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Pepperdine University
Graduate School of Education and Psychology

LEADERSHIP AND MANAGEMENT IN SECOND GENERATION MEDIUM-SIZE
FAMILY BUSINESSES: A COMPARATIVE CASE STUDY

A dissertation submitted in partial satisfaction
of the requirements for the Degree of
Doctor of Education in Organizational Leadership

by

Gonzalo Gonzalez-Serna

February, 2012

John F. McManus, Ph.D.-Dissertation Chairperson

This dissertation written by

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under the guidance of a Faculty Committee and approved by its members, has been submitted to and accepted by the Graduate Faculty in partial fulfillment of the requirements for the degree of

DOCTOR OF EDUCATION

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DEDICATION

I dedicate this research project to:

- My wife Angelica
- My children Gonzalo Daniel, David Francisco, and Cristina
- My parents Gonzalo and Maria Cristina.
- God Jesus Christ
- The Virgin Mary
- St. Jude the Apostle

ACKNOWLEDGMENTS

I wish to thank all the people who helped me to complete this project. I could have not finished my study without their support:

- To my wife and my parents, for supporting me and encouraging me during the years of my doctoral work
- To my children, for giving me the motivation to persevere in my effort
- To Ben Liberman, for his economic support to my studies
- To my committee chair, Dr. Jack McManus, for believing in me, for sharing his invaluable experience, and for making this research project an amazing journey of knowledge and discovery
- To my committee members, Dr. June Schmieder-Ramirez and Dr. Paul Pinckley, for giving me counsel, direction, and encouragement to complete my degree
- To all my professors at Pepperdine University
- To my friends and colleagues who helped me during the different stages of this journey, specially to Dr. Ben Annan, Dr. Kamal Inamdar, Dr. Svetlana Holt, Dr. LaRon Doucet, Dr. John Lubbers, Dr. Don Gladney, and Dr. Natalie Winter
- To the 10 business owners who shared their experiences with me

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ABSTRACT

A research study was conducted among 10 second generation owners of medium-size family businesses in Mexico to gain a better understanding of how their firms were founded and of how these business owners have succeeded in growing their companies and keeping their business alive for more than 40 years. Literature from leadership, management, and family business was reviewed to analyze the existing research on the topic. The literature review revealed that many authors have addressed similar issues, but from different perspectives. This study presents the experiences of a group of second generation business owners in great detail, focusing on their role as leaders and managers of their organizations.

A comparative case study was conducted. A detailed description of each study case is presented to familiarize the readers with the participants and their companies. The study found that the companies researched were started in the 1950s and 1960s, a time when there was little competition and little government regulation in Mexico. At the time, several entrepreneurs were able to take advantage of this situation and positioned themselves as first entrants in their respective industries. However, in the 1970s and 1980s, Mexico experienced several devaluations, resulting in great deals of uncertainty for the business community. Most recently, in the 1990s and 2000s, it has been difficult for medium-size family firms to stay alive due to intense global competition. The business owners who participated in this study think that the most important factors for the survival of their firms have been: adopting new technologies; implementing modern business management practices; offering excellent customer service; projecting confidence as leaders; and gaining long-term commitment from key employees.

The findings of this study are consistent with the literature review. However, this research provides a more detailed description of certain events and presents a closer look at the reality of the day to day experiences of medium-size family business owners.

Chapter 1: Introduction

Background

While there are many forms and sizes of businesses in the world, this study focused on a very specific group: second generation owners of medium-size businesses that were begun in a selected city in Mexico.

To better understand the specific characteristics of the targeted group, it was necessary to review the following concepts: medium-size business, family business, the business environment in Mexico, and second generation business owner.

Medium-size business. Depending on its size, a business can be classified as small, medium, or large. The limits or ranges for a business to be considered small, medium or large are subjective and can be based on different indicators. Among the indicators most commonly used are number of employees and amount of revenue (European Commission, 2003; Nacional Financiera, 2010).

Number of employees, as an indicator of business size, offers several benefits for the purposes of this research paper. First, it is easier to ask, in the interviews, for the number of employees than for the revenues of the business. Second, number of employees has the same meaning regardless of countries, whereas amount of revenue is difficult to translate from country to country, because it is affected not only by exchange rates, but also by many other factors such as purchasing power of the money and the prevailing accounting laws of any specific country. Finally, for leadership and management purposes, number of employees is a better indicator because it reflects the number of people who have to be lead and managed.

One of the best efforts to classify micro, small, and medium-size businesses is the definition adopted on May 6, 2003, by the European Union, which categorizes companies with fewer than 10 employees as micro, those with fewer than 50 as small, and those with fewer than 250 as medium (European Commission, 2003).

In Mexico, the government financial institution dedicated to support small and medium size businesses, Nacional Financiera, uses the same criteria than the European Union uses. It classifies businesses as medium-size if they have from 51 to 250 employees (Nacional Financiera, 2010).

For the purpose of this study, the criteria established by the European Union and by Nacional Financiera are used. A business is considered medium-size when it has from 51 to 250 employees.

Family business. For the purpose of this study, a family business is one in which a family: manages the operation of the company, has all or the majority of the ownership, and intends to keep the management and ownership of the company in the family transferring the business to the next generation.

This definition is consistent with two other definitions proposed by authors who have defined the family business for the purpose of their research papers. One of those studies defines a family business as:

one that is owned by members of the same family to shape and pursue the vision of the firm and where it is the intention of the family to hand the business over to a member of the next generation to manage and control. (Venter, Boshoff, & Maas, 2005, p. 284)

The other study defines a family business as “a company whose ownership and management are concentrated in one family, with at least one member of the family at the helm of the business and another being groomed or considered for eventual leadership” (Brun de Pontet, Wrosch, & Gagne, 2007, p. 338).

In most countries around the world, family businesses are an important part of the social and economic structure (IFERA, 2003). Their importance varies by country. In developed nations, where more information is available, the statistics show that their contribution to the economy is high in terms of Gross Domestic Product (GDP) participation and number of people employed (Fernandez Perez & Fernandez Moya, 2010). For example, in 2003, an international study found out that family businesses in the U.S. accounted for 95% of all businesses, that they contributed to 40% of the GDP and up to 75% of employment by private firms (IFERA, 2003).

In emerging economies and undeveloped nations fewer statistics exist regarding the contribution of family businesses, but for Latin American countries, values of more than 50% have been estimated for indicators such as number of firms, participation in GDP, and employment (IFERA, 2003; Poza, 1995). As a result, family businesses provide a solid foundation for the social, economic, and political stability of countries in Latin America, including Mexico.

Business environment in Mexico. Mexico is the world’s 13th largest economy in terms of GDP (Central Intelligence Agency, 2010). However, when looking at other indicators such as income per capita, Mexico ranks 85th in the world, worse than most developed nations (Central Intelligence Agency, 2010).

As in the case of countries like Brazil, China, and India, Mexico plays an important role in the global economy. Mexico has big corporations that compete head to head with the best of the world in their respective industries (Fernandez Perez & Fernandez Moya, 2010), but unfortunately the prosperity of these corporations has not resulted in better standards of living for the majority of the Mexican population (Crandall, Paz, & Roett, 2005).

During the last few decades, there have been profound changes in most countries around the world. Mexico has not been the exception. Mexico went from a highly closed and protectionist economy in the 1960s and 1970s, to a very open economy starting in the 1980s with its entry to the World Trade Organization (Urquidi, 1994). In the 1990s, Mexico negotiated many bilateral free trade agreements such as the North America Free Trade Agreement (NAFTA) signed with the U.S. and Canada. In these agreements the countries agreed to immediately eliminate, phase out, or reduce their tariffs (import taxes) and their quotas (import quantity limits) with the goal of increasing the international exchange of goods and services (Rios, 1994).

In the last two decades, Mexican imports and exports have increased ten-fold (Moreno-Brid & Ros, 2009). As a result, most businesses in Mexico have been forced to compete against the best of the world, resulting in the elimination of many industries and companies, but also in the strengthening of others (Stanfield, 2010). For example, Mexican companies in the industries of cement, beer, and telecommunications are among the best in the world (Fernandez Perez & Fernandez Moya, 2010). However, there are very few truly successful multinational companies based on Mexico, which means that

most other Mexican companies have been forced to reinvent themselves, finding specific niches where they can compete.

The overall economic impact of NAFTA and globalization in Mexico appears to be positive. However, there have been also significant negative effects to specific sectors of the population, such as the millions of farm workers who have lost their jobs and have been forced to migrate to big Mexican cities or to the United States. Although farmers in a few regions of central and northern Mexico have benefited from an increase in exports of fruits and frozen vegetables, the majority of the farm workers and small farm owners in Mexico grow grains, such as corn and beans, and has been unable to compete. The result has been a 1,400 % increase in imports of grains in the last 10 years and the illegal migration of millions of people from rural Mexico to the United States (Ruiz, 2008).

All these historic facts about macroeconomic trends are important because it is in this ever changing environment where the medium-size, second generation family businesses subject of this research have operated.

Most of them were founded in the 1960s and 1970s, when infant industries in a closed economy provided a fertile ground for entrepreneurs. However, only a few of them have survived the next three decades. Determining how and why these companies have survived is one of the major goals of this dissertation.

Second generation business owner. For the purposes of this paper, a second generation family business is a company owned and managed by a business leader whose parents founded the company more than 30 years ago and eventually transferred the leadership and the ownership, or at least a significant part of it, to him or her.

The specific situations in which leadership and ownership were transferred may differ from case to case. While some of the business leaders who will be considered as data sources in this research may have assumed the leadership of the original companies previously owned by their parents, others may have started their own companies as spinoffs of the original family business. However, in order to be considered for this study, the second generation family business must have its origins clearly linked to the family business started by the first generation.

In sum, the analysis of the specific situations that contributed to the long term viability of a group of Mexican, medium-size, second generation family businesses is a major focus of this dissertation.

Problem Statement

Family firms constitute the majority of businesses in Mexico (Fernandez Perez & Fernandez Moya, 2010; IFERA, 2003), yet only a few of them are able to grow during the life of the founder, are successfully transferred to the second generation, and are able to survive after several years of being run by the second generation (Ward, 1987).

While issues in family businesses have been extensively documented in the literature, little formal research has been done on the successes and challenges faced by second generation family companies. Moreover, the few studies focused on the second generation owners have been predominantly interested in the issue of succession and have neglected, for the most part, the subjects of leadership and management (Sharma, 2004).

Finally, no academic research has been conducted in Mexico combining the study of family business, second generation owners, medium-size businesses, leadership, and management (Elizondo, 2008). This gap in research needs to be filled.

Statement of Purpose

The purpose of this study is to obtain, from a group of business owners, their experiences and points of view with regard to the management and leadership of their firms, to identify patterns of behavior, common or not, while identifying characteristics that have contributed to the success of selected second generation family-owned businesses in one selected city in Mexico. Moreover, by asking the participants to tell their stories, the findings are expected to produce descriptions of events that will be useful to many people whose lives are related to family businesses—for example, owners, family members, managers, employees, consultants, academics, and researchers.

Research Questions

To accomplish the purpose of this study, the following research questions were formulated:

Research Question I: How was the family business founded?

Research Question II: What were the key events in the growth and expansion of your company?

Research Question III: How was the family business transitioned from the first generation to the second generation?

Research Question IV: What are the key events that have contributed to the family business success and current situation and how did they contribute?

Research Question V: What is the leadership style of the second generation owner of the family business? How does this style differ from the style of the founder?

Research Question VI: How does the second generation owner expect to achieve his or her vision?

Nature of the Research

This qualitative study gathered information from in-depth interviews of 10 second generation business owners, all of them leaders of medium-size companies located in a selected Mexican city.

The comparative case study method was used. Although the collected data was expected to have high intrinsic value, the adequate codification of the answers and the cross comparison of the results increased the value of the collected material, by generating insightful findings that practitioners can apply in real-life business situations.

Limitations of the Study

The comparative case analysis is considered a scientific method that produces knowledge that contributes to the understanding of individual, group, organizational, and social phenomena (Yin, 2009). However, as in the case of other qualitative research methods, its goal is not to produce inferences from a sample that can be applied to the

entire population (Morse, 2002). For this reason, it is important to consider the limitations of this research paper:

- The findings only apply to the people interviewed and their companies.
- The findings of the research came from the recollection of events of the people interviewed and may not necessarily reflect the actual facts.
- The analysis of the data may be biased by the background of the researcher. For example, the academic background, work experience, and personal preferences of the researcher may have influenced subjectively the way in which data was processed and conclusions were reached.
- The participants were concentrated geographically. A city of almost one million, the Mexican city where the research took place, has its own characteristics, different to those of many other cities.
- The fact that a qualitative method was used means that the study did not result in generalizations or principles that can be applied to all second generation family businesses, but rather in new insights to specific phenomena never analyzed before scientifically.

Assumptions of the Study

It is difficult to have full access to the top leaders of organizations. This was the biggest challenge of this research project. Therefore it is important to consider that the researcher made the following assumptions:

- There would be 10 business owners interested in contributing to this research.
- The participants would dedicate at least 1 hour each for the interview.
- The interviews would be conducted without interruptions.

- The participants would engage in a serious conversation with the researcher and their answers would be rich in content.
- The participants would trust the researcher and will share not only recollection of events but also their emotions and personal interpretations of the events.

Significance of the Study

As is the case of most qualitative research, this study was interested in a small group of subjects and the conclusions that were obtained cannot be inferred to the population to which the sample belongs. However, every piece of data obtained and all the information processed may have value for anybody dealing with similar situations.

In anthropology, for example, researchers many times work in isolated communities. Therefore, their findings cannot be directly applied to people living in other more developed societies. However, their work helps to understand attitudes and behaviors that we observe in our societies and that, at first, may appear completely irrational. This may be the case of members of a gang in a big city who tend to exhibit behaviors that the general public may consider antisocial, such as painting walls with graffiti, but a similar behavior may have already been observed by an anthropologist while working with an isolated tribe that may have wanted to demonstrate its resistance to another more powerful tribe.

In the case of the present study, the experiences of the business owners interviewed may provide useful hints to understand similar situations observed in other family businesses, in cities, and countries other than the target audience.

In conclusion, the results obtained in this study reflect the experiences of business owners who have been successful leading medium-size family businesses and keeping

these companies alive. As a result, this study may provide business leaders, organizations, researchers, and consultants with information important to: expand the knowledge of family business theory, increase the understanding of the role of the second generation in family businesses, improve the likelihood of survival of first generation family businesses, and increase the need to keep exploring issues related to the management and leadership of medium-size family firms.

Expand the knowledge of family business theory. During the last 30 years, there has been an increasing amount of research in the field of family business (Sharma, 2004). However, because of the great variety and diversity of family firms, there are infinite possibilities of research, based on many variables such as size, geographical location, and stages of maturity of the company and the family members.

This study focused on leaders of medium-size, second generation family businesses located in a selected Mexican city.

Increase the understanding of the role of the second generation in family businesses. The second generation members of a family business share special characteristics that make them different from the first generation and from the third generation. Typically, members of the first generation start the business from scratch and have to spend most of their lives building their companies, often sacrificing personal and family time, and without fully enjoying the fruits of their success. On the other hand, members of the third generation of successful family firms usually are born and raised with many luxuries and may be less inclined to live hard working lives, especially if the family business requires them to spend most of their time in unattractive places. The

members of the second generation are in the middle of these extremes and it is important to find out what characteristics they have in common that make them unique.

Improve the likelihood of survival of first generation family businesses. The early success of family firms depends entirely on the dedication and entrepreneurial genius of the founder; that is, the first generation. However, later on, and still under the leadership of the founder, the entrance of the second generation to the family business can provide with the additional fuel needed to consolidate the organization.

A member of the second generation is a very good source of information about the beginnings, growth, and consolidation of a business under the founder's leadership, because the second generation usually enjoys better access to the founder than most other people in the firm. In this study, the stories told by the second generation owners about the early times of their firms provided important insights as of what it takes for a business to start, to grow, to prosper, and to consolidate.

Increase the need to keep exploring issues related to the management and leadership of medium-size family firms. Most of the research in the field of family business has been around the topic of succession. Without minimizing the importance that succession has in the survival of family firms, it should be noted that it requires much more than a succession plan to run a business, to make it grow, and to consolidate it. Two of the most important disciplines responsible for the success of organizations are management and leadership. Effective management is the foundation upon which all organizations operate. Authentic leadership is what guides the development and sustainable growth of those organizations. It is important that family business researchers dedicate more effort to the examination of the areas of management and leadership.

Definition of Terms

Several key terms were constantly used in this paper. For the purposes of this study, these terms are defined as follow:

- Family business: a firm in which a family manages the operation of the company, has all or the majority of the ownership, and intends to keep the management and ownership of the company in the family, transferring the business to the next generation (Brun de Pontet et al., 2007; Venter et al., 2005).
- Family business success: when a company has existed for more than 30 years, has grown over the years, and is still owned and controlled by the founding family (Norton, 2005).
- Leadership: the process of getting extraordinary things done by modeling the way, inspiring a shared vision, challenging the process, enabling others to act, and encouraging their hearts (Kouzes & Posner, 2002).
- Management: the process of planning, organizing, leading, and controlling the efforts of organization members and using all other organizational resources to achieve stated organizational goals (Stoner, 2008).
- Mission: the reason for which a person, a group, or an organization exists (Oakley & Krug, 1991).
- Medium-size business: a for profit organization having from 51 to 250 employees (European Commission, 2003; Nacional Financiera, 2010).
- Second generation business owner: successor and main shareholder of a company founded by his or her parent (Cadieux, 2007).

- Succession: the process through which the ownership, leadership, and management of a company are transferred to the next generation (Handler, 1989).
- Vision: the ability to perceive the many possibilities open to you and your organization and to create an ideal picture of where you and your organization will be at a future point (Ponder, 2005)

Summary

Chapter 1 started with an explanation of the main issues related to medium-size, second generation family businesses in Mexico. Then the problem statement was presented, the purpose of the research was stated, and the research questions were formulated. The last part of Chapter 1 covered the significance of the study, the limitations of the study, and the definition of relevant terms.

Chapter 2: Literature Review

Chapter Structure

This chapter reviews the existing literature in the topics related to this research project. The chapter discusses the theoretical framework for the study and explores the academic research in the field of family businesses.

The first section covers the field of leadership. The theories of leadership more relevant to this research are discussed. This review is important, especially for the evaluation of the leadership styles of the participants in this study.

The second section presents the main concepts associated with the discipline of management. At the end of this section, a model is suggested to show the relationship between management and leadership.

Finally, the third section reviews the work of researchers and consultants in the area of family business. Most of the documents analyzed are from academic journal articles, but a few books, dissertations, and thesis are also considered.

The topics reviewed in this chapter have been organized in a sequence that shows the relationship between the areas of leadership, management, and family business, with the flow of ideas moving from general theoretical concepts to specific applied research.

Leadership

Theories of leadership. Leadership is about setting a vision, guiding the followers, and influencing them to reach the vision and to achieve common goals (Ponder, 2005). However, there is little agreement on how leaders do it, or about what it

takes to become a successful leader. In the next pages, we will review several theories of leadership that explore the issue.

Trait approach. The first authors in the field of leadership centered their attention in the personal qualities and characteristics that famous leaders may have in common. While this is a valid and appealing approach, efforts to test this theory have met many dead ends. Many authors have arrived to different list of traits. For example, in 1959 Mann included intelligence, masculinity, adjustment, dominance, and extroversion. Later on, in 1974 Stogdill came with a longer list that included achievement, persistence, insight, initiative, self-confidence, responsibility, tolerance, influence, and sociability (Northouse, 2004).

More recently, Kirkpatrick and Locke (1991) identified six traits that differentiate leaders from non-leaders: drive (includes achievement, ambition, energy, tenacity, and initiative), the desire to lead, honesty/integrity, self-confidence, cognitive ability, and knowledge of the business.

Although the traits approach offers only a partial explanation in the study of leadership, most authors agree that traits are important determinants of several characteristics and behaviors commonly associated with leadership (Kirkpatrick & Locke, 1991).

Skills approach. One question commonly asked is if leaders are born or made. Whereas the traits approach tends to favor the idea that leaders are born, the skills approach tends to favor the view that people can learn through career experiences and environmental influences. The skills approach believes that general and specific cognitive abilities, along with motivation and personality allow people to become leaders. With

time, these abilities turn into the problem solving and social judgment skills that allow leaders to solve problems and achieve high performance (Mumford & Zaccaro, 2000).

The process is described in Figure 1.

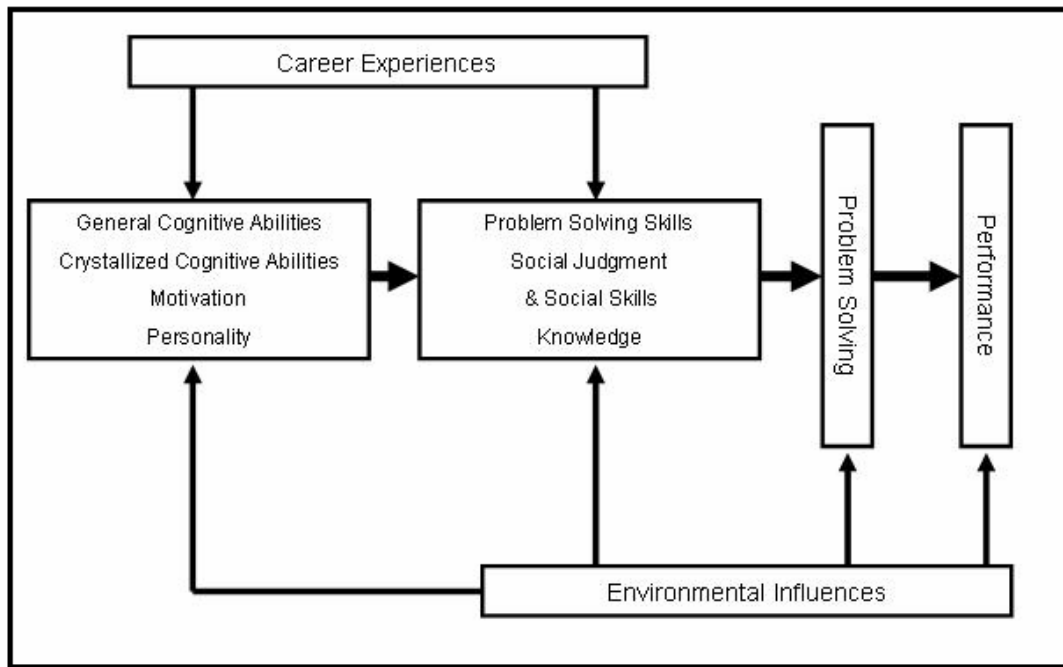


Figure 1. Skills approach model. Reprinted from “Leadership Skills for a Changing World: Solving Complex Social Problems,” by M.D. Mumford and S.J. Zaccaro, 2000, *Leadership Quarterly*, 11(11), p. 23.

The skills approach is appealing to many because it puts leadership as something that is accessible to most people through learning. This is a reason why the skills approach provides the basis for most courses, seminars, and academic programs in the field of leadership.

Style approach. Instead of looking at the personalities or the skills of leaders, the style approach focuses in their actions and preferences towards tasks or people.

Blake and Mouton (1985) came up with a model that explained graphically the different leadership styles depending on whether the leaders leaned more towards people or results (Figure 2).

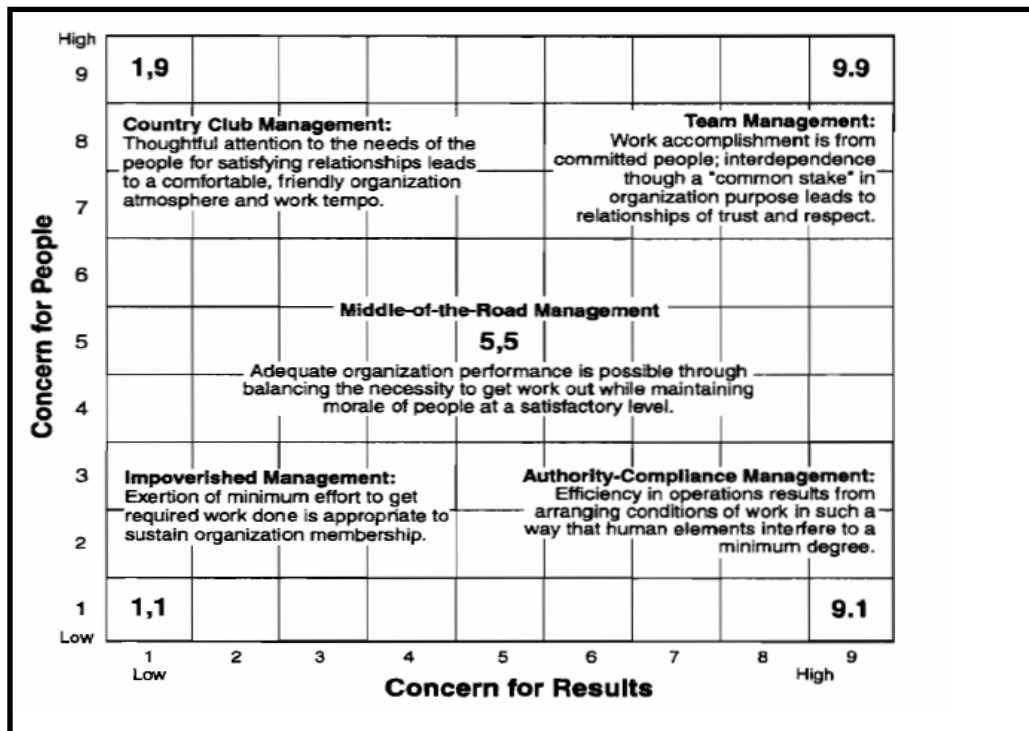


Figure 2. The leadership grid. Reprinted from *Leadership Dilemmas—Grid Solutions* (p. 29) by Robert R. Blake and Anne Adams McCauley, 1991 (formerly the Managerial Grid figure by Robert R. Blake and Jane S. Mouton), Houston, TX: Gulf Publishing Company.

In one extreme of the grid, leaders are oriented all the way to people (1,9) and in the other extreme of the grid leaders are completely focused on results (9,1). An example used to describe a 1,9 organization is a country club, where the main objective is to make people feel happy and relaxed. On the other hand, an example of a 9,1 organization would be a sweatshop in the times of the industrial revolution, where people had to work

for 16 consecutive hours, 7 days per week, and most tasks were already predefined (Blake & Mouton, 1985).

In most organizations a balance is preferred for better long-term results. The worst state of equilibrium of course is 1,1 where people needs are not attended and results are not achieved. The ideal scenario would be 9,9 where a virtuous circle is created . The leader selects the best people and attends to their needs. These good employees are so motivated that their positive attitudes generate great results, and finally the good results provide a positive feedback that increases the self esteem of the group. This is the ideal scenario where attention to people's needs and attention to the organization's results build into each other (Blake & Mouton, 1985).

Psychodynamic approach. This approach is a collection of the works of different authors who coincide in the point that leaders can achieve better results if they understand the psychological and sociological factors that contribute to determine the interrelationships affecting human groups (Northouse, 2004).

One of the most basic ideas of this approach has to do with the way people is affected by their past lives, the emotions they experience, and the needs they try to satisfy when they join a group or interact with others.

One of the simplest models to explain relationships between people is Eric Berne's transactional analysis. Berne centers his theory around three ego states: parent, adult, and child. He explains that a person relates to others assuming one of the ego states and treating the other person believing that she is also in a specific ego state. For example, a manager can act as a father and treat the employee as a child. In

organizational leadership, the ideal interactions result when leaders and followers assume that they are adults dealing with adults (Northouse, 2004) .

Another theory deals with the concept of archetypes. According to this approach, the actions of leaders tend to be rather predictable depending on their archetypes. In 1989, Pearson mentioned six archetypes, which may be related to the stages of maturity of a person: the innocent, the orphan, the martyr, the wanderer, the warrior, and the magician (Northouse, 2004). When people first start their lives, they start in a state of innocence, but eventually they move to the next stages and behave according to the other archetypes. Northouse (2004) illustrates the differences in the archetypes explaining that in the presence of danger the wanderer flees, the martyr suffers for others and the warrior fights.

The stereotypical leader is best exemplified by the warrior, who pursues the goals of strength and effectiveness. However, under certain circumstances, the magician may be a better leader, because the magician sees beyond the battle and is the only archetype that can take the group to new levels of personal growth and self-actualization.

Although warriors are usually effective business leaders, their achievements tend to be short-term oriented. Magicians tend to do better at building successful long-term organizations, consistent with the examples studied by Jim Collins and presented in his books *Built to Last* (1995) and *From Good to Great* (2001).

In the cases studied by Collins (2001), he found out that “successful business leaders display a compelling modesty, are self-effacing, and understated” (p. 39), which are characteristics more related to the Magician archetype. On the other hand, Collins

found out that most leaders in his list of non-successful companies “had gargantuan egos that contributed to the demise or continued mediocrity of their companies” (p.39).

According to Collins’ studies, the characteristics, behaviors, and attitudes of business leaders were determinant to the success of their organizations.

Team leadership. In addition to the established linear hierarchical structures, organizations rely on teams to work in specific projects. Examples of teams are task forces, committees, and any other group of people working together in a project (Northouse, 2004).

As the people responsible for the success and completion of assigned projects, team leaders have to be able to make sure that the tasks are performed and that the members can work well together.

There are three main areas of concern for the team leader: two internal to the organization and one external. The two internal to the organization are performance and maintenance. Performance refers to the fact that the tasks are completed and the objectives are achieved. Maintenance refers to the fact that the members can work in harmony, in the same direction, as a team and not as an array of individuals. The external area is the environment.

The first job of the leader is to monitor the internal and external factors and the next step is to take actions, which can be corrective or preventive.

Path-goal theory. This theory is built on the assumption that the most important function of a leader is to make sure that the followers stay motivated (House, 1996). According to this theory, the best way to motivate the followers is by defining goals, clarifying the path, removing obstacles, and providing support.

The main components of this theory are the leader behavior, the personality traits of the group members, and the task characteristics (House, 1996).

When the group members are dogmatic or authoritarian and the tasks are ambiguous, unclear, or complex, the leader should adopt a directive leadership; that is, clearly defining the tasks and being strict enforcing the rules.

When the group members are unsatisfied or have strong need for affiliation and have to deal with tasks that are repetitive or unchallenging, a supportive leadership style will work better, with the leader providing additional motivators and trying to give meaning to the job of the subordinates.

For group members who are autonomous and have to deal with tasks that are ambiguous or unclear, being a participative leader gives the follower the sense of having control of the situations and participation in the design of the tasks.

Finally, for group members who are competent, have high expectations or the need to excel and have to deal with tasks that are challenging or complex, being an achievement oriented leader most likely will yield the best results.

Situational approach. This theory is based on the idea that a group evolves and that different approaches are needed to lead it during the different stages of maturity of the group and of its members.

In the first stage, called *Directing*, the development of the followers is low. They just have become part of the group or are new to the tasks assigned to them. At this stage, the leader must assume a high directive and low supportive behavior approach. Tasks are clearly defined, direction is provided in the form of commands, and there is little room for the creativity of the followers (Blanchard, 1985).

In the second stage, called *Coaching*, the development of the followers is moderate-low. They are now more acquainted with the tasks and with each other. However, they still need to receive clear orders, but at the same time the leader has more time to support them, to make them grow in confidence and in knowledge (Blanchard, 1985).

In the third stage, called *Supporting*, the development of the followers is moderate-high. They are now skilled in their jobs and interact well with the other members of the group. The leader has to give them more room to make their own decisions and let them exercise their creativity and initiative. The leader main role in this stage is to support them, for example lobbying for resources or by negotiating on behalf of the group (Blanchard, 1985).

In the fourth stage, called *Delegating*, the development of the followers is high (Blanchard, 1985). At this stage the leader can withdraw from most of the tasks of supervision and support to concentrate in most relevant leadership activities such as modeling the way, inspiring a shared vision, challenging the process, enabling others to act, and encouraging the heart (Kouzes & Posner, 2002).

Contingency theory. The most important concept behind this theory is the belief that the leadership styles must match specific organizational situations to produce good results (Northouse, 2004).

The findings of this theory, mostly attributed to Fiedler are based on the results of his research and are not easily understood using common sense. Fiedler (1967) used a variable called LPC (Least Preferred Coworker) to obtain the information from the participants in his studies.

The scale goes from one to eight. One is the most favorable situation. The leader-member relations are good, the structure is high, and the power position is strong. Eight is the least favorable situation, with bad leader-member relations, low structure, and weak power position (Fiedler, 1967).

Research findings show that leaders oriented to tasks obtain better results in the extremes of the scale, specifically in situations one, two, three and eight, whereas leaders oriented to relationships perform better in the intermediate situations four, five, six, and seven (Northouse, 2004).

Management

Scientific administration. Management has its origins as a social science at the beginning of the twentieth century, when several industrial engineers, such as Frederick Taylor and Henry Fayol, tried to demonstrate the existence of certain principles and laws governing the workplace (Morgan, 1989). They believed that, under a given set of conditions, it should be expected to obtain consistent results.

Their theories were proven true only to some extent. As in the case of all other social sciences, exact formulas cannot be developed and precise outcomes do not occur because human freedom and rationality always creates an amount of variation much bigger than the variation observed in exact sciences such as engineering, physics or chemistry. Nevertheless, the findings of social sciences have greatly increased our understanding of situations that involve the interaction of human beings in groups.

The managerial functions. For effective business management to happen, scientific administration proponents state that there are four functions that need to be performed: planning, organizing, executing, and controlling (Stoner, 2008). Each of these

four functions is continuously yielding new information that will result in subsequent modification to plans, structure, direction, and controls. Therefore, management is an uninterrupted process of actions and feedback. Management has to be dynamic, not static.

Planning. This function involves visualizing the expected future and putting it in writing. It is a process that goes from the general and vague to the specific and concrete. In this order, planning involves the formulation of a mission, a vision, goals, strategies and tactics, programs, forecasts, budgets, procedures, policies, and rules (Terry, 1978)

The mission is the most fundamental reason for which the organization exists (Oakley & Krug, 1991) . In general, the mission has to do with the satisfaction of the needs of the main stakeholders: customers, shareholders, management team, employees, and society (Drucker, 2001). Still, it is important for each organization to be as specific as possible when stating its own mission.

The vision is the dream of how an ideal future would look like (Ponder, 2005). Visions make seem impossible to achieve. However, there is a powerful inner force in human beings and groups that makes big things happen when the dreams can be shaped in words or in images (Bolman & Deal, 2003).

Goals are measurable and attainable milestones. Goals should be aligned towards the achievement of the vision. Goals should be consistent with the mission of the organization. There are long-term goals and short-term goals. In management, long-term goals usually have a time horizon greater than one year and short-term goals refer to actions that need to produce results in less than a year (Terry, 1978).

Strategies and tactics are paths that leaders and executives select to arrive to destinations, the goals being the destinations. Strategies are the paths to long-term goals,

whereas tactics are the paths to short-term goals. Because of competitors, however, entering those roads and staying in those roads is not easy.

The field of strategic planning incorporates many concepts and ideas from the field of warfare. Like in wars and battles, knowing the environment, positioning the group, and discovering niches are examples of activities that are required for strategies and tactics to be successful (Porter, 2008, January).

The process of formal planning gets in more detail with the formulation of specific plans such as programs, forecasts, and budgets. Examples of other tools related to planning are procedures, policies, and rules (Stoner, 2008).

In summary, planning, formal or informal, is the premise of any serious organizational activity. However, as an organization grows, it is recommended that its planning process becomes more formal.

Organizing. In order to implement plans, an organization must have the proper structure of human, physical, and technological resources (Koontz, 1988).

The first stage in the organization of a company is the delimitation of its functional areas: operations, marketing, finance, personnel, among others. The second stage consists of establishing the different hierarchical levels. The third stage is to create the individual positions and define their activities and responsibilities in job descriptions. The fourth stage is to draw the organizational chart, which offers a visual representation of the lines of authority and communication (Terry, 1978).

Many big organizations are still designed according to the principles of scientific management. The most important of these principles are: specialization, unity of

command, balance between authority and responsibility, and balance between delegation and control (Stoner, 2008).

These principles are still in use, but they have been widely criticized since the times of Frederick Taylor. Contrary to what scientific management states, many theories have argued that humans have the possibility to grow and make their organizations grow with them. These humanistic theories argue that scientific management principles are based on the repression and annihilation of the human spirit of employees, supervisors, and middle managers, which translate into stagnant and bureaucratic organizations. Their conclusion is that mechanistic organizations—organizations based on the principles of scientific management—should be replaced by dynamic organizations centered on the human component (Morgan, 1989).

Empirically, however, there is no evidence to support the elimination of the mechanistic organizations and the principles of scientific management. It appears that the election between mechanistic and dynamic organizational designs is very situational, depending on factors such as type of industry, life cycle of a company, and repetitiveness of tasks.

Execution. Because of the dynamics involved in this managerial function, execution, it becomes harder to list principles like those mentioned in the planning and organizing functions. The study of execution is an art of observation and documentation of phenomena (Bossidy & Charan, 2002). At this level, it becomes harder to prove that under a set of consistent premises, consistent outcomes can be expected.

For Bossidy and Charan (2002), execution is the discipline of getting things done. In their opinion, good execution is possible when management is able to align three elements: strategy, operations, and people.

In order to align people to the strategy and operations of a company, management has to be able to implement adequate processes that ensure fair evaluation and compensation of employees. Decisions about salary increases and job promotions should be based on clear setting of goals and proper measurement of performance (Bossidy & Charan, 2002).

When Jack Welch was CEO at General Electric, he achieved excellent results by using a controversial, but successful approach to human resources management, which calls for extraordinary efforts to retain key employees and top performers, while making sure that underperformers are identified and offered the opportunity to work somewhere else (Welch, 2005).

Jim Collins (2001) goes along the same line by recommending, as an important starting point for an effective team, to put the good people in the bus and to put the bad employees out of the bus. According to Collins, having the right people is essential to lead a business from good to great.

In the study of management, the main topics in the field of execution are leadership and motivation. Leadership was discussed with more detail in the previous section of this chapter. Motivation is discussed in the next paragraphs.

Motivation is “the process that accounts for an individual’s intensity, direction, and persistence of effort toward attaining a goal” (Robbins, 2003, p. 155).

The oldest and simplest approach to motivation is referred to as the *carrot and stick approach*, which states that a combination of rewards and punishment is the best way to produce a desired behavior (Robbins, 2003). Many managers and supervisors still use this approach believing it to be the best.

However, many theorists have argued that the *carrot and stick* approach is extremely simplistic and that a deeper understanding of human needs reveals that there are many other motivators affecting people's behavior.

One of the best known studies is Abraham Maslow's pyramid of needs. At the bottom of his pyramid, Maslow places basic needs: the physiological needs, such as the need for food, shelter, health, and reproduction, as well as other non-physiological, but still basic needs, like safety. Only when people have satisfied those basic needs, it is possible for them to move to a higher level of needs which are group oriented, such as love, acknowledgment, and sense of belonging. Finally, people also look for the deepest needs, those of self-actualization, the realization that life has a purpose, and the experience that such purpose is being achieved (Robbins, 2003).

Maslow's pyramid of needs makes it easy to understand the different levels of human needs. However, in practice not all people follow the sequential process described by Maslow. For example, many rich people have their basic needs completely satisfied and may still be motivated exclusively by the satisfaction of more physiological needs. On the other hand, many impoverished people who have not been able to satisfy their most basic needs, may already be searching for social recognition, or for the deeper meaning in their lives.

Controlling. Control is the activity through which performance is evaluated, and if necessary, corrective actions are taken to ensure that execution happens according to the stated plans (Stoner, 2008).

More specifically, controls are designed and implemented to detect and correct variances that are big enough to affect results in such a manner that important plans may be compromised.

In theory, if planning, organizing, and execution were done perfectly, there would be no need for controls. However, in practice, errors and misalignments happen and it is necessary to detect and correct either the actions or the plans.

For example, actions need to be corrected when goals have not been achieved due to inefficiencies, laziness, deficient organizing, bad communication, or any other problems that may result in poor execution. On the contrary, plans need to be corrected when execution is good and nevertheless goals are not achieved.

Finally, if good execution is not able to meet planning, it may be necessary to lower the expectations of the plans. If good execution meets planning, but results are still non satisfactory, it may be necessary to redesign the strategy (Koontz, 1988).

Leadership and management. It is important to mention that there are both similarities and differences between management and leadership. I propose the following model (Figure 3) to explain the relationship between leadership and management.

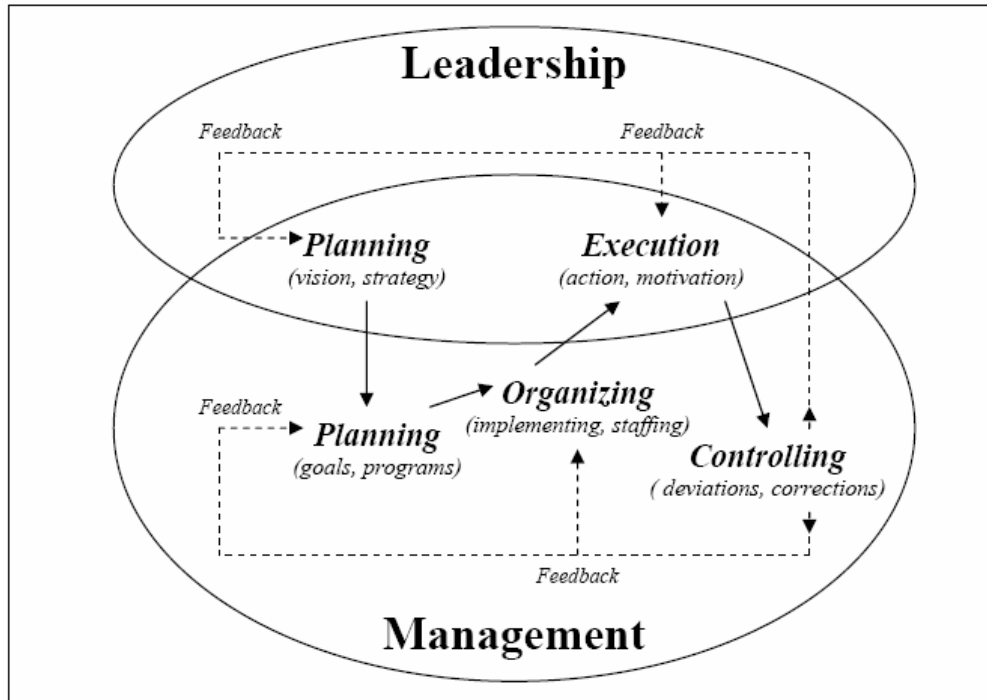


Figure 3. The relationship between leadership and the managerial functions.

In the proposed model, leadership is at the top of the diagram, because leadership involves everything related to the long-term success of the organization. In the middle of the diagram, the model shows an intersection between leadership and management in the functions of planning and execution. Finally, management is at the bottom of the diagram, to convey the idea that management is the foundation that makes sure that all the specific operations related to running an organization are performed correctly and coordinated adequately.

Family Business

Origins of family business theory. The study of family business started receiving an increasing level of attention approximately 30 years ago, both by practitioners and by researchers.

The first studies were conducted mostly by consultants who, based on their experiences, started looking at certain patterns. Before publishing their findings in academic journals, these consultants wrote their ideas in commercial books. Although it is not peer reviewed academic research, the material presented in three of these books is so relevant and well organized (Gersick, Davis, Hampton & Lansberg, 1997; Lansberg, 1999; Ward, 1987) that their content is continuously quoted in peer reviewed family business journal publications.

Eventually, academic researchers also became interested in the field. A major event happened when the *Family Business Review Journal* issued its first volume during the first trimester of 1988. Only a year later, in 1989, a doctoral dissertation (Handler, 1989) analyzed in great detail diverse aspects of family business, with special emphasis in the *next generation* leaders, which is a concept very similar to the *second generation* leader researched in this paper.

For the last 20 years, dozens of journal articles in the subject have been published every year (Sharma, 2004; Sharma, Chrisman, & Chua, 1997). At the same time, many universities around the world have been adding to their curricula courses in different areas of family business administration (Elizondo, 2008). The field is increasingly becoming an important academic discipline (Winter, Fitzgerald, Heck, Haynes, & Danes, 1998).

Leadership in family businesses. Business owners, consciously or unconsciously, run their organizations following two possible alternatives. The first alternative is being reactive, getting busy in the day to day activities of the business and the family, confronting challenges as they come, and waiting for the best outcomes without even defining those outcomes. The second alternative is being proactive, creating a vision, planning in advance, and defining expected results (Baker & Wiseman, 1998; Sorenson, 2000).

The road to the proactive approach goes hand in hand with the two topics reviewed at the beginning of this chapter: leadership and management (Hall & Nordqvist, 2008; Sorenson, 2000; Westhead & Howorth, 2006).

Strong leadership and good management have been found highly correlated to success in all kind of organizations, and family firms are not the exception (Hienerth & Kessler, 2006; Poza, Hanlon, & Kishida, 2004). However, it is important to remember that strong leadership should not be confused with charismatic leadership. Earlier in this chapter, the review of different leadership styles revealed that there are traits and skills that, in general, help a person to be a more effective leader, but it also revealed that certain leaders are better fitted than others for certain groups and situations (Blanchard, 1985; Northouse, 2004).

Professional management in family business. The few business that are able to grow beyond certain size start requiring to be managed in a more professional manner. Previously, this chapter presented a summary of professional management concepts (Drucker, 2008; Koontz, 1988; Stoner, 2008; Terry, 1978). Formal adoption and practice of the managerial functions is highly standardized across different industries and types of

firms. All of them implement plans, structure, execution, and controls (Westhead, 2003; Westhead, Cowling, & Howorth, 2001).

However, the detailed aspects of the implementation are very different depending on the specific circumstances of each organization (Hall & Nordqvist, 2008; Westhead et al., 2001). Family businesses present additional challenges, because family members may feel entitled to occupy positions in the family firm—for them or for their heirs—independently of their actual capacity or professional background (Davis & Harveston, 2001; Dyer, 2006; Poza et al., 2004).

Finally, bringing professional management to the firm should not be associated with the idea of implementing a rigid bureaucracy and necessarily bringing non-family managers to the firm (Royer, Simons, Boyd, & Rafferty, 2008).

Professional management is not only about implementing proper practices and procedures, but also about understanding the culture of the company and building on the foundation of its values. In the case of family businesses, understanding family interactions and achieving family goals are as important as achieving the financial goals of the firm (Hall & Nordqvist, 2008). For example, in situations where general and technical industry-specific knowledge are more important, usually managers from outside the firm usually add more value, but when experiential family business-specific knowledge is more important usually managers from inside the firm add more value to the organization (Royer et al., 2008).

Organizational change in family business. One big challenge for leaders, managers, and consultants when taking a firm towards a professional, more formal structure, is usually to build the new organizational structure over the foundations of the

existing culture, values, and practices (Barach, Gantisky, Carson, & Doochin, 1988; Denison, Lief, & Ward, 2004). In this direction, appreciative inquiry is a theory that proposes small incremental changes to what already exists (Goldberg, 2001).

However, under more difficult circumstances, certain firms may need more drastic changes (Denison et al., 2004). Three of the most used approaches for more radical change are: organizational development, reengineering, and turnaround interventions.

Organizational development is a term often used as a general concept, but it also refers to a specific type of intervention that uses techniques from the field of psychology to help the members of the organization to look inwards, to analyze themselves and the environment, and to change accordingly (Brown, 1992; Cummings & Worley, 2001). An organizational development intervention usually takes years and happens in three stages: unfreezing, change, and re-freezing (Grieves, 2000).

Reengineering is a re-evaluation of processes to eliminate all of those components that do not add value (Chamberlin, 2009). The components may be tasks and physical resources, but they can also be human resources—employees, managers, or even entire teams (Chamberlin, 2009; Fitzgerald & Murphy, 1996).

Finally, turnaround interventions are drastic measures that need to be taken when an organization is threatened by an imminent danger that put in risk its existence (Cater & Schwab, 2008; Gopinath, 1991). Turnaround strategies are defined as “a set of consequential, directive, long-term decisions and actions targeted at the reversal of a perceived crisis that threatens the firm’s survival” (Cater & Schwab, 2008, p. 32).

According to Cater & Schwab (2008) the main components in a turnaround intervention are: top management changes, external management expertise, and retrenchment. Changes in top management and access to external expertise are important because current management usually do not have the courage or the out-of-the-box vision to create drastic change. On the other hand,

retrenchment is a process in which the firm consolidates its current financial and operational position in order to buy time for organizational change efforts ... by stretching the firm's remaining resources to their limits and placing substantial strain on organizational members (Cater & Schwab, 2008, p. 34).

Family business size. The researcher has worked with small and medium family businesses for almost 20 years. One recurrent question that owners and managers of this type of firms keep asking is whether the theories and research in management and leadership apply to their businesses. In my experience, most business owners want to believe that their organizations are so unique that there are no such things as general principles that apply to them. However, there are business owners who are more willing to accept the fact that outside knowledge and expertise can be useful to their organizations (Hall & Nordqvist, 2008). These business owners have more chances to see their firms grow (Ward, 1997).

In fact, size is one of the most important factors in deciding whether business owners need to apply principles of management, or if they are better off just staying small and preserving the uniqueness of their firms (Hall & Nordqvist, 2008; Ward, 1997). Many studies, dating from more than 100 years ago, have recognized that businesses with less than 30 employees can function well without a formal organizational structure and

management layers. On the other hand, it has also been researched that, above 50 employees, the informal small business organization model does not work well anymore (Ward, 1987, 1997). Above 100, it becomes imperative to create structures, policies, and procedures (Hall & Nordqvist, 2008). Even government agencies start imposing stricter regulations after a business reaches certain size (Ward, 1997). Whereas small businesses owners are often exempted from knowing laws and regulations in detail, the same does not apply to bigger firms, because the government assumes that they have the economic capacity to pay for that kind of expert knowledge (Poza, 1995; Poza et al., 2004).

Growth in family business. One of the most important questions that entrepreneurs ask themselves is whether to keep growing their companies or stop growing after a certain size has been reached (Gersick et al., 1997; Lansberg, 1999). There are many factors to consider in this decision.

Let us start considering the motivation of entrepreneurs. People who start enterprises are by nature risk oriented and very competitive. These and other similar traits of entrepreneurs are forces acting in favor of growth (Zahra, 2005). However, bigger companies usually become more bureaucratic and require a formal structure, rules, procedures, and many other byproducts of formal management that tend to annoy entrepreneurs (Aldrich & Cliff, 2003). In fact, most entrepreneurs are not good managers (Zahra, 2005).

The same idea has been analyzed by researchers in the field of organizational behavior. There is a trait called personality A, which refers to people who are aggressive, impatient, and competitive. Because personality A types thrive in one-to-one negotiations, common sense would indicate that these people would be at the top of most

organizational chains, but the opposite happens. Personality A types are actually great as salespersons and as entrepreneurs. However, most of the times they lack the patience and analytical skills required to manage the bigger organizational units and departments of today government and business world (Robbins, 2003).

The good news for personality A types is that their skills can again be very useful at the top of very big organizations with more than 1,000 employees. These companies have managers in charge of all the regulated and procedural tasks. Therefore, personality A types perform well in these types of leadership situations because charisma, strong presence, good intuitive thinking, and deal-making skills are important attributes at the top of big corporations and government agencies (Robbins, 2003).

Based on the previous information, it appears that typical entrepreneurs and personality A types often have problems managing medium size companies, especially those in the range of one 100 to 1,000 employees. However, there are exceptions that make possible for some entrepreneurs to grow their organizations successfully beyond the 100 employee threshold (Ward, 1987; Zahra, 2005).

Ward (1987) mentions three situations that tend to help entrepreneurs to become good leaders in bigger companies. The first is when the business grows so fast that the entrepreneur has no other chance but to hire professional managers from the beginning. The second is the case of entrepreneurs that get enjoyment dealing with managerial problems and prefer to delegate sales and operations activities to others. The third case is when entrepreneurs are focused in a philosophic vision of the future and see the product, services, and operations only as a mean to achieve the greater goal. However, it appears

that only the minority of entrepreneurs fall into one of the three categories mentioned above (Aldrich & Cliff, 2003).

In conclusion, shifting a firm to a bigger size and making it stay in business for many years is extremely difficult to achieve as proven by data from the small business administration which found out that there is a rapid drop in the number of businesses as the number of employees increases. For example, in a 1983 survey, 2,500,000 businesses had less than 20 employees, 300,000 had between 20 and 49 employees, 100,000 had between 50 and 100 employees, and only 80,000 had more than 100 employees (Ward, 1987).

Life cycles of family business. An important concept in family business theory is the life-cycle model. Life cycle theories derived from biological analogies and have become useful tools in the study of organizations. The model is simple. It states that all organisms are born, grow, mature, decline, and die.

However, opposite to the biological organisms, organizations have a chance during maturity of renewal through change (Ward, 1997). In other words, organizations have the potential of experiencing rebirth and start the life process all over again (Gersick et al., 1997).

This rebirth process is not easy. Because most organizations erroneously try to survive aiming for equilibrium, change tends to be avoided. Feedback is used mostly to minimize deviations from the standard (Wheatley, 1999).

According to the second law of thermodynamics, this state of equilibrium is the optimal state for closed systems that are in a degradation process. These closed systems are trying to save energy to last a little longer. Open systems, on the other hand, are able

to obtain energy from the outside and are better off when they aim for change and not for equilibrium. The conclusion is that organizations, which are open systems, are better off and more likely to experience renewal when they are in continuous change than when they are aiming for equilibrium (Wheatley, 1999).

In family businesses, different life cycles affect the firm—the life cycles of the owner/manager and of the successor, the life cycle of the entire family, the business cycle of the firm, and the life cycle of the specific industry (Stafford, Duncan, Dane, & Winter, 1999; Ward, 1987).

Regarding the life cycle of the firm, each stage brings different challenges and requires a different approach (Headd & Kirchhoff, 2009; Ward, 1987, 1997). For example, in the early stage of organizational development the goal is survival, the structure is centralized, the owner makes most decisions and even solves operating day to day problems. Later on, in the middle stage of organizational development the goal is stability, operating decisions are decentralized, and the owner makes decisions involving coordination between departments occasionally spending some time in strategic decisions. Finally, in the late stage the goal is to preserve market share and organizational efficiency, most activities are decentralized, and the owner spends more time making strategic decisions (Gersick et al., 1997; Headd & Kirchhoff, 2009; Ward, 1987, 1997). At this stage a firm may start the cycle of decline and if the renewal process does not take place, eventually the firm will experience death (Hoy, 2006). On the other hand, when the leader of the firm takes a proactive approach and is able to reinvent the business model, the chances of survival increase (Headd & Kirchhoff, 2009).

Ward (1987) summarizes in a matrix the interrelations between the life cycle of the business and the life cycle of the family (Figure 4).

<i>Timing (in years)</i>	Early Stage	Middle Stage	Late Stage
Age of Business:	0 to 5	10 to 20	20 to 30
Age of Parents:	25 to 35	40 to 50	55 to 70
Age of Children:	0 to 10	15 to 20	35 to 45
Nature of business:	Rapidly growing and demanding of time and money	Maturing	Needed strategic regeneration and reinvestment
Type of organization:	Small, dynamic	Larger, more complex	Stagnant
Owner-manager motivation:	Totally committed to business success	Desires control and stability	Seeks new interests; next generation seeks growth and change
Family financial expectations:	Limited to basic needs	More needs including comfort and education	Larger needs including security and generosity
Family goals:	Business success	Growth, development of children	Family harmony and unity

Figure 4. Stages of family business evolution. Adapted from Keeping the Family Business Healthy, (p. 21), John L. Ward, (1987), San Francisco, CA, Jossey-Bass.

Succession process. There are many articles in the field of family business dealing with the topic of succession (Ibrahim, Soufani, & Lam, 2001; Sharma, Chrisman, Pablo, & Chua, 2001). In fact, the high percentage of articles in this issue appears to be disproportionate to the small amount of time that is spent in succession related tasks in the day to day operations of family business. Succession related activities belong to what Covey (2004) calls quadrant-two activities; i.e., activities not urgent, but very important. Covey explains that the lack of urgency results in postponing these important activities, but he makes the point that highly effective people have the discipline to set aside time for quadrant-two activities, which translates into higher chances of success in the long

term. Quadrant-two activities are also known as priorities (Covey, 2004). In a family business, succession is one of the most important quadrant-two activities that a leader needs to attend (Brockhaus, 2004; Hubler, 1999).

In the following paragraphs, the most relevant research related to succession will be discussed and a few succession models will be presented.

In 1989, Handler interviewed 32 second-generation family business owners. The findings of her study apply to successful successions (Handler, 1989). Based on the answers received in the interviews, she identified four roles assumed by predecessors (sole operator, monarch, overseer/delegator, and consultant) and three roles assumed by the successors (helper, manager, leader/chief decision maker).

In 2007, Cadieux tested the Handler' model and confirmed the existence of the roles mentioned by Handler, but added more details to the roles assumed by the predecessors. In all the cases studied by Cadieux, the predecessors were the initiators of the succession process, and the main reason found for the start of the succession process was the age of the predecessors—usually approaching 60 years of age. The first step in the succession process was labeled the joint-reign phase. In this stage the predecessors assumed the roles of supervisors and teachers at the beginning, then the role of mobilizers, and at the end the role of collaborators. The second step of the process was labeled the withdrawal phase. The roles assumed by the predecessors were: facilitators, consultants, technical advisors, intermediaries, observers, and safeguards (Cadieux, 2007).

Regarding the factors that appear to contribute to a good succession process, Handler (1989) found that the most important are: level of mutual respect and understanding between current and next-generation family members (support, communication, feedback, and mutual learning); and siblings accommodation to the succession process (agreement between siblings on their relative positions of responsibility and power). Brun de Pontet et al. (2007) mention the following factors: presence of a clear successor, public progress on succession, confidence in the leadership skills of the chosen successor, and confidence from other stakeholders in the succession process.

In conclusion, the succession process has a big impact in the long term viability of family businesses (Murray, 2003; Sambrook, 2005) and is a delicate process that requires a clear commitment from all the parties involved to be successful (Brun de Pontet et al., 2007).

Second generation family firms. In the family business, the members of each generation have their very peculiar characteristics in areas such as entrepreneurship, laboriousness, frugality and schooling, to name a few (Chrisman, Chua, & Sharma, 1998; Sonfield & Lussier, 2004). A common stereotype views the first generation members as very hard working, many times at the expense of leisure and time with the family. In the opposite side, the third generation members are viewed as spoiled heirs who spend more money of what the family business can provide. Several popular sayings capture that perception. One of them says that a family business goes to the dogs in three generations (Lambrecht, 2005) and the other says that the father is the entrepreneur, the son the play-boy, and the grandson the beggar (Davis, 1968).

In the middle of the first and the third generation, between the founder and the grandchildren, we have the second generation (Stavrou, 1998), which usually has its peculiar distinctiveness—not necessarily the play-boy role mentioned by Davis.

As mentioned before, one of the researchers who studied the role of the second generation in family businesses is Handler (1989). While she put more emphasis in the succession process, her interviews of 32 successful second-generation leaders is a great qualitative source of information and empirical evidence about second generation business owners and about what it takes to run the business after the founder's withdrawal.

Another very comprehensive study, focused on the competitive advantage that the second generation has over the first generation or over other potential entrepreneurs. Lentz and Laband (1990) tested their hypothesis against data gathered by Cooper and Dunkelberg in 1981 from a sample of 1805 business owners in several fields such as real estate, finance, manufacturing, and retail.

The empirical evidence obtained, strongly confirmed their assumptions. The knowledge and skills required to run a business are better learned in visits to the family business and in the constant interactions that the second-generation person has with the founder, than in any other context experienced by most young people, like going to school or having non-management jobs (Lentz & Laband, 1990; Salvato & Melin, 2008). They compare this situation to that of the apprenticeships, where the knowledge is transferred from generation to generation and is closely held in the family (Lentz & Laband, 1990).

In addition, it was found that human capital transfers and non-human capital transfers give a clear initial advantage to the second-generation owners over first-generation entrepreneurs (Lentz & Laband, 1990).

The human capital transfers are enterprise-specific skills and general-managerial skills. The enterprise-specific skills are very useful for children who decide to stay in the same specific industry of their parents, whereas the general managerial skills are useful even if the children go to different industries or markets (Lentz & Laband, 1990).

The non-human capital transfers are brand-name loyalty, business contact network, and physical-financial assets. These three types of transfers are received by the second-generation at almost no cost, but they are the result of many accumulated years of efforts of previous generations. One central element to these three types of transfers is trust. In other words, customers, employees, vendors, financial institutions, and all other stakeholders have developed throughout the years a trust in the firm that is closely associated with the family name. As a result, second-generation owners do not need to create it, only preserve it and improve it (Lentz & Laband, 1990).

Summary of the Literature Review

This chapter reviewed the existing literature that deals with the topics related to this research project. The chapter discussed the theoretical framework for the study, analyzing in detail the disciplines of leadership and management, and exploring the academic research in the field of family businesses.

Chapter 3: Methodology

This research was conducted on 10 family-owned, second generation businesses located in a Mexican medium-size city. The research method used was the comparative case study method (Gerring, 2007; Yin, 2009).

The comparative case study is a robust scientific qualitative method that generates valuable in-depth information about a group of participants who have several characteristics in common. By replicating the single case study several times with different participants, the research project gains on reliability by showing which findings keep occurring across most of the participants and which findings occur only with one or a very small number of participants (Eisenhardt, 1989).

Restatement of the Research Questions

The following research questions were put forth for this study:

Research Question I: How was the family business founded?

Research Question II: What were the key events in the growth and expansion of your company?

Research Question III: How was the family business transitioned from the first generation to the second generation?

Research Question IV: What are the key events that have contributed to the family business success and current situation and how did they contribute?

Research Question V: What is the leadership style of the second generation owner of the family business? How does this style differ from the style of the founder?

Research Question VI: How does the second generation owner expect to achieve his or her vision?

Research Method

The comparative case study method was utilized. This style belongs to a broader category known as qualitative research (Maxwell, 2005).

Compared to quantitative methods, qualitative methods are better suited for studies that intend to gain in-depth understanding of complex situations (Morse, 2002). This is one of the premises that have to guide the work of researchers who try to obtain valuable information from leaders or top managers of business and organizations (McMillan & Shumacher, 2001).

There are risks in qualitative research if the research instrument is not correctly selected, designed, or applied. For example, a group of researchers conducted a big study among 794 business leaders. Researcher assistants contacted the business leaders by phone using telemarketing practices. The response rate to questions that required simple yes or no answers was good, but the response rate to in-depth interview questions was very low and poor in content. Most of the business leaders contacted were not willing to spend more than 30 minutes being interviewed by somebody whom they did not know. For the research team coordinator, the refusal of the business leaders to collaborate came as a big surprise. The research team coordinator had assumed that the managers and business leaders would be more open, because other researchers had mentioned that leaders are usually eager to talk about their achievements, love to tell stories, and enjoy going in detail when describing their experiences. In this case, the business leaders were not so eager to participate (Winter et al., 1998).

The previous negative research experience is mentioned because it shows the importance of getting acquainted with the participants, conducting face to face interviews, and limiting the number of participants in these types of research projects. Many times, in-depth knowledge of a few cases is better than superficial knowledge of many cases (Gerring, 2007). This is especially true in the case of studies that intend to gain access to persons who are extremely busy such as business leaders (McMillan & Shumacher, 2001) and in studies that pretend to explore complex situations (Creswell, 2003).

One of the goals of this study was precisely to understand the complex relationships between the second generation business owners and their success, defined as keeping their firms alive for more than 30 years, as well as to understand the contributions that past and present events have had in the current situation of their firms. A qualitative research method is well suited to achieve this goal (Morse, 2002).

Another goal of this study was to compare the findings across the several business leaders who were interviewed in order to determine if specific themes or patterns emerge (Rubin & Rubin, 2005). This other goal was more specific and was determinant in the selection of the comparative case study method among the qualitative research methods.

A case study is an empirical inquiry that investigates a contemporary phenomenon in depth and within its real-life context (Yin, 2009). When several cases are conducted in parallel and the findings are compared across the board, the method is called comparative case study (Gerring, 2007). This dissertation falls clearly into the category of comparative case study.

There are situations in which conducting comparative case studies may be preferred to single case studies. One of the main benefits of comparative case studies is that by gathering evidence from multiple cases the findings are more compelling and the research is considered more robust (Eisenhardt, 1991; Merriam, 2002b).

Data Sources

The data sources were business owners with firms in the selected Mexican medium-size city. The city was selected for reasons of convenience. However, the name of the city cannot be disclosed. The Institutional Review Board (IRB) decided to keep the name of the city anonymous in order to protect the identity of the participants.

According to Yin (2009), conducting from 6 to 10 interviews is expected to produce compelling support for the propositions of a research project, or, to paraphrase, to provide compelling support to answer the research questions, which is the main objective when conducting a research project (Maxwell, 2005).

Sampling Criteria

A convenience sampling was performed. The participants were invited among business owners to which the researcher had access. The first participants were acquaintances of the researcher. Because it was not possible to complete the 10 interviews among acquaintances, the snowball technique was used, which means that further participants were contacted using referrals from the original participants until the 10 interviews were completed (Heckathorn, 2002).

More specifically, the sampling was purposive in nature (Creswell, 2003) and the participants were selected based on criteria specifically designed to meet the following three sampling objectives:

The first objective of the sampling was to ensure that the selected business owners and their companies shared common characteristics so that a cross-comparison analysis could be performed.

These were the characteristics required to qualify for the study:

- The parents started the business at least 30 years ago.
- The business had at least 50 employees at a certain moment and currently has at least 30 employees.
- The second generation owner had his first job assignment in the business at least 20 years ago.
- The second generation owner currently has ownership in the business and is a top manager, alone or in partnership with one or more relatives.
- The participants will be selected from different families.

The second objective of the sampling was to have certain diversity in terms of industries, academic background, age, and personalities. Although very desirable, it was not feasible to have diversity in other variables such as gender. Consultants specializing in family businesses in Mexico have observed that it is a widespread practice to keep women out of family businesses (Elizondo, 2008). For this research, it was possible to interview only one businesswoman.

The third objective of the sampling was to have participants willing to engage in an open dialogue and to share their experiences as openly as possible.

Elites respond well to inquiries in broad areas of content and to provocative, intelligent questions that allow them freedom to use their knowledge. Elites often contribute insights and meaning because they are comfortable in the realm of ideas, policies and generalizations. (McMillan & Shumacher, 2001, p.445)

Informed Consent

This study adhered to the IRB guidelines and norms to make sure that no damage was caused to human subjects. Previous to the interviews, the subjects were informed of the objective of the study and the nature of the intervention. The gathering data instrument was explained to them.

To protect the identity of the participants, a Waiver of Informed Consent Form was requested to the IRB.

Although there was a Waiver of Informed Consent Form, all other parts of the procedure of informed consent were performed. Before the interview, the contents of the attached Form of Informed Consent (Appendix A) were read and explained to the subjects, but without the participants having to sign the forms or to write their personal data. The interview was conducted only after the subjects gave their verbal consent to participate and stated that they clearly understood the nature of their involvement.

The Form of Informed Consent was read to the participants in its Spanish version (Appendix B). The document was translated from English to Spanish by the researcher. To ensure that the translation of the document was correct, the translation was reviewed by another person, a bilingual professional with graduate degrees from Mexican and American prestigious universities (ITESM and UCLA).

Confidentiality

All the answers of the participants were treated with confidentiality. The participants were informed that their names and the name of their businesses were going to be kept confidential, making it clear to them that complete anonymity could not be offered because readers could be able to infer their identities based on their answers and the stories that they shared. For the purpose of confidentiality, each business owner was assigned a random name according to the coding protocol shown in Table 1.

Table 1

Coding Protocol for Confidentiality of Participants

Owner fictitious name
Arturo
Carlos
David
Estela
Fernando
Gerardo
Jesus
Manuel
Oscar
Pedro

Data Collection

Because of the escalation of violence in Mexico, the researcher did not travel to the city where the participants live. The interviews were conducted by phone.

The interviews were the only contact with the participants during the course of the research. Because the interviews were taped, there was no need to contact again the participants for clarification or feedback. Actually, the nature of the research required gathering spontaneous answers without any future editing from the participants.

The subjects were recruited personally by the researcher through phone calls. During the phone calls, the interview process was explained to the participants including the nature of the participants' involvement. To ensure that the participants fully understood the interview process and the nature of their involvement, all the contents of the Form of Informed Consent (Appendix A) were read to them in its Spanish version (Appendix B). The document was translated by the researcher. The researcher has earned graduate degrees in Mexico and in the United States. To ensure that the translation of the document was correct, the translation was reviewed by another person, a bilingual professional with graduate degrees from Mexican and American prestigious universities (ITESM and UCLA).

During each interview, a tape recorder was used. The first 5 minutes of the interview consisted of an introduction to familiarize the participant with the research and to create rapport. At the end of the interview, the participant was thanked for participating.

Although the same 12 interview questions were asked to every participant, a semi-structured interview schedule was used, allowing new questions to be brought up during the interview as a result of what the interviewee was saying (Creswell, 2003; Rubin & Rubin, 2005).

The interviews were in Spanish. The interviews were recorded. After completion of the interviews, the researcher produced the Spanish transcript of each interview. Then the researcher translated the documents from Spanish to English. In addition, the same bilingual person that helped with the translation of the interview protocol document

reviewed the translations of the transcripts from Spanish to English to ensure that the translation of the interviews was correct.

Data Gathering Instrument

An instrument with 12 open-ended questions was designed. The relation between each research questions and the correspondent data gathering instrument questions is shown in Table 2.

Table 2

Data Gathering Instrument

Research Questions	Data Gathering Instrument Questions
1. How was the family business founded?	1. When did your parent start the business? 2. What was the original product or service?
2. What were the key events in the growth and expansion of your company?	3. What were the key factors that contributed to the expansion of the business in the early years?
3. How was the family business transitioned from the first generation to the second generation?	4. How did you start working in the family business? In what roles? 5. How did you grow in responsibility and authority? 6. How did your parent step out and you step in? Was it a process, a sudden event, or a combination of both?
4. What are the key events that have contributed to the family business success and current situation and how did they contribute?	7. What have been the key events (negative or positive) in the family business during your tenure?
5. What is the leadership style of the second generation owner of the family business? How does this style differ from the style of the founder?	8. How would you describe your leadership style? 9. Do you consider yourself more entrepreneurial, as your parent, or more management oriented?
6. How does the second generation owner expect to achieve his or her vision?	10. What is your vision for your company? 11. How do you see your company 10 years from now? 12. What needs to be done to get your business there?

The English version of the protocol to conduct the interview and the questions of the interview are attached as Appendix C. The Spanish version of the interview protocol and the interview questions are attached as Appendix D.

The interview protocol and the interview questions were translated from English to Spanish by the researcher. The researcher has earned graduate degrees in Mexico and in the United States. To ensure that the translation of the document was correct, the translation was reviewed by another person, a bilingual professional with graduate degrees from Mexican and American prestigious universities (ITESM and UCLA).

Validity

The data gathering instrument is considered to have validity if its questions are expected to produce the answers that will address the correspondent research questions (Creswell, 2003).

For the purpose of validating the data gathering instrument, a panel of experts was asked if they considered that the data gathering instrument questions were expected to address the corresponding research questions. The panel consisted of three persons who hold doctoral degrees and have experience with research methods: Svetlana Holt, Ed.D., LaRon Doucet, Ed.D., and John Lubbers Ph.D.. A letter was sent to each of the members of the panel, requesting their help to validate the data gathering instrument, explaining the validation process, briefly describing the purpose of the study, and attaching a form with the list of the interview questions and the instructions on how to write their feedback (Appendix E). The final version of the data gathering instrument incorporated their recommendations.

Statement of Researcher Bias

The researcher has worked with family businesses for almost 20 years. As a result, the researcher has developed several preconceived notions about business owners and their organizations. For this reason, the analysis of the data was expected to have been influenced to some extent by this researcher bias.

Reliability

It is expected that the bias of the researcher can be reduced to a big extent by the process of reliability, which refers to the extent to which two or more people agree with the interpretation of what has been observed or experienced (McMillan & Shumacher, 2001). To enhance the reliability of this study, a second rater conducted a parallel analysis, using the same data analysis protocol. The second rater is the Dean at a school of business in Texas and has ample experience working with leaders.

Parallel data analysis from a second rater and feedback from the dissertation committee are considered important elements to increase the reliability of the data analysis (Merrian, 2002a).

Data Analysis

The specific process to follow for the analysis of the data was based on the suggestions of experienced researchers.

Maxwell (2005) mentions that data can be analyzed according to three different analyzing strategies: memos, categorizing strategies, and connecting strategies. Among these three strategies, this study will use categorizing strategies and connecting strategies.

There are two types of categorizing strategies or processes of categorization: coding and thematic analysis (Maxwell, 2005).

The process of coding uses *organizational* categories, which are broad issues established prior to the interviews and function primarily as bins for sorting data.

The process of thematic analysis uses *substantive* sub-categories and *theoretical* sub-categories, which help to find the meaning behind the data. The *substantive* sub-categories deal exclusively with the data collected and the *theoretical* sub-categories deal with data from previous research.

Finally, examples of connecting strategies are cross comparisons, tabulations, and narrative. The previous concepts are organized in Table 3.

Table 3
Data Analysis Strategies

Analytic Options	Categorizing / connecting Strategies	Types of Categories
1) Memos	-	-
2) Categorizing	Coding (grouping) Themes (finding meaning)	Organizational (topics) Substantive (meaning in data collected) Theoretical (meaning in previous research)
3) Connecting	Cross comparisons, tabulations Narrative	-

This study planned to analyze the data using Maxwell's model. A simplified dataflow of how the data was planned to be processed is Figure 5.

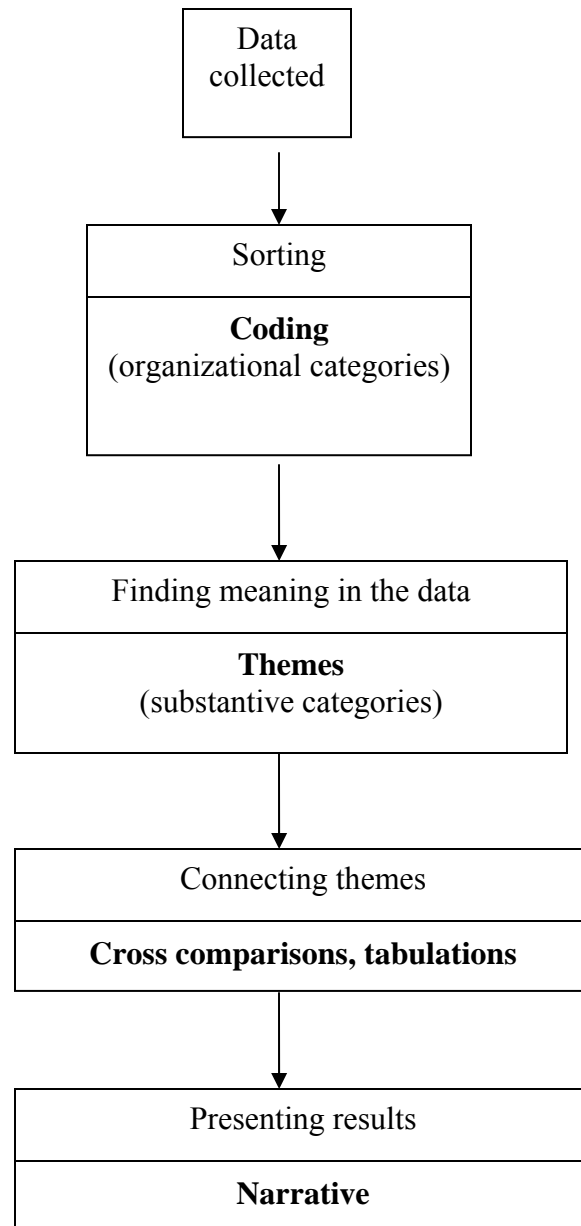


Figure 5. *Flow of data analysis.*

The first planned step of the categorizing analysis, sorting and organizing the data, was achieved by coding the transcripts. Once the transcripts were coded, the plan was to separate the results in six different *organizational* categories, each of them corresponding to the six research questions.

The next planned step was to find the themes. In other words, to break down the findings from each *organizational* category into *substantive* sub-categories, the ones that provide insight into the deep meaning of the situations analyzed (Maxwell, 2005).

The last planned step in the categorizing analysis was to figure out the connections across all the 10 study cases. Multiple cross comparisons were planned to be performed to gain a better understanding of how the cases relate to each other (Maxwell, 2005; Rubin & Rubin, 2005).

Building Theory

The analysis conducted so far was expected to provide enough elements to start writing the narrative and the descriptive part of the study. However, it was important to extend the reach of what had been achieved by asking how the findings could modify or add to existent theory in the fields researched. This study tried to develop middle-level theory – the type of theory that builds on what was learned from the analysis of the data specific to the present study and then relate it to what already exists in the literature (Rubin & Rubin, 2005).

Presentation of Results

The plan was to present the results using a narrative approach (Maxwell, 2005; Rubin & Rubin, 2005), trying to show the patterns and themes that emerged from the

analysis of the data. Discussion of findings supported with direct quotes from the participants was decided to be the primary method of presenting the results (Fuhrman, 2009).

Summary

This chapter started restating the research questions. Then the research method was addressed, mentioning that the comparative case study was used, presenting the data gathering instrument, and explaining how the data was going to be analyzed and how the final results were going to be presented. Other topics discussed were informed consent, confidentiality, data collection, and the data gathering instrument.

Chapter 4: Results

Introduction

This chapter presents the results obtained after conducting, translating, coding, and analyzing the 10 interviews to the selected business owners. The purpose of this chapter is to describe the data gathering process, to explain how the analysis was performed, and to provide the answers to the six research questions formulated at the beginning of this research paper.

Conducting and Recording the Interviews

The interviews were conducted by phone. All the conversations were recorded. Ten business owners agreed to be interviewed. The interviews lasted from 30 minutes to 90 minutes.

All of the participants were very open during the interviews. However, all of them avoided discussing intimate details while the conversations were being recorded. At the end of the recorded interviews, a few of them offered additional information, usually telling me about problems or situations with other family members. This information would have added great value to the research, but the researcher and his advisor decided to work only with the recorded data to make the findings of the research methodologically stronger.

Transcribing and Translating the Interviews

The researcher transcribed personally the interviews from the original audio recordings. This process could not be outsourced because the IRB requested that, in order to protect the identity of the participants, only the researcher had access to the original

recordings of the interviews. In addition, the researcher had to eliminate or change all the names of people, businesses, and places to ensure the complete confidentiality of the participants.

In the next step, the researcher translated all the transcripts of the interviews. The translation was reviewed by two bilingual professionals, one of them a native speaker of Spanish, and the other a native speaker of English. The two persons who conducted this review of the translations did not have access to the original audio recordings of the interviews—only to the transcripts.

Once the interviews were translated from Spanish to English, the researcher had the data ready to be analyzed. The analysis of the interviews was conducted using the English version.

Coding of the Interviews

The first part of the analysis process was coding the English version of the interviews. This step was conducted by organizing the contents of the interviews in categories. In this case, there were six categories, one for each research question.

During the interviews, the participants were asked open-ended questions. These questions were organized into the same sequence of the research questions. Therefore, most of the answers of the participants were already organized in categories. However, there were many comments and stories told by the participants that were answering a certain research question, but at the same time were also related to a different research question. For example, when one businessman explained the factors that contributed to the current success of his company (Research Question 4), he was also describing his

leadership style (Research Question 5). In this case, the answer of the participant had to be split and sent to different categories.

At the end of this process of coding and organizing in categories, there were six groups, each of them containing quotes from the participants that corresponded to each one of the research questions.

Finding Themes

The second part of the analysis process involved looking for themes, or in other words, finding meaning in the data collected. In this part of the process, the researcher analyzed each category, one by one, comparing the answers from all the participants to the same research question, and looking for patterns, such as opinions shared by most of the participants, or contrasting answers, or answers grouped in clusters.

The Business Owners and Their Companies

Previous to the presentation of the findings, the following pages offer an overview of the 10 study cases. First, one table shows the profiles of the business owners and another table shows the profiles of their companies, and then there is a brief description of each of the 10 study cases.

Participants were offered confidentiality. Therefore, the business owners and the companies used as data sources for this study were identified with fictitious names instead of their actual names.

Profile of the participants. The participants interviewed came from different families. There was diversity in terms of age and professional background. However, in terms of age two clusters were observed, very likely due to the sampling method, or in

other words, to the fact that the participants were acquaintances either of the researcher or of the father of the researcher. Most of the participants were close in age either to the researcher or to his father.

There was almost no diversity in terms of gender. There was only one female in the study.

The most important characteristics of the family business owners who participated in the study are shown in Table 4.

Table 4

Profile of the Participants

Owner	Age	Professional Background	Gender
Arturo	71-80	None	Male
Carlos	61-70	None	Male
David	71-80	None	Male
Estela	51-60	Business Administration	Female
Fernando	41-50	Engineering	Male
Gerardo	71-80	Law	Male
Jesus	41-50	Engineering	Male
Manuel	61-70	Engineering	Male
Oscar	41-50	Business Administration	Male
Pedro	41-50	Law	Male

Profile of the firms. The companies were diverse in terms of number of employees, but not in terms of years of existence, and in terms of the industries in which they operate.

It can be noted that most of these companies were founded approximately in the same period. Also, there was not a big diversity in terms of industry. All 10 companies were in commerce or transportation.

The most important characteristics of the firms owned by the business owners who participated in this study are shown in Table 5.

Table 5

Profile of the Firms

Owner	Employees	Founded	Industry 1	Industry 2	Industry 3
Arturo	201-250	1940s	Commerce	Real State	Manufacturing
Carlos	151-200	1940s	Commerce	Real State	Transportation
David	201-250	1950s	Commerce	Manufacturing	
Estela	101-150	1960s	Commerce		
Fernando	151-200	1960s	Commerce	Manufacturing	Real State
Gerardo	101-150	1960s	Transportation		
Jesus	101-150	1960s	Transportation	Manufacturing	Commerce
Manuel	51-100	1950s	Transportation	Commerce	
Oscar	51-100	1960s	Transportation	Manufacturing	
Pedro	51-100	1960s	Transportation		

Introduction to the 10 Study Cases

In a multiple case study, it is important to introduce readers to each study case, to make the readers familiar with the stories, with the participants, and with the main events that were observed and documented.

A description of the business owners, of their family businesses, and of the events that shaped the business owners and their firms is presented in the following pages.

Case 1, Arturo. The family business firm founded by his father was a successful group of firms employing thousands of employees. After the death of his father, the companies were split among the siblings. As a result of the succession process, instead of

having a big family business, most of the siblings ended up owning medium-size companies.

Originally, the father of Arturo was in retail. With a bold move, he displaced competitors and his company became the biggest retailer in the city: “However, my father made an extremely bold decision. For a year my father sold all the merchandise at cost. It was very hard for us, because we were incurring big losses.” (personal communication, Arturo, 2011)

As the retail business was growing, they started having problems getting their vendors to supply them product in the quantities that they needed, so they became manufacturers: “Because of the fast growth that our business was experiencing, there were products that our vendors were not able to supply in the quantities that we needed, and that’s when we started to manufacture jeans.” (personal communication, Arturo, 2011)

From all the siblings, Arturo was the most entrepreneurial. He started several businesses. First he would be in charge of the new company, incubating it, and then, after a successful launching, he would put one of his brothers in charge, and he would then move on to start new businesses: “I have started retail businesses and housing development businesses as you can see. And I also started our factory of blankets.” (personal communication, Arturo, 2011)

Case 2, Carlos. He entered the family business more than 40 years ago. For most of those 40 years, Carlos has been in charge of the family business because his father died when Carlos was 21. Carlos did not attend college. In the last years, Carlos has

delegated most of the day to day operation of the business to his brothers and to his children because he decided to run for public office.

His business is a conglomerate of small companies in the areas of wholesale, construction, currency exchange, and retail. Carlos was able to grow the family business when he accurately predicted the economic recessions that Mexico suffered in the 1970s and 1980s, and made savvy business decisions: “During those years the company grew, because I realized that having inventory of merchandise, for reasons of inflation, was a better business than to sell it.” (personal communication, Carlos, 2011)

In addition, Carlos was able to finance the growth of the company for the most part with resources generated internally: “Then all that we earned in profits was reinvested, and I always tried to have our own financing, because the bank's money was very expensive.” (personal communication, Carlos, 2011)

Currently, as a consequence of globalization, the business has experienced intense competition, but Carlos believes that they are doing the right things based on a strategy focused on understanding and satisfying the needs of their customers:

Now we have to compete with Sam’s, with WalMart, and with all those other new competitors that try to be wholesalers. They have not been able to eliminate us, because we keep giving credit and support to small retailers, and as a result, these customers keep being very loyal to us.

(personal communication, Carlos, 2011)

Carlos thinks that the most important challenges in the future will be splitting the assets among the second generation siblings and creating spaces for the members of the third generation:

However, now, that our children have grown, well, the elders are sometimes reluctant to have the children of another brother entering the business, and with some of us, I see that our families have grown, and what we are doing is that we have some of us living from one business and other family members living from other businesses, but what ends up happening is that we own everything and nothing. I think that the most important asset to split is the real estate, which we have acquired over time. (personal communication, Carlos, 2011)

Case 3, David. He, one of his brothers, and his father started selling building materials 50 years ago. A few years later his brother split and started a different business. David stayed with his father until his father passed away in 1975.

Once in charge of the family business, David started testing new ideas. The first one was to stop selling materials such as iron and cement that in his time were considered the backbone of a store like his: “My father never wanted to stop selling cement and iron bars, because he said that they were to our business what sugar is for groceries stores. That without them we were going to have problems.” (personal communication, David, 2011)

However, David tested his idea and proved that it was better to move in that direction: “In 1975, I proved that the cement and the iron bars were not a good business and I made the decision to close the business.” (personal communication, David, 2011)

For the next years, the company opened more branches. David’s oldest son entered the business and continued with David’s idea of implementing more scientific way to manage the business. One of those efforts was the implementation of processes

based in ISO 9000. The company did not go through all the process of obtaining the certification, but all the foundations of ISO 9000 are still in place. The company has clearly stated its mission and its vision, and periodically defines its goals and strategies.

A little after David's youngest son had entered the business, one of the main suppliers offered David a franchise opportunity, but the deal required that David would stop selling all other brands and products. David negotiated for more than 2 years with the supplier. Finally, they got to an agreement in which David's youngest son would be the owner of the new franchises, and David and his oldest son would be able to keep their original company still selling all the other brands and products:

So, at the end of 1994, they finally accepted that my youngest son became the franchisee. It was our first franchisee location. At that moment, my youngest son separates from my main business and starts the *Company X* franchise. Since then, my youngest son has increased the number of stores in his franchise business. (personal communication, David, 2011)

One of the most remarkable events for David as a businessman happened in the 1970s and 1980s. At that time, there were two devaluations of the Mexican currency that created big economic instability. While David's competitors tried to take advantage of the situation continuously increasing their prices, David tried to respect the prices that he had offered to his customers as much as he could. The customers appreciated his sacrifices. David's business has thrived, whereas many of his competitors are no longer in business:

It was part of our success because many of our clients congratulated us, they let us know. They told us "You know, there are very few companies

like yours in our city. Many of your competitors abused of the situation, but you preferred to keep us as customers, seeing the long-term future and not your immediate benefit, and your strategy made us realized that you are a good choice as a supplier for us.” (personal communication, David, 2011)

Case 4, Estela. Her family is in the business of selling building materials. The company has only one big store. The company sells most of the items needed to build the frame of a house.

The business was founded more than 50 years ago by Estela’s mother, with the help of her father. For many years, the business location was only an extension of their house. Eventually, the business moved to a separate location, even though it still was adjacent to the house. The company has grown steadily throughout the years, having today more than 120 employees.

Estela started working in the family business since she was a child, but the process was not easy for her: “My brothers and I were always part of the business because we lived there, so we were forced to. And besides, the parents forced you to work. It didn’t matter if you wanted or not.” (personal communication, Estela, 2011)

Currently, Estela handles the administration and the finances of the company, but she feels that her parents are still the ones who keep all the power:

Well, I have some authority, but the truth is that the authority here, in our family business, is still controlled by my parents. We have not gone through any succession process, because my parents don’t want to let go their authority, their power. So they always have us... well, in my case,

when it is convenient for them they give me authority, but usually it is more responsibility than authority. (personal communication, Estela, 2011)

Estela thinks that the main challenges for the family business are ahead because the family has not gone through any step in terms of a succession process: “My mom is in charge of the business, as she almost always has been. But us, the ones after her, for us it’s not easy to agree. Then it’s going to be a great challenge.” (personal communication, Estela, 2011)

Case 5, Fernando. The father of Fernando started working as an employee in a bank, and later he quit his job to open a small store where he sold clothes: “He opened a store, then another, then the third, and that was his growth when he was alone. When we, the second generation arrived, we started the industrial side of the business.” (personal communication, Fernando, 2011)

And from there, the family business kept growing and diversifying. They opened a quilt factory, several wholesale stores, and a small housing development company: “My dad began to build houses. He built one, and then he sold it. This is how it started.” (personal communication, Fernando, 2011)

Because of his industrial engineering background, Fernando has been in charge of the manufacturing side of the family business. More than being in charge of the day to day operations, Fernando is responsible for keeping the factories efficient and competitive. For example, they manufacture high tech fabrics for products such as sports shoes and car seats. Among their customers are multinational companies that demand products of the highest quality from their suppliers.

The strategy that Fernando devised and implemented to create a competitive factory was to aim for international markets, but focusing in specific niches. He also realized that the best way to have international recognition was by getting his factory certified in international standards. He was able to get, and has been able to maintain the certifications, ISO 9000 for quality, ISO 14000 for ecology, and ISO 18000 for safety: “We looked at the certification as a way to enter niche markets where the Chinese were not so competitive, because of ecological issues, quality issues, technology issues, research and development issues.” (personal communication, Fernando, 2011)

The success of the factories of their family business can be better understood from the perspective of looking at what has happened to most Mexican textile companies during the recent years of globalization and intense international competition:

And those Mexican textile companies, they had been in business for one hundred years or more. Those companies had all the market in their hands. And when the market opened, those companies disappeared, because their customers realized that there newer products, with more options, and available in better terms. (personal communication, Fernando, 2011)

Case 6, Gerardo. The family is in the business of transporting passengers in buses, between cities. They have buses operating in two different intercity transportation carriers. One of them is a national transportation carrier where Gerardo and his family are minority partners, operating only a few buses. The other is a regional transportation carrier where Gerardo and his brothers are the majority partners. Gerardo alone owns more than 50% of the buses and permits to circulate the routes in this regional transportation carrier:

Gerardo has held important management positions in the larger transportation carrier. This situation has allowed him to transfer the knowledge and experienced gained in the larger company, to the smaller company in which he has most of his investments: “I started applying the knowledge acquired in the big leagues, as we referred to the larger transportation carrier, implementing it now in our regional transportation carrier.” (personal communication, Gerardo, 2011)

At the time that Gerardo comes to work for the regional transportation carrier as the general manager, another family was the majority owner. However, Gerardo was very lucky and a windfall helped him increase his wealth considerably, giving him enough cash to buy the buses of one of the majority owners. This transaction made Gerardo the new majority owner: “One of the majority shareholders decides to sell his business, and I bought his business, and this makes me the new majority shareholder of the company.” (personal communication, Gerardo, 2011)

Case 7, Jesus. The family business started when a group of 20 partners, including Jesus’ dad, bought two buses to transport people between their hometown and another city. Eventually, they bought more buses and created an intercity transportation carrier, a regional company in which each partner own his buses and permits, but where all of them share the routes. During the next years, there came slow but steady, growth: “My dad had two, three buses, up to four. And when we his children grew, we began to enter the family business, and that was how the company grew more, up to 120 buses.” (personal communication, Jesus, 2011)

When Jesus entered the business, he became in charge of the maintenance of the vehicles and of the purchase of spare parts. Most of the expenses in a transportation

business are in maintenance and in spare parts, so eventually Jesus became in charge of the finances and the administration of the company too:

And then I started building a professional management that did not exist, and that administrative system began to move even more workload to my office. And eventually I started to be in charge of administration, finance, and maintenance, while my brother was mostly in charge of sales.

(personal communication, Jesus, 2011)

At the end of the 1980s, the parents of Jesus died. Jesus and his brother worked together as a group for a few years, but as their families started growing, they started dividing the businesses. Jesus got a part of the family business, but when one of his brothers was no longer able to run his business, Jesus acquires most of his brother's assets and liabilities:

I made a bet by getting his buses, but also his debt. Then I got more buses but my debt grew a lot. I made a bet thinking that I could, but after some time I realized that I couldn't. (personal communication, Jesus, 2011)

Jesus sold the most important part of the business that his father left him. He now has two other businesses in the transportation industry: one transporting employees for factories, and the other refurbishing buses.

Jesus has invested in the factory of refurbishing buses most of the proceeds from the sale of his previous business. He even has obtained from the government the permits to manufacture brand new buses. Jesus is trying to find venture capitalist to finance his manufacturing company, because the business model is based on economies of scale and requires big amounts of capital to succeed. Still, Jesus has big expectations: "I think I

have a diamond, but a diamond that has to be polished. This business generates good profits but requires capital. Part of my job now is to find those sources of funding.”

(personal communication, Jesus, 2011)

Case 8, Manuel. His father started the business when he and a partner bought one truck almost 60 years ago. They transported raw materials for a manufacturer of caustic soda. As the factory of their customer was growing, their business was growing too.

When they had 12 trucks, their children were old enough to start entering the business. To avoid possible conflicts, they decided to split, staying each of them with six trucks.

After Manuel and his brother joined, the family business kept experiencing growth because their father was the nephew of the owner of a company that today is one of the biggest manufacturers of soap in Mexico. As the soap factory was growing, the father of Manuel was able to acquire more and more trucks.

Manuel had a limited role in the family business. He was only in charge of credit and collections. His brother was in charge of the administration. One day, his dad decided to retire and chose Manuel’s brother to be in charge of the company. Manuel preferred to start his own company in the same business:

The problem is that my dad had two leaders. So that's why someone had to stay with my dad’s business, and my dad chose my brother, quite rightly.

And I preferred to be, as they say, *head of mouse* instead of *tail of lion*. So

that's why I spun off from the family business. How did I do it? Starting

almost from scratch, working twice, and growing what I did, and I'm

enjoying it right now. And that was the secret. I believe I was born a

leader. (personal communication, Manuel, 2011)

In the next years, Manuel grew his business, up to 60 trucks. In addition, he opened two tire stores. Most recently, he acquired many trucks in highly leveraged transactions. At the same time, there was a decrease in the demand for services from his customers as well as increased competition. All those factors combined created a very tight cash flow situation, and Manuel decided to sell all the assets of his transportation business and to pay off all his debts. He is happy about his current situation:

And now that I have no trucks, I still have the tire stores, and they are obviously good business. They yield good profits. Two of my daughters are helping me. They are the ones who are in charge now, and I spend my time reviewing the numbers of the business, because I can't be idle.

(personal communication, Manuel, 2011)

Case 9, Oscar. The beginnings of the family business started in the time when Oscar's father was a mechanic specialized in repairing diesel engines. In addition to knowing about engines, he was good at building relationships. As a result, a group of his customers, who were their friend too, invited him to buy a bus in a national intercity transportation carrier to which they belonged. They even lent him part of the money to buy the bus. Little by little, he kept acquiring more buses. And almost 20 years later, when Oscar and his siblings joined the family firm, his father decided to start a new business:

And the concern to continue to grow, with something beyond having only one business, one basket of eggs, took us to start a business with which we have always been involved, diesel engine related. It made us think about a business that combined the mechanical and transportation fields. Thus was

born the new company dedicated to the grinding of engines. (personal communication, Oscar, 2011)

The beginnings of the new business were difficult. Oscar, his siblings, and his dad had to start from scratch and worked very hard to enter the market: “When you start a business you have to get others to know you, it takes time to introduce your brand, and it takes time to make yourself known as a trusted company, as a trusted person.” (personal communication, Oscar, 2011)

One event that helped the company was that the introduction to the Mexican markets of foreign made diesel engines from European manufacturers. For many years the market had been restricted to a few American brands that had manufacturing plants in Mexico. As a result, most of the existing grinding of engines locations had been using the same machinery and equipment for many years and were not used to sudden changes. For Oscar and his dad, being new entrants and having good people skills were very useful to be one of the few shops with direct information from the manufacturers:

“Fortunately for us, in 1991 new large engines started arriving to Mexico. We were among the few privileged to which the European manufacturer gave the manufacturer’s specifications to grind engines.” (personal communication, Oscar, 2011)

Most of the strategy to maintain a competitive advantage is still based on keeping close relationships with the manufacturers and having access to valuable information that other competitors may not have: “The manufacturer has given us the information to us and not to our competitors. And many times the manufacturer's information is worth more than all your machinery.” (personal communication, Oscar, 2011)

Case 10, Pedro. His father spent the first years of his life to working in orchards, until he was invited by a group of friends to buy buses and joined a transportation carrier that offered shuttle services in the city where the research took place. However, Pedro's father died very young. Pedro had to drop out of college and when he was only 21 to become the new person in charge of the family business:

Fate always plays jokes on us, and it happened to what sooner or later is going to happen to everyone. My dad went to a better life and I had to get in charge of the business when I was 21. (personal communication, Pedro, 2011)

For Pedro, the first years in charge of the business were tense. He did not know anything about the business. His lack of experience and his tough style of command disconcerted his employees. However, as time passed, he started to know the business better and to have more trust in his employees. His sister joined the business and they made a good team. Their priority was to watch for every penny and make sure that all only the necessary expenses were made.

The policy of rationalization and close supervision that Pedro and his sister followed started producing good results. The company was generating enough resources to grow. In addition, there were changes in the external environment that helped to propel growth. The first situation was the availability of external financing: "The financial circumstances started changing. The financial institutions started extending credit to our industry. In addition, it was easier to buy new buses directly from the dealers." (personal communication, Pedro, 2011)

The second situation mentioned was the increased availability, in secondary markets, of permits to circulate the buses:

At the time, there were bad government policies in the sense that every change of administration, every six years, they granted permits to people who were not transportation entrepreneurs, people who just tried to make easy money by selling the permits to somebody already in the industry.

And that is how I was acquiring more permits and growing the business.

(personal communication, Pedro, 2011)

The results of the changes implemented by Pedro have been positive. Counting with the help of his sisters and delegating part of his business to other employees, has helped him to maintain a steady growth and consolidation of his family business: “In number of buses, I doubled what my father left me. And compared to what my father left me, there was also an improvement in the quality of my fleet.” (personal communication, Pedro, 2011)

Analysis of Findings

The next step consists of answering the research questions. Each research question is restated and followed by the findings. The findings are grouped in common themes. To support the findings, the results are followed by quotes from the participants.

Findings on Research Question I

Research Question I: How was the family business founded?

Struggles during the first years. Eight participants mentioned that, after being founded, the business of their parents stayed very small for approximately the first 15 years.

Need to do something different. Seven participants mentioned that their businesses started when their parents experienced the need of doing something different from what they were doing or to what their families wanted them to do.

Humble family origins. Seven participants mentioned that their parents came from families with limited economic resources.

Finding the right partners. Six participants mentioned that their parents started the business in association with non-family partners.

Migrant entrepreneurs. Five participants mentioned that their parents migrated from small towns to the city of where the research took place.

Relationships helped. Five participants mentioned that their parents were able to start their businesses thanks to the help of people close to them, either friends or family.

From unsatisfied employee to entrepreneur. Four participants mentioned that, before starting their own firms, their parents worked as employees—one of them in a bank, another in the railroad, and the other two in small retail businesses—but eventually they decided to quit and started their own businesses.

Findings on Research Question II

Research Question II: What were the key events in the growth and expansion of your company?

The founder was a key element. The characteristics associated with the founders related to the growth and expansion of their companies, were their visions, great efforts

and sacrifices, relationships and trustworthiness, and at times the willingness to accept temporary losses: “My father was a visionary. For a year my father sold all the merchandise at cost. It was very hard for us, because we were incurring big losses.” (personal communication, Arturo, 2011)

Another important element observed in several founders was the need to adapt to new circumstances, and if necessary, to split from other more conservative, risk-averse partners:

But a group of visionaries, I call them, decided to split from the original company to work in a more modern, more business oriented way.

Unfortunately the other company, from which my dad and his partners split, today is reduced to a few buses and only a couple of routes.

(personal communication, Gerardo, 2011)

Cash flow was tight. An important limitation for growth during the first years was the lack of available institutional financing and the need to provide financial support for the founders’ growing families: “There was no financing available. My dad had to buy very old buses. He paid them cash.” (personal communication, Pedro, 2011). “And we, me and my siblings, were many. Well, some of my siblings were still being born.” (personal communication, Arturo, 2011)

Times were different. The participants mentioned that when their parents started their businesses, times were different. There were lower taxes, less regulation, fewer competitors, and reduced options for customers, which allowed them to offer low quality, keep their expenses low, and obtain good profits:

One of the factors that contributed to the growth of the business was that there was no much competition as there is now. This allowed the business to have a higher profit margin. Another factor was that we paid fewer taxes which also gave us the opportunity to grow. There were not many requirements and regulations from the government agencies as there are now. (personal communication, Estela, 2011)

Circumstances specific to transportation businesses. It was easier to join leading transportation carriers, but required having friends or connections inside the transportation carrier: “Then my father knew several people who were engaged in the transportation business, and they invited him to join the carrier to which they belonged, a large national company.” (personal communication, Oscar, 2011)

In addition, the cost of diesel, which is the most important component in the cost of running a transportation business, was very low: “I remember also that the fuel, the diesel, was extremely cheap at that time in Mexico. Today it is very expensive.” (personal communication, Oscar, 2011)

Circumstances specific to commerce businesses. There were only a few competitors because it was difficult to acquire merchandise and the supply of that merchandise was limited:

My dad lived at a time in which there was very little competition, a great need for products, and the businessperson who had the ability to start bringing things from other places had a great advantage. It made the difference, and it gave you a better market, and a very loyal clientele,

because there were only three or four businesspeople who sold the products. (personal communication, Fernando, 2011)

Findings on Research Question III

Research Question III: How was the family business transitioned from the first generation to the second generation?

Entrance of the second generation to the family business.

- Some participants drop out of school to join the family business:
“And one day I told him that I definitely didn’t want to study, but to work, and he took me to work with him.” (personal communication, Arturo, 2011)
- Other participants were studying in another city and had to move back because they were needed in the family business:
“I went to college in another city, but I had to return to my home town, because my dad just couldn’t make it.” (personal communication, Oscar, 2011)
- Several participants combined studying and working in the family business:
“So while I was studying, my job was to assist the plant manager, to be next to him, and my authority and responsibilities were growing as I was finishing my studies.” (personal communication, Fernando, 2011)

Childhood’s feelings toward the family business.

- One participant loved the family business:
“Since I was a child, I loved the business, and during my vacations I went to work in the buses.” (personal communication, Gerardo, 2011)

- One participant liked the family business:
 “All those things helped me to get familiar with the business, and I liked it.” (personal communication, Jesus, 2011)
- One participant didn’t like the family business:
 “And that was my first contact with the business, with the idea that the transportation business is a nuisance.” (personal communication, Pedro, 2011)
- One participant hated the family business:
 “And besides, the parents forced you to work, it didn’t matter if you wanted or not.” (personal communication, Estela, 2011)

Transfer of the family business to the second generation.

Sudden succession, complete (Carlos, Pedro)

- Had to enter the business and be in charge at the same time because father died very young:
 “My dad went to a better life and I had to get in charge of the business when I was 21.” (personal communication, Pedro, 2011)
- In addition, siblings joined the business too, but participant is in charge:
 “And I started to work with the help of my brothers. And since then we still keep working together.” (personal communication , Carlos, 2011)

Gradual succession, complete (Arturo, David, Gerardo, Jesus, Manuel)

- Participant and siblings joined the business, each of them with different responsibilities:

“My dad was delegating the business to us and we began to have our very specific roles.” (personal communication, Jesus, 2011)

“My brother became in charge of the administration and I was in charge of credit and collections.” (personal communication, Manuel, 2011)

- After founder’s death, siblings continued working as a group, sharing the power and the ownership

“When my parents died, my brothers and I continued working as a group.” (personal communication, Jesus, 2011)

- Eventually, siblings split and each took over a part of the original business

And the separation, when we split, there was no anger or problems.

What happened was that our children had grown up, and it was also important that they had the opportunity to participate in the administration of each of our business. And that's why we split.

(personal communication, Gerardo, 2011)

Gradual succession, incomplete (Fernando, Oscar)

- Founder still in charge and still is the main owner, but has delegated complete authority of some areas of the business to the participant

He realized that we could be a very good team, with his experience and my knowledge, and it is something that I have always valued of him, because he had this vision of stepping aside in certain issues that perhaps are not his strength. (personal communication, Fernando, 2011)

Succession not started yet (Estela)

- Founder still in charge, has not delegated any substantial authority to the participant:

“Well, I have some authority, but the truth is that the authority here, in our family business, is still controlled by my parents.” (personal communication, Estela, 2011)

Findings on Research Question IV

Research Question IV: What are the key events that have contributed to the family business success and current situation and how did they contribute?

Factors that have favored growth.

- Working as a group with siblings, splitting and creating separate companies when third generation arrives, and still working together with siblings in specific projects:

“More recently, my brothers and I split, and now everyone has their own business. Our children had already grown up, and it was important that each of us had his own company.” (personal communication, Gerardo, 2011)

“I supported my brother with my trucks, to make deliveries for his customers. I had 20 trucks, and I asked my brother to tell me how many I should send to each customer.” (personal communication, Manuel, 2011)

- Gaining the trust of customers and suppliers, which resulted in preferential treatment:

“For example, as a result of our relationship with the European manufacturer Cummins, we can repair some of their engines better than any of our competitors.” (personal communication, Oscar, 2011)

- Transitioning from being the only option to the customers to being the best option:

“There are many competitors that want to take that business away from me, but after seven years, my customer still prefers to use my services.” (personal communication, Jesus, 2011)

- Diversifying but in businesses closely related to the core business:

“And the concern to continue to grow, with something beyond having only one business, one basket of eggs, took us to start a business with which we have always been involved.” (personal communication, Oscar, 2011)

- Adapting to changes in macroeconomic events:

“Still, there were more devaluations. We sorted them all, taking care of our customers, respecting as much as possible our retail prices.” (personal communication, David, 2011)

“The company grew because I realized that every 6 years there was an economic crisis.” (personal communication, Carlos)

- Using the best financing options available to their needs, all the way from highly leveraged financing to self financed:

“But a new success always has side effects. And now, as a result of having grown a lot, I had to invest much, and I have a big debt again.” (personal communication, Jesus, 2011)

“I always have tried to have our own financing, because the bank's money was very expensive.” (personal communication, Carlos, 2011)

- Combining financing from financial institutions with financing from informal sources:

“Sometimes I got the financing from the bank. Sometimes I got it from my relatives.” (personal communication, Pedro, 2011)

- Occupying spaces created by the exit of weak competitors:

“The spaces left by others, created opportunity. We were occupying those spaces and we were able to survive and to keep growing.” (personal communication, Carlos, 2011)

“Many entrepreneurs were entering and exiting the business, and somehow that allowed us to acquire more vehicles and permits.” (personal communication, Pedro, 2011)

- Facing temporary adversity and failure in one or more of their businesses:

“It was a very difficult decision, but it was a success because I was able to sell my business. And that made me successful in my next stage, because it provided the financing to start my other businesses.” (personal communication, Jesus, 2011)

- Keeping the loyalty of the children of the founders' customers:

“When the second generation of our customers came, we kept serving them as we serve their parents.” (personal communication, Carlos, 2011)

- Shutting down businesses that were not profitable anymore:

“I proved that the cement and the iron bars were not a good business and I made the decision to close that business.” (personal communication, David, 2011)

- Opening more branches, acquiring newer equipment, hiring additional employees:

“I was opening new branches, increasing the number of employees and increasing the display space, and also having a larger number of suppliers.” (personal communication, David, 2011)

- Retaining key employees for many years:

“For example, the lady that is my personal assistant has 20 years working with me. I don’t like to be switching people.” (personal communication, Arturo, 2011)

- Working hard, supervising closely the most important aspects of the business, either personally or with the help of trusted employees or family members:

“This business has given us everything we have. And that is why we have been so diligent taking care of it.” (personal communication, Estela, 2011)

“Until I put in charge a person of my absolute trust, a brother of my father. And then the business was well controlled. So, that was part of the success, that I had a trusted person.” (personal communication, Manuel, 2011)

- Investing wisely to be ahead of, or at least no behind, the competition:

“We invested, for example, in equipment that may have cost us a hundred times more than a used one, but we realized that the technological change

was so big that it allowed us to leapfrog our competitors.” (personal communication, Fernando, 2011)

- Continuously refocusing the business in those operations that add value:
“The first thing I did was to replace the old buses with new buses. I was of the idea that I preferred to spend on payments to the bank than on repairs.” (personal communication, Gerardo, 2011)
- Implementing better systems to be more efficient and more productive:
“Everything was so disorganized. I started building a professional management that did not exist at the time.” (personal communication, Jesus, 2011)
“We became in our compliance to government regulations, we also adopted got computer systems and implemented IT solutions.” (personal communication, Carlos, 2011)
- Looking beyond traditional customers and markets:
“From our product, now 80% gets out of Mexico and the other 20% stays in Mexico. If we had wanted to sell 100% of our product in Mexico, we would have disappeared, without a doubt.”(personal communication, Fernando, 2011)
- Bringing knowledge from outside the family business, sometimes by working at a larger firm and other times hiring external consultants:
“When I joined the local management of our smaller regional transportation carrier, I brought the experience of having participated in

the administration of the larger national transportation carrier.” (personal communication, Gerardo, 2011)

Factors that have slowed down growth or reversed growth.

- Splitting the business among relatives:

“And recently, my brothers and I split, and now everyone has his own business.” (personal communication, Francisco, 2011)
- Making risky bets:

“I bet that I could do it, but there were many circumstances that didn’t happen.” (personal communication, Jesus, 2011)
- Being extremely conservative and risk averse:

“On one occasion my dad and I did not agree, because we were growing very fast, and because he was afraid of growth, and now I understand him, because everything you've done can be lost with just one bad decision.” (personal communication, Manuel, 2011)
- Using the business as a cash cow for a family with increasing financial needs:

“And we, me and my siblings, were many, more than 10.” (personal communication, Arturo, 2011)
- Third generation members that are not a good fit in the family business:

“I also started a transportation business, but later a nephew neglected it and killed it.” (personal communication, Carlos, 2011)

Findings on Research Question V

Research Question V: What is the leadership style of the second generation owner of the family business? How does this style differ from the style of the founder?

Entrepreneurial orientation versus management orientation. On one hand, all the founders exhibited entrepreneurial orientation, something completely expected. On the other hand, there were no mentions in the interviews to situations or activities that may suggest that any founder was management oriented. It appears that the formal systems and procedures that all the organizations now have in place were implemented only after the arrival of the second generation.

Look, my main project, from the beginnings of the industrial plants, was to make institutional plants, managed professionally. Although the industrial plants were still family businesses, we wanted them to work based on well documented policies and procedures, because one of the biggest risks in family firms is when things are not very clear, when responsibilities keep changing. (personal communication, Fernando, 2011)

The question here is whether the participants are more entrepreneurial oriented or more management oriented. An analysis of the findings follows.

The participants who gave answers revealing high entrepreneurial activity were Arturo (2011), “I have started retail businesses and housing development businesses. And I also started our factory of blankets,” Carlos (2011) “I decided to start the construction companies, the furniture stores, the staple items stores,” and Manuel (2011) “I spun off from the family business, started my own transportation business, and I also opened the tire stores.”

The participants who appear to be as entrepreneurial as management oriented are David (2011) “Then we kept going. I was trying to open branches. At the same time, we were putting in writing our vision, our mission and our most important objectives,”

Gerardo (2011), “I presented a work plan based on goals clearly defined, measurable, and attainable. At that time, a partner in the company decides to sell his business, and I bought it,” Jesus (2011) “I started building a professional management that did not exist. In addition, I was able to start other businesses. I have always been entrepreneurial,” and Pedro (2011) “And that is how I was acquiring more buses and growing the business, but I also had to learn to delegate and create procedures, because I realized that I could not be in everything.”

The participants who revealed high orientation to management and low entrepreneurial orientation were Fernando (2011) “Look, my main project, from the beginning has been the implementation of good management practices,” and Oscar (2011) “I continuously have to make sure that there is a very close coordination of efforts, coordination between my employees as a team.” Neither Fernando nor Oscar has started a new business.

Finally, Estela has not started any business either. However, it may also be incorrect to say that she is oriented to management, because she describes her role only as applying strict controls by close observation of the employees. She does not mention any implementation of formal management tools such as goals, strategies, plans, systems, or procedures. “You achieve results by chasing the employees, explaining things to them all the time, and staying behind them.” (personal communication, Estela, 2011)

Level of entrepreneurial orientation compared to the founders. An interesting comparison between the second generation and the first generation is whether the participants are more, less, or similarly entrepreneurial oriented than their parents. The

indicator that I used to compare entrepreneurial activity is the number and of new businesses initiated.

Five participants have been more entrepreneurial than their parents. The participants that reported more self entrepreneurial activity than their parents were Arturo, Carlos, David, Jesus, and Manuel.

The other five participants have been less entrepreneurial than their parents. These participants were Estela, Fernando, Gerardo, Oscar, and Pedro.

Analysis of leadership styles of the participants. Based on the self description that the participants made of how they perceived themselves as leaders and as manager, plus taking into consideration phrases and expressions that they used during the interviews, a profile of each participant leadership style was elaborated. Originally, the idea was to identify each participant with specific leadership styles mentioned in the theories of leadership. However, it appears that in practice each participant combines characteristics of more than one leadership style. Still, an effort was made to try to assign leadership styles to each participant. A second rater collaborated in this analysis. The second rater is the Dean at a school of business in Texas and has ample experience working with business leaders.

Analysis of Arturo's leadership style:

- Is charismatic
- Dreams big and transmits the dream to followers, siblings, and employees
- Sees for the needs of the employees, considers them as part of his team
- Has committed followers, has many long-term employees

- Believes that success “is never achieved because there are always new ways of doing things better every day.” (personal communication, Arturo, 2011)

Analysis of Carlos’s leadership style:

- Takes care of the team member, family members
- Leads by convincing, knowing each of the team members
- Opens doors, creates opportunities for team members, involves them
- Lately, has withdrawn from business to pursue other dreams, delegating more authority and responsibility to his brothers and children
- Believes that success is “to be in peace with yourself, with your conscience, because you did what you had to.” (personal communication, Carlos, 2011)

Analysis of David’s leadership style:

- Generates new ideas
- Tests ideas, monitors results, makes decisions based on facts
- Uses methods, procedures, standards, looks for root causes of problems
- Builds a team, keeps the team together, involves team members
- Delegates positions of power to children, and delegates less important administrative positions to non-family employees
- Experiences business success “when customers tell me that we are the best option, because in situation where my competitors abused, I preferred to sacrifice short-term gains to keep them loyal to my company.” (personal communication, David, 2011)

Analysis of Estela’s leadership style:

- Follows the autocratic style learned from her parents

- Not interested in the needs of the employees
- Believes that the only way to make employees perform is by observing them and controlling them
- Sees two separate groups, *we* the owners, and *they* the non-family employees and supervisors
- Considers business success “having grown our business much more of what we thought was possible and keeping it alive for more than 50 years.”
(personal communication, Estela, 2011)

Analysis of Fernando’s leadership style:

- Is in charge of technical functions that are out of the area of competence of his father
- Is technical, scientific, based on hard data
- Implements methods, procedures, and standards
- When facts are not enough, uses the art of persuasion
- Interested in the balance of life of his employees and himself
- For him, success is “to work in what I like, to create jobs, and to organize my work in a way that allows me to spend more time with my family.” (personal communication, Fernando, 2011)

Analysis of Gerardo’s leadership style:

- Acts as liaison, between owners and managers
- People believe in him
- Brings harmony to the group
- Applies scientific administration principles, uses productivity ratios

- Uses dialogue and hard data to convince team members
- Works to align team members in the effort of having a stronger, more profitable firm
- For him success is “to be happy with what you have been doing, with what you have tried to do, and with the results achieved.” (personal communication, Gerardo, 2011)

Analysis of Jesus’s leadership style:

- People trust him and finds easy to deal with him because he is very responsible
- Tries to have people believing in him and in his built-to-last business
- Offers employees long-term job security
- Is strict with employees, very specific instructions, provides feedback
- Expects his strict working environment to result in high quality in order to keep customers happy
- Experienced business success when he sold the business that he received from his father, “because I sold it at a very good price, and it allowed me to start a new business that now I identify as my own.” (personal communication, Jesus, 2011)

Analysis of Manuel’s leadership style:

- Is very humane, very close to the team members
- Cares for the team members, even for their personal needs
- Trusts others, delegates but only to family members
- The needs of the customers take priority over his needs

- Loyal customers return the favor, helping him in difficult moments
- Sees business success as “the satisfaction of a job well done, of having fulfilled your duty, of making your customers happy, and of being paid for that.” (personal communication, Manuel, 2011)

Analysis of Oscar’s leadership style:

- Combines knowledge of business operations and of business management
- Has been able to retain key employees in difficult times
- Works with the team members as his coach
- Draws the line between being a friend and being the boss
- Works close to the team members, is strict, keeps things in order, is honest
- For him, business success is “being responsible and dependable, because in this way you earn the trust of people.” (personal communication, Oscar, 2011)

Analysis of Pedro’s leadership style:

- Was forced by the circumstances to assume the leadership of his company
- At the beginning, his inexperience, unreliability, and strict discipline disconcerted his employees
- Has learned to delegate, to trust others
- His priorities are discipline, order, and austerity
- Prefers to take little steps instead of running
- Believes that “success is never achieved, because when you climb a mountain, you realize that there are other bigger mountains.” (personal communication, Pedro, 2011)

Keywords associated with the leadership styles of the participants. In an effort to define the leadership styles of the participants, the researcher assigned keywords to each of them based on the behaviors reported and the beliefs expressed by the participants. To reduce the subjectivity of the exercise, the second rater was asked to conduct an independent assessment, using the same technique of expressing his perception in two or three keywords. The results are presented in Table 6.

Table 6

Perceived Leadership Style of the Participants

Owner	Perceived Leadership/Management Style	
	By Researcher	By Second Reviewer
Arturo	Charismatic, Visionary	Visionary, Emergent, Path Goal
Carlos	Situational, Participative	Relationship oriented, Empowers others
David	Scientific, Team Builder	Manager, Analytical
Estela	Autocratic, Controlling	Supervise, Operational
Fernando	Scientific, Persuasive	Analytical, Logical, Process Driven
Gerardo	Harmony, Liaison, Scientific	Team Builder, Empathy
Jesus	Transactional, Risk-taker	Manage, Path Goal
Manuel	Paternalistic, Relationships	Paternal, Relationship oriented
Oscar	Path Goal, Team Coaching	Loyal, Emergent
Pedro	Incrementalist, Austere	Process Driven, Supervisor, Controlling

Cross comparisons of leadership styles. When the contents of the interviews were subjected to a closer scrutiny, it was very interesting to see that there were similar conclusions drawn about characteristics and behaviors among the participants. Eight participants appeared to be grouped in four clusters, each cluster containing two participants.

It is important to mention that the commonalities observed were only partial, and that most of the times there were actually more differences than similarities in the leadership styles in each cluster, or in other words, in each pair of participant.

Common situations, preferences, experiences and, except in one case, academic backgrounds, were observed in the following pairs of participants:

1) Arturo and Carlos:

- Initiated many ventures in different industries.
- Most of the new ventures have been transferred to other family members.
- Both have no college degrees.

2) David and Fernando:

- Decisions based on hard data, testing, and monitoring.
- Implemented systems, methods, and standards.
- Different academic background.

3) Jesus and Manuel:

- Had a brother with accounting degree in charge of the family business.
- Split to start their own businesses.
- Highly leverage financing of their business forced them to sell firm.
- Feel more identified with their new businesses.
- Both have engineering degrees.

4) Gerardo and Pedro:

- Have more than doubled the size of their businesses.
- Have improved the quality and age of their equipment.

- Prefer to have new buses and pay financing expenses than to have old buses and pay maintenance expenses.
- Belong to a transportation carrier and other partners follow their lead.
- Want to transition their transportation carriers from partnerships of separate owners to corporations.
- Both have law degrees.

Findings on Research Question VI

Research Question VI: How does the second generation owner expect to achieve his or her vision?

The vision of the well being of their families. For most of the participants, the well being of their families was the most important factor to consider when they formulated their vision: “My wish is that my children, my family, can keep growing and that they keep being an important part of the economy, and that they contribute to society” (personal communication, Arturo, 2011). “I think that my sons will continue growing the company, and good for them, for their families” (personal communication, David, 2011). “I want my transportation business to be the economic support for my family.” (personal communication, Jesus, 2011)

The vision of continuous growth. The most common vision expressed was the continuous growth of the business. The participants expressed their confidence that this vision can be achieved:

- Business growth is possible because of future growth in demand and continuous need for their services or products:

“I think that in the housing projects industry and in the industries related there are many opportunities for growth, because the population keeps growing.” (personal communication, Arturo, 2011)

- Achievement of vision requires the ability to adapt to changing market needs through research and development, innovation, and by creating or maintaining relationships with technological leaders:

“To reach this vision, we have a plan, more or less. The idea is to keep being updated technologically.” (personal communication, Fernando, 2011)

“We have to continue on this path, of good relations with the manufacturers, to keep them giving us their information.” (personal communication, Oscar, 2011)

- Achievement of vision requires transitioning the company to a more modern legal and organizational structure in order to keep the business strong and competitive, to limit the liability of the family, and to attract external sources of capital:

“I’m convinced that we need to evolve. And that we have to make some changes. I visualize our regional transportation carrier not as a partnership, but as a corporation.” (personal communication, Gerardo, 2011)

“I would like to have the business operating as a corporation, where I would not have to take care of every little detail, but rather have managers in charge of things.” (personal communication, Pedro, 2011)

“My business of manufacturing buses is something more adventurous.

Creating a corporation may be a good option to limit my risk.” (personal communication, Jesus, 2011)

The vision of transferring the business to the next generation. The other common vision expressed was the successful transfer of the business to the next generation. The participants consider that the following conditions are necessary to achieve this vision:

- Achievement of this vision requires the adequate grooming and placement of the next generation family members:

I know many second-generation companies that have disappeared, and hopefully this problem will lead to the realization that it is necessary to start grooming the second generation since they are young, to make them fall in love with the family business. (personal communication, Fernando, 2011)

- Achievement of this vision requires the continuous effort of the next generation:

“There is the duty of the second generation too, of getting prepared for the challenge. And there is the duty of the third generation, which has the special responsibility of being very well prepared academically.” (personal communication, Fernando, 2011)

Other visions.

Three participants expressed visions that were a little different:

- Not to grow, but to stay alive:

“Right now, at this time, what we would like is to stay in business. Not to grow the business, because the truth is that the situation is very difficult right now.” (personal communication, Estela, 2011)

- Growing aggressively one of his businesses and being very conservative with the other:

“In the business of manufacturing of bus frames, I would like to grow exponentially. And in the transportation business, my vision is not to grow much, but to keep it as it is.” (personal communication, Jesus, 2011)

- Orderly splitting the current family business, creating smaller companies for different family members:

“I see that our families have grown, and some of us are living from some businesses and others are living from other businesses, but apparently we own everything and nothing.” (personal communication, Carlos, 2011)

Summary

The chapter started with an explanation of how the research was conducted, specifically noting that all the information collected had to be treated with complete confidentiality for protection of the participants.

In the next section of the chapter, the analysis of the cases was presented. First, two tables summarized the profile of the participants and of their businesses. And then a detailed description of each of the 10 cases was presented.

In the last section of the chapter the six research questions were answered based on the answers that the participants gave to the open-ended questions of the research instrument. For each research question the findings were grouped in common themes and

in many cases, the findings were followed by quotes from the participants to support the findings with empirical evidence.

Chapter 5: Summary and Conclusions

Introduction

The previous chapter presented the findings of the research by describing the characteristics of the respondents and by answering each of the six research questions of this study. This chapter starts with a summary of those findings. In the light of those findings, a series of important conclusions are offered. Then the implications of the study are presented. Finally a few considerations for future research are discussed.

Summary of Findings

In the previous chapter, the results were presented in a sequence consistent with the frequency of the findings observed. For example, the findings shared by most of the participants were presented first and the findings observed less were presented at the end.

In this chapter, the emphasis is in summarizing the finding and organizing them in a more coherent, thematic sequence, to make it easy to see the patterns that emerged from this comparative case study.

Main Findings on Research Question I

Research question I. How was the family business founded?

Findings. The companies were founded more than 40 years ago. Although each company was unique in the way it was founded, several common patterns emerged when comparing the beginnings of these firms:

- The founders struggled during the first years of the business.
- Their business remained micro—having fewer than 10 employees—for at least the first 15 years of existence.

- The founders needed and wanted to do something different from what they were doing, or to what their families expected from them.
- The founders were able to find the right partners.
- The founders were able to start their businesses and grow them because they created social networks of friends, relatives, customers, and suppliers who helped them along the way.

Main Findings on Research Question II

Research question II. What were the key events in the growth and expansion of your company?

Findings. All the participants mentioned that the beginnings of their family businesses were very difficult, but at the same time they expressed that it was much easier to start and to stay in business 40 years ago in Mexico than it is now. In their opinion, the following factors contributed to the growth of their parent's businesses in the early years:

External factors for early success.

- There was big demand for many products and services fueled by a growing population.
- There was small supply of products and services due to limited number of competitors.
- The options available to the customers were very reduced.
- There was no need to offer good quality or good customer service.
- Successful first entrants enjoyed good advantages such as big profit margins.

- Taxes were much lower.
- Government regulation was minimal.

Internal factors for early success. The charisma and trustworthiness of the founders helped them to get access to business networks with restricted access, such as transportation carriers and suppliers of scarce merchandise

- The entrance of the second generation was the key to leapfrog their businesses from micro-size (firms having fewer than 10 employees) to medium-size (firms having from 100 to 250 employees).
- The members of the second generation made a difference when they entered their parent's businesses, not because they added more hands, but because they added more brains. Their parents put them in charge of important areas of the company, and most of the times with enough authority and autonomy.

Main Findings on Research Question III

Research question III. How was the family business transitioned from the first generation to the second generation?

Findings. The participants commented about their early years in their parents' businesses. First they told stories about how they joined the family businesses, each of them in a different way, and with mixed emotions about those years. They also offered vivid details of the interaction with their parents and with their siblings. In summary, their stories mapped the succession process that each of their firms have gone through leading to the current state of ownership, leadership, and management of their companies.

Entrance of the second generation to the family business.

- The participants entered their parents' family businesses under different circumstances. One mentioned dropping out of school because he wanted to join the business as soon as possible. Another had to postpone his studies because of the sudden death of his father. Most of them were able to complete their studies first, and to fully join the business later. However, even when they were studying, the participants were needed in their family businesses, and for that reason a few of them who tried to study in other cities had to switch campus and relocate to a location where the family business had operations.
- The participants mentioned different strategies that their parents used to motivate them to join the business and different styles of grooming them, but most of the times the parents treated them more as partners than as subordinates.
- The participants experienced very different feelings towards their family businesses when they first had contact with them. The feelings expressed went from loving and liking the family business to not liking it, or even hating it.

Transfer of the family business to the second generation.

- In two cases, the succession process was accelerated by the early death of the founder. As a result, there were no planning activities oriented to groom or prepare the second generation. The successors got the top job in their early twenties. After several decades, they still share the ownership of the business with their siblings.

- In five cases, the succession was gradual. First, the participants and their siblings joined the businesses as they were reaching adulthood. Later, after their parents' death, they continued working in partnership with their siblings for a number of years. Most recently, they have split from their siblings keeping each of them a part of the original business.
- In two other cases, the succession is still an ongoing process because the founders are still alive and have not retired yet.
- In one case, the succession process has not started yet because the founder still has all the control and the authority of the business.

Main findings on Research Question IV

Research Question IV. What are the key events that have contributed to the family business success and current situation and how did they contribute?

Findings. Through their stories, the participants revealed the most important events that have shaped their business. Most of the participants focused on events that have contributed to the growth and current success of their organizations, but a few events that may have contributed to slow down or reverse growth were also mentioned.

Key events that have favored growth.

- Working in full partnership with the siblings in the early stages.
- Splitting from the siblings and creating separate companies when the third generation arrives, but still working together with the siblings in specific projects.
- Gaining the trust of suppliers and customers by meeting their expectations.
- Transitioning from being the only option to the customers to being the best option.

- Looking beyond traditional customers and markets.
- Occupying spaces created by the exit of weak competitors.
- Shutting down businesses when they are not profitable anymore.
- Gaining the loyalty of their parents' customers and of the children of those customers.
- Retaining key employees and managers.
- Diversifying, but in businesses closely related to the core business.
- Adapting to changes in macroeconomic and political events.
- Combining financing from financial institutions with financing from informal sources.
- Facing temporary adversity, but learning from the experiences and moving on.
- Working hard and supervising closely the most important aspects of the business, either personally or with the help of family members and trusted employees.
- Continuously refocusing the business in operations that add value.
- Implementing better systems to be more efficient and more productive.
- Bringing knowledge from outside the family business by having a member of the family personally working at a larger firm or by hiring external consultants.

Key events that have slowed down growth or reversed growth.

- Splitting the business among relatives and ending up with several smaller firms.
- Making risky bets.
- Being extremely conservative and risk averse.
- Using the business as a cash cow for a family with increasing financial needs.
- Third generation members that are not a good fit for the family business.

Main findings on Research Question V

Research Question V. What is the leadership style of the second generation owner of the family business? How does this style differ from the style of the founder?

Findings. The leadership styles of the participants were highly diverse, from the visionary who never got directly involved in the operations to the obsessive compulsive who needed to control every movement of each employee. The research assigned keywords to reflect the leadership styles of each participant based on their answers to the interview questions.

A comparison of the leadership styles of the participants with the leadership styles of their parents revealed interesting findings.

On one hand, the leadership styles of the founders were very similar. All of them were very entrepreneurial, good delegating, and not very good at implementing systems.

On the other hand, the leadership styles of the members of the second generation are all different. Some of them are very entrepreneurial, even more than their parents, others are very good implementing systems and delegating, and others are good guardians who want to make sure that everything stays the same.

Despite all the differences in the leadership styles of the participants, there were situations in which important similarities were detected.

Cross comparisons of leadership styles.

- Arturo and Carlos, with no college degrees, have initiated many ventures in different industries, most of which have been transferred to other family members.

- David and Fernando make decisions based on hard data, testing, and monitoring, and are good implementing systems, methods, and standards.
- Jesus and Manuel, both with engineering degrees, have a brother with an accounting degree who was chosen by their parents to be in charge of the family. This situation made them split from the family business to start their own business. Most recently, highly leveraged deals put financial pressure on them and made them sell part of their businesses. However, they are happy about the turn of events because now they feel more identified with the remaining part of their businesses.
- Gerardo and Pedro, both with law degrees, have more than doubled the size of their businesses, have improved the quality and age of their equipment, belong to transportation carriers where their partners follow their lead, and want to transition their transportation carriers from partnerships of separate owners to corporations.

Main findings on Research Question VI

Research question VI. How does the second generation owner expect to achieve his or her vision?

Findings. For most of the participants, the well-being of their families was the most important factor to consider when they formulated their visions.

The first vision repeatedly expressed was the future growth of the family business. The participants expressed their confidence in that this vision of growth can be achieved. The achievement of the vision requires the ability to:

- Adapt to changing market needs through research and development, innovation, and by creating or maintaining relationships with technological leaders.
- Transitioning their companies to more modern legal and organizational structures in order to: keep their businesses strong and competitive; limit their personal liability; and attract external sources of capital.

The other vision commonly expressed was the successful transfer of the family business to the next generation. The participants considered the following conditions necessary to achieve this vision:

- The adequate grooming and placement of the next generation family members.
- The continuous effort, from the next generation, to be prepared for the challenge ahead.

Conclusions

From the research discussed above, several conclusions have been drawn by the researcher.

Family businesses exist to serve the family of the owner. Family businesses are based on family ties, and family ties are usually stronger than any business-based ties and relationships. Small and medium-size family businesses exist to serve and support the family of their owners. The reason why non-family firms exist such as maximization of profits, maximization of shareholders value, satisfaction of customers' needs, and creation of employment, to name a few, are only means and not ends to reach the purpose of a medium-size family business.

All stakeholders related to family businesses should understand this dynamic. Even in the case of family businesses that make continuous efforts to work more professionally, in the absence of external non-family governance bodies, many of the most important decisions in a family business will be focused on achieving the goals that are believed to be the best for the family of the owner.

In addition, at least in the case of the cultural group researched, it appears that this focus on the family is reserved to the nuclear family and not to the extended family. In other words, sons and daughters will have preference over any non-family stakeholder in situations such as being promoted for a top management position. Members of the extended family should not expect the same preferential treatment, and even though nephews, uncles, or in-laws may benefit from easy access to the owner, this is only an early advantage that will not last. In the long-term, most members of the extended family will have to earn their place in the family business. In case of underperformance, the only ones who can expect tolerance from the owner are the sons and the daughters.

Male children are the preferred option for succession. In the cultural group researched, sons are groomed to be the future leaders of the family business and daughters are expected to be housewives, or relegated to office jobs when they participate in the family business.

During the sampling process, it was difficult to find women in charge of these types of family businesses, and during the interviews it was evident that none of the participants were considering any of their daughters as part their succession processes.

However, this situation may be also influenced by the industries in which the family businesses researched operate. Most of the workers employed by these companies

are blue-collar males, and the type of interactions and communications in place are for the most part rude, both in form and in language. In the cultural group researched, most fathers and mothers do not consider their family businesses an appropriate environment for women.

This finding may not be applicable to family businesses in other industries such as textiles or cloth manufacturing, which are also prevalent in the city where the research took place. However, the family businesses that operate in these industries in the city where the research took place have struggled in recent years due to intense international competition and it was not possible to find successful medium-size family businesses in these industries with more than 30 years of existence.

The best niches for medium-size businesses are in unglamorous industries.

The best niches to create successful non-large family businesses are usually unglamorous industries. Successful medium-size family firms usually operate in non-appealing locations.

Another characteristic of these unglamorous industries is that they can only be operated successfully by local companies. Global competitors may not be interested in these industries. For example, transportation requires having the vehicles local, and in the case of retail, knowledge of local tastes and continuous adjustment to those tastes can be very advantageous, especially with products such as the type of food sold by Carlos and the type of building materials sold by David and Estela.

In the city where the research took place, the stereotypical glamorous family business owner was a manufacturer of clothes and owned vineyards. However, as a result

of the process of globalization, most of the local family firms in these industries have gone out of business.

Paradoxically, the family businesses that have survived operate in industries and occupations that most of the rich people in the city where the study took place used to consider as second-class, lower status activities. Today, the status scale has been inverted. Globalization is a new reality that all entrepreneurs and business owners have to consider to be successful in their industries.

Successful leaders can have different leadership styles. Owners with different leadership styles and personality traits can be successful managing and leading medium-size second generation family firms.

For the most part, the participants of this study exhibited characteristics that did not have much in common when compared to each other. A few commonalities were observed, but in general the correlation observed was low.

It can be concluded that many different leadership styles can be successful managing and leading medium-size second generation family businesses. There is not “the way” or “the best way”. There are many ways.

On the other hand, it appears that the background, personality traits, and leadership style of the owners may have an important influence in shaping the cultures and organizational structures of their firms. Although it cannot be concluded from this study, it is possible that the selection of certain organizational structures may determine whether a firm can keep growing or stays stagnant.

The next generations have to be well prepared. It is important that the members of the second generation and of the third generation have an adequate formation that

combines a degree in higher education with practical experience in the industry in which their family businesses operate.

There are going to be trade-offs in this process depending on which decisions are made. For example, previous to starting this research, there was the expectation from the researcher and from his advisor that some of the participants were sending their children to study at universities in foreign countries or at least in the largest metropolitan cities of Mexico. However, most of the observations reflected that the owners prefer to have their children close to them and to involve them in the family business early in their lives.

Globalization creates new challenges. Globalization has been a determinant factor in the fate of the family firms located in the city where the research took place.

Most of the business owners who participated in this study own companies that operate in industries that have been for the most part isolated from international competition. For example, the Mexican transportation companies have not been forced to compete against powerful foreign companies. The reason is that, for the most part, the transportation of people and merchandise in Mexican freeways is an activity reserved to Mexicans. NAFTA allows Canadian and American companies to operate in Mexico, but at least one participant in this study mentioned that the Canadian and American companies have not been able to compete with the Mexican companies.

In the case of retail companies, there are products that may be easier to commercialize for local companies than for big multinational companies. At least one of the participants mentioned that so far the big multinational companies have not competed directly with him for the same customers and markets.

Only one participant is engaged in a business that competes with the best global companies. So far, he has been able to compete successfully operating in very specific market niches and using leading edge technology.

It is important that entrepreneurs and business owners can understand the dynamic of the industries in which they operate. They should try to stay in industries in which their country has a competitive advantage.

Implications

Implications for business owners. When considering starting a new business, business owners and entrepreneurs should look for those underserved niches that offer the greatest potential. Following the crowd may be the most appealing option when deciding what type of business to start, but for long-term ventures, a contrarian approach may work better—for example, getting into unglamorous industries in which stronger competitors prefer not to operate.

The economic conditions where entrepreneurs emerge may take different forms, but all of them have in common: shortage of supply; high demand for a product or service; and weak competition (Ward, 1987). For the entrepreneur, the challenge is to identify these opportunities.

When the business is already running and growing, the next challenge is to create the networks of customers, suppliers, employees, and sources of financing that are needed to operate the organization.

The following step should be the implementation of modern systems and technologies to keep aligned the resources of the organization and to increase their efficiency. This process will allow the firm to thrive and survive even in the face of more

aggressive competitors, more demanding customers, and stricter regulations, situations that sooner or later the firm will experience. Many family firms, even firms that had been in operations for many years, fail because of their inability to continuously implement these modern systems and technologies.

In terms of the succession process, owners of small and medium-size family firms may experience the need to keep their children close. This situation apparently increases the probabilities that the children will stay in the family business, but at the same time it limits the potential for bigger growth that the family business could experience if the successors were given the chance to study in a foreign country or to work in a bigger company. The risk of the latter approach is that once a child is exposed to new experiences, he or she may not want to come back home. Parents should work together with their children in the design and implementation of succession processes. This approach may give the children the opportunity to explore the world and still have an incentive to return to the family business.

Implications for employees. Employers working in family firms can also learn from the opinions expressed by the owners of these types of companies. There are pros and cons of working for family firms.

Among the pros is that many business owners consider their most loyal employees as part of their extended family. There are many perks associated with this belief. One of them, continuously mentioned by the participants, is that the owners are willing to offers help in case of financial need. Salaries and employment benefits may not be very good, but knowing that the owner is going to come to the rescue in an emergency offers good psychological insurance for many employees.

Another advantage is the possibility of long-term employment. Most of the participants mentioned that the foundations of their businesses rest in a few long-term trusted employees. For example, in a non-family owned organization, a certain employee may be a trusted collaborator to the leader, but when the leadership of the organization changes, that employee may no longer be in good terms with the new leader, with the risk of being relegated, transferred, or even terminated. In the case of the family business, the leader is going to be always the same, at least during a generation.

Among the cons, one of the most important is that nuclear family member will have preferential treatment in many situations. Therefore, when considering long-term employment in a family firm, it may be better to have the expectation that there will not be many promotions above middle managements positions. Actually, the higher the position a non-family member has in the organizational hierarchy of a family firm, the higher the chances of losing the job or being demoted when the next generation arrives.

Negotiations regarding salary and employment benefits may also be tough in family businesses because any concession affects directly the pocket of the business owner.

Implications for business schools. Textbooks usually are based on the documentation of practices and experiences that occur in big organizations. This approach is correct because these large organizations tend to be the leaders in the application of best practices. However, because of this approach, students may have little exposure to the situations in which medium-size family firms operate. Professors should compensate for this deficiency by inviting business owners to the classroom to share their experiences and by organizing study trips to family businesses. Academic programs in

entrepreneurship, management, and leadership should also include in their curricula a few assignments requiring the students to go online to read research papers in topics related to leadership, management, and ownership issues on family businesses of all sizes.

Limitations of This Study and Recommendations for Future Research

The first important limitation of this study is that it was restricted to a small geographical location, and the findings cannot be generalized to other geographic locations. Future research may use similar methodology to conduct other comparative case studies in other parts of Mexico or in other parts of the world. In addition, the findings obtained from more than one geographic location can be compared to see if common patterns emerge across geographic locations.

The second important limitation of this study is that it was based only in the opinions of the second-generation owners of the family businesses. There is room for additional research looking at the opinions of other stakeholders in family businesses such as employees, managers, customers, or suppliers. In addition, other studies may focus on other members of the family such as spouses, children, or members of the extended family.

The final important limitation of this study is the qualitative nature of the research. It would be useful to conduct parallel quantitative studies, where hard data can be used to compare how close the opinions of the participants are to the actual facts.

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APPENDIX A

Form of Informed Consent

Consent Form Used with a Waiver or Alteration of Informed Consent

Dear Participant:

My name is Gonzalo Gonzalez-Serna, and I am a student in the Doctoral Program in Organizational Leadership at Pepperdine University, Graduate School of Education and Psychology, who is currently in the process of recruiting individuals for my study entitled, “**Leadership and management in second generation medium-size family businesses.**”

The professor supervising my work is Dr. Jack McManus.

The study is designed to obtain in-depth knowledge, from a group of business owners, of their experiences and points of view with regards to the management and leadership of their firms, in order to establish common patterns, while also identifying distinctive characteristics that may have contributed to the success of their companies. I am inviting individuals who are successful second generation owners of medium-size family businesses to participate in my study.

Please understand that your participation in my study is strictly voluntary. The following is a description of what your study participation entails, the terms for participating in the study, and a discussion of your rights as a study participant. Please listen to this information carefully before deciding whether or not you wish to participate.

If you should decide to participate in the study, you will be asked to answer in detail twelve questions. It should take approximately one hour to complete the interview.

Although minimal, there are potential risks that you should consider before deciding to participate in this study. There are not known risk that may be caused by the interview process itself but a potential indirect risk may exist if your identity is revealed and other people use your answers to try to harm you or people close to you. To minimize this risk, a fictitious name will be used to identify you throughout all the research process instead of your actual name.

You will not receive direct benefits for participating in the study. You may benefit indirectly after the investigation is completed by looking at the findings of this research. I plan to have a brief summary of the study findings in about 1 year. If you decide you are interested in receiving the summary, please let me know.

If you should decide to participate and find you are not interested in completing the interview in its entirety, you have the right to discontinue at any point without being

questioned about your decision. You also do not have to answer any of the questions that you prefer not to answer.

The interview will be audio recorded. After completion, the contents of the interview will be transcribed by me. To further protect your identity, no other person will have access to the audio recording materials but me. After transcribing the interview, I will proceed to translate it to English. A panel of two experts will review the translation to improve the accuracy. All my analysis will be conducted using the English translation of the interview.

If the findings of the study are presented to professional audiences or published, no information that identifies you personally will be released. The data will be kept in a secure manner for at least three years, at which time the data will be destroyed.

If you have any questions regarding the information that I have provided above, please let me know. If you have questions about your rights as a research participant, contact:

Dr. Yuying Tsong, Ph.D.
Interim Chair, Graduate and Professional Schools IRB
Pepperdine University
Graduate School of Education and Psychology

By completing the interview, you are acknowledging that you have listened and understand what your study participation entails, and are consenting to participate in the study.

Thank you for taking the time to listen to this information.

Sincerely,

Gonzalo Gonzalez-Serna
Graduate Student at Pepperdine University

APPENDIX B

Form of Informed Consent (Spanish Version)

Consent Form Used with a Waiver or Alteration of Informed Consent (Spanish version)

Estimado participante:

Mi nombre es Gonzalo González-Serna, y soy un estudiante del Programa de Doctorado en Liderazgo Organizacional en la Universidad de Pepperdine, Escuela de Postgrados en Educación y Psicología, quien en estos momentos estoy en el proceso de reclutar individuos para mi estudio titulado, “**Liderazgo y administración en empresas familiares medianas de segunda generación.**”

El profesor que supervisa mi trabajo es el Dr. Jack McManus.

El estudio está orientado a obtener conocimiento profundo, de parte de un grupo de dueños de negocios acerca de sus experiencias y puntos de vista en relación a la administración y el liderazgo de sus empresas, para establecer patrones, y a la vez identificar características únicas que pudieran haber contribuido al éxito de sus compañías. Estoy invitando a individuos a participar en mi estudio a individuos que han tenido éxito como dueños de negocios familiares medianos de segunda generación.

Su participación en este estudio es completamente voluntaria. A continuación le describiré lo que su participación en este estudio lleva consigo, los términos de la participación en el estudio, y una explicación de sus derechos como participante en este estudio. Por favor escuche con cuidado la información siguiente antes de decidir si desea participar o no.

Si usted decide participar en el estudio, se le pedirá que responda en detalle a doce preguntase. La entrevista durará una hora aproximadamente.

Aunque pocos, existen algunos riesgos que usted debe considerar antes de decidir si participa en este estudio. No se conoce de riesgos que puedan serle causados por el proceso de la entrevista en sí, pero existe el riesgo indirecto si se revela su identidad y otra gente usa sus respuestas para tratar de hacerle daño a usted o a gente cercana a usted. Para minimizar este riesgo, a usted se le asignará un nombre ficticio el cual será usado a través de todo el proceso de investigación en lugar de su nombre real.

Usted no recibirá beneficios directos por participar en este estudio. Usted pudiera recibir beneficios indirectos cuando la investigación haya sido concluída leyendo los resultados de la investigación. Pienso tener un resumen de los resultados del estudio dentro de un año. Si usted decide que está interesado en recibir este resumen, por favor hágamelo saber.

Si usted decidiera participar y se da cuenta de que no quiere completar la entrevista completa, usted tiene el derecho de interrumpir y terminar la entrevista en cualquier momento sin tener que darme explicaciones. Asimismo, puede no contestar las preguntas que no quiera.

La entrevista será audio grabada. Una vez terminada, yo voy a poner por escrito el contenido de la grabación. Para mayor protección de su identidad, ninguna persona que no sea yo tendrá acceso a las grabaciones. Después de poner por escrito la entrevista, procederé a traducirla. Un panel de dos expertos bilingües revisará las traducciones para verificar que la traducción sea lo más exacto posible. Todos mis análisis serán hechos basándome en la traducción en inglés de la entrevista.

Si los resultados se llegaran a presentar a audiencias profesionales o fueran publicados, ninguna información que lo identifique a usted será revelada. Los datos se guardarán de una manera segura por lo menos por tres años y serán destruidos al término de ese período.

Si tiene alguna pregunta en relación a la información que acabo de darle por favor hágamelo saber. Si tiene preguntas acerca de sus derechos como participante en la investigación, por favor contacté a:

Dr. Yuying Tsong, Ph.D.
Presidente Interino, IRB de Escuelas Profesionales y de Postgrado
Universidad de Pepperdine
Escuela de Postgrados en Educación y Psicología

Por el hecho de que usted complete la entrevista, usted acepta que escuchó y entendió lo que su participación en este estudio conlleva, y que usted consintió a participar en el estudio.

Gracias por el tiempo dedicado a escuchar esta información.

Atentamente,

Gonzalo González-Serna
Estudiante de Postgrado, Universidad de Pepperdine

APPENDIX C

Interview Protocol

Date and time of the interview: _____

Interviewee fictitious name: _____

I. Introductory comments:

1. Thank the participant.
2. Explain the process including recording of the interview.
3. Read the contents of the confidentiality letter.
4. Proceed with the interview.

II. Questions:

1. When did your parent start the business?
2. What was the original product or service?
3. What were the key factors that contributed to the expansion of the business in the early years?
4. How did you start working in the family business? In what roles?
5. How did you grow in responsibility and authority?
6. How did your parent step out and you step in? Was it a process, a sudden event, or a combination of both?
7. What have been the key events (negative or positive) in the family business during your tenure?
8. How would you describe your leadership style?
9. Do you consider yourself more entrepreneurial, as your parent, or more management oriented?
10. What is your vision for your company?
11. How do you see your company 10 years from now?
12. What needs to be done to get your business there?

III. Closing:

1. Ask the participant if there is something else he or she would like to add or ask.
2. Thank the participant.

APPENDIX D

Interview Protocol (Spanish Version)

Fecha y hora de la entrevista: _____

Nombre ficticio del entrevistado: _____

I. Introducción:

1. Agradecer al participante.
2. Explicar el proceso, incluido el hecho de que la entrevista va a ser grabada.
3. Leer el contenido de la carta de confidencialidad y preguntar si acepta.
4. Proceder a la entrevista.

II. Questions:

1. ¿Cuándo inició su papá (o mamá) el negocio?
2. ¿Cuál era el producto o servicio ofrecido originalmente?
3. ¿Cuáles fueron los factores clave que contribuyeron a la expansión del negocio en los primeros años?
4. ¿Cómo comenzó usted a trabajar en el negocio familiar? ¿En qué roles?
5. ¿Cómo comenzó a crecer su responsabilidad y autoridad?
6. ¿Cómo se salió su papá (o mamá) y quedó usted a cargo? ¿Fue un proceso, un evento repentino, o una combinación de ambos?
7. ¿Cuáles han sido los eventos clave (negativos o positivos) en el negocio familiar durante el tiempo que usted ha estado al frente del negocio?
8. ¿Cómo describiría su estilo de liderazgo?
9. ¿Se considera usted más emprendedor, como su papá (o mamá), o más gerencial?
10. ¿Cuál es la visión que usted tiene para su compañía?
11. ¿Cómo ve usted su compañía dentro de diez años?
12. ¿Que tiene que hacerse para llegar allí?

III. Cerrar la entrevista

1. Preguntar al participante si hay algo que quisiera agregar o preguntar.
2. Agradecer al participante.

APPENDIX E

Instrument Validation Review

Date

Name

Dear Dr. Expert,

First, I would like to express my gratitude for your generosity and willingness to serve as an expert panel member and assist establishing validity related to my dissertation research and interview questions.

The focus of my study is to obtain in-depth knowledge, from a group of business owners, of their experiences and points of view with regards to the management and leadership of their firms, in order to establish common patterns, while also identifying distinctive characteristics that may have contributed to the success of their companies.

The participants are second generation business owners of medium-size firms started by their parents at least 30 years ago. In addition, the participants have been working in their businesses for more than 20 years. Currently, the participants have ownership in their businesses and are the top managers of their companies.

Based on your expertise, I am requesting that you evaluate the interview questions of my data gathering instrument in relation to the research questions of my study to tell me whether they will accomplish the goal of gaining the desired information.

Please indicate your responses on the attached review form selecting, for each of the interview questions, one of the two possible options: accept (YES) or accept (NO). In the case you choose accept (NO), please write your suggested modification in the space provided. After completing your assessment, please sign it and return it to me at your convenience.

Sincerely,

Gonzalo Gonzalez-Serna
Doctoral Student

Instrument Validation Review

Research Questions	Data Gathering Instrument Questions
1. How was the family business founded?	1. When did your parent start the business? 2. What was the original product or service?
2. What were the key events in the growth and expansion of your company?	3. What were the key factors that contributed to the expansion of the business in the early years?
3. How was the family business transitioned from the first generation to the second generation?	4. How did you start working in the family business? In what roles? 5. How did you grow in responsibility and authority? 6. How did your parent step out and you step in? Was it a process, a sudden event, or a combination of both?
4. What are the key events that have contributed to the family business success and current situation and how did they contribute?	7. What have been the key events (negative or positive) in the family business during your tenure?
5. What is the leadership style of the second generation owner of the family business? How does this style differ from the style of the founder?	8. How would you describe your leadership style? 9. Do you consider yourself more entrepreneurial, as your parent, or more management oriented?
6. How does the second generation owner expect to achieve his or her vision?	10. What is your vision for your company? 11. How do you see your company 10 years from now? 12. What needs to be done to get your business there?

Please select one option for each interview question below:

Research Questions	Interview Questions	Accept?		Modification
		YES	NO	If you answered NO, please restate the Interview Question
1	1			
1	2			
1	3			
2	4			
2	5			
2	6			
3	7			
4	8			
4	9			
5	10			
5	11			
5	12			

Name