a study of highly-rated small business and entrepreneurship-oriented journals, it was found that around one-third of the articles had a response rate of less than 25 percent (Dennis, 2003).

*Measures and statistical analysis*

With correlations, the results are the same regardless of which variable is dependent or independent. Thus, for statistical testing of all nine hypotheses the dependent variable is the percentage of non-family-member managers, which is a ratio measure. The nine independent variables in hypotheses testing are interval or ratio levels of measures. See Table I for a listing of variables with a brief explanation of operationalization and measure for each variable. To conserve space in this table, all hypotheses are denoted by summary phrases. In the actual survey instrument, the questions or statements used to collect the data were more substantial. Likert interval scales were used: "Describes our firm" – 7 to 1 – "Does not describe our firm."

Based on level of measures, *H1-H9* were tested using Pearson Correlations. There were nine correlations per country, for a total of 36 correlations. Higher-level statistical regression is not appropriate because the purpose of the study is to determine relationships between variables, not to predict the percentage of managers based on the nine independent variables.

## Results and discussion

Descriptive statistics are included in Table II and the means with each variable hypothesis correlation in Table I. Overall, among the four countries, there is limited support for the relationship between the percentage of NFMs and the nine hypotheses variable correlations (nine out of 36, 25 percent). Within each country, the USA had only two significant correlations (22 percent), France had four (44 percent), Croatia had none (0 percent), and India had three (33 percent). Also, the rule of needing a correlation coefficient of 0.40 or higher to be considered a good relationship was not met by any of the 36 correlations, as the highest coefficient was only 0.347, with 33 (92 percent) of the coefficients being less than 0.3, and all three of the higher coefficients were in India.

There was also a lack of consistency between all but one of the significant independent variables between countries. The percentage of women involved in operation of the business was significant twice, in the USA and India, but the relationship was negative in the USA and positive in India. The use of a team-management decision style was also significant twice, in France and India, but the relationship was positive in France and negative in India.

The most consistent variable between countries was the use of sophisticated financial management methods. The use of such methods did increase with the level of non-family-member managers in both the USA and France ($p < 0.05$), and it was also positive and significant at the 0.10 level in Croatia ($p = 0.089$) and India ($p = 0.071$). If the samples sizes in Croatia and India were larger, the correlation coefficients may have been significant at the 0.05 level. Thus, this relationship is the most relevant finding of this multinational analysis.

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Table I. Correlation hypotheses tests

| Variables (*H1-H9* independent variables) | USA ($n = 159$) Mean | Co-efficient | *p*-value | France ($n = 116$) Mean | Co-efficient | *p*-value | Croatia ($n = 50$) Mean | Co-efficient | *p*-value | India ($n = 40$) Mean | Co-efficient | *p*-value |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| % of non-family managers – dependent variable | 31 | | | 39 | | | 16 | | | 68 | | |
| *H1*. % of women involved in operation of business | 30 | −0.210 | *0.008* | 34 | −0.107 | 0.254 | 39 | −0.025 | 0.866 | 13 | 0.347 | *0.028* |
| *H2*. Use of team-management decision style (7-1) | 3.93 | −0.077 | 0.336 | 4.54 | 0.208 | *0.025* | 5.74 | −0.080 | 0.579 | 4.52 | −0.209 | *0.013* |
| *H3*. Occurrence of conflict and disagreements (7-1) | 2.44 | −0.090 | 0.257 | 2.60 | 0.182 | *0.050* | 3.90 | 0.025 | 0.863 | 2.32 | −0.389 | 0.433 |
| *H4*. Formulation of specific succession plans (7-1) | 3.03 | 0.000 | 0.999 | 3.27 | 0.039 | 0.679 | 4.74 | 0.002 | 0.988 | 3.87 | −0.319 | *0.045* |
| *H5*. Use outside advisor/professional services (7-1) | 4.16 | 0.124 | 0.119 | 5.49 | 0.087 | 0.353 | 4.22 | 0.228 | 0.112 | 4.40 | 0.167 | 0.303 |
| *H6*. Time spent in strategic planning (7-1) | 3.17 | 0.141 | 0.076 | 2.70 | 0.215 | *0.020* | 4.06 | 0.234 | 0.103 | 3.98 | 0.065 | 0.690 |
| *H7*. Use sophisticated financial management methods (7-1) | 3.36 | 0.294 | *0.000* | 3.95 | 0.193 | *0.038* | 4.16 | 0.243 | 0.089 | 5.85 | 0.288 | 0.071 |
| *H8*. Influence of original founder (7-1) | 5.04 | 0.044 | 0.579 | 3.08 | −0.153 | 0.102 | 5.00 | 0.055 | 0.705 | 4.17 | −0.184 | 0.257 |
| *H9*. Consider going public (7-1) | 1.37 | 0.140 | 0.718 | 1.10 | 0.125 | 0.181 | 2.62 | 0.208 | 0.148 | 6.43 | −0.115 | 0.480 |

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

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| Variable | USA Total ($n = 159$) | France Total ($n = 116$) | Croatia Total ($n = 50$) | India Total ($n = 40$) |
|---|---|---|---|---|
| *Generation* | | | | |
| 1st | | | | |
| *n* | 50 | 45 | 11 | 9 |
| % | 31 | 39 | 22 | 23 |
| 2nd | | | | |
| *n* | 60 | 38 | 35 | 16 |
| % | 38 | 33 | 70 | 40 |
| 3rd | | | | |
| *n* | 49 | 33 | 4 | 15 |
| % | 31 | 28 | 8 | 37 |
| *Years in business* | | | | |
| Mean | 38.60 | 46.22 | 13.10 | 39.43 |
| SD | 30.02 | 29.75 | 12.29 | 25.95 |
| *No. of employees* | | | | |
| Mean | 194.91 | 88.09 | 14.64 | 4,443 |
| SD | 662.46 | 95.67 | 16.18 | 9,917 |
| *Industry* | | | | |
| Product | | | | |
| *n* | 42 | 66 | 26 | 33 |
| % | 26 | 57 | 52 | 82 |
| Service | | | | |
| *n* | 117 | 50 | 24 | 7 |
| % | 74 | 43 | 48 | 18 |
| *Ownership* | | | | |
| Corporation | | | | |
| *n* | 118 | 90 | 0 | 40 |
| % | 74 | 77 | 0 | 100 |
| Partnership | | | | |
| *n* | 17 | 16 | 6 | 0 |
| % | 11 | 14 | 12 | 0 |
| Sole proprietorship | | | | |
| *n* | 24 | 10 | 44 | 0 |
| % | 15 | 9 | 88 | 0 |

**Table II.**
Correlation hypotheses tests

## Conclusions and implications for practitioners, consultants and researchers

As discussed earlier, this exploratory study begins to fill an identified gap in the family business literature through its investigation of family-member managers versus non-family-member managers in family firms. As also discussed earlier, the limited prior writings on this specific family business issue reached few conclusions, with some writers postulating that NFMs strengthen a family firm (Coven, 1994a, b; Donnelly, 1964; Dunn, 1995; Feigener *et al.*, 1996; Horton, 1986; Leyton, 1970; Stewart, 2003; Whyte, 1996; Wong, 1988) and other researchers concluding the opposite (Carney, 2005; Chua *et al.*, 2003; Donnelly, 1964; Ensley and Pearson, 2005; Goody, 1996; Horton, 1986; Lane and Lubatkin, 1998; Marcus and Hall, 1992; *Management Review*, 1981). As most of these earlier writers reached their deductions and findings through

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non-quantitative analyses, this study's quantitative methodology adds to the literature. As this research focus continues to be developed by scholars, this combination of qualitative and quantitative analyses should in combination allow us to better understand this issue of FMs versus NFMs (Guillén, 1994).

In summary, this study found only one strongly significant relationship regarding the inclusion of NFMs in family firms: that the use of sophisticated financial management methods increases as the percentage of NFMs increases. With regard to all the other managerial activities, styles and characteristics investigated, there were no strongly significant relationships with the inclusion of NFMs in family firms within the four countries or between these countries.

The primary conclusion that can be reached from these findings is that the influence of "familiness" and the "family system" in family firms (Chrisman *et al.*, 2005b) may be sufficiently strong to negate or minimize the influence of "non-familiness" and "professional management" that NFMs may bring into a family firm. Even with the inclusion of NFMs, often coming from non-family firms and bringing with them "non-family" management activities, styles and characteristics, the special and unique aspects and forces of the system of the family, its individual family members, and the business itself provide a synergistic force that offsets the outside influences of these NFMs. Thus, family businesses may not need to be concerned that their firms will lose their "familiness" if they hire NFMs. However, this study did not focus on understanding at what point (or percentage of NFMs) familiness will begin to erode, indicating a need for further research.

The limitations of this study primarily involve the varying sizes and characteristics of the samples. The four country samples range from 159 to 40 and vary with regard to their compositions. Ideally, the four country samples would have been larger and more equal in size but, as noted earlier, the availability of data for family business research is limited, and most prior studies have also depended on samples with less-than-perfect characteristics.

This train of research should be of both interest and value to practitioners, consultants and researchers. The findings of this study and derivative future studies should enable family business owner/managers to better understand the possible impacts of bringing NFMs into a family business. Would there be likely changes in management activities, styles and characteristics, and would these changes be desirable and beneficial or dysfunctional for the firm? This is also a question that consultants to family businesses must consider as they analyze such firms and make recommendations regarding alternative strategies for growth.

For researchers in the field of family business, these findings build upon earlier and generally non-quantitative studies, provide some preliminary results that future research can focus on, replicate, and build on, and may indicate some specific factors especially worthy of further investigation. Furthermore, this research raises many ideas for future research which, for example, might focus on factors not considered in this study, such gender issues, the varying levels of profit motivation among family firm owners, or the influence of different national cultures on family business management practice. The potential scope for future research relating to family-member and non-family-member managers in family business is indeed extensive.

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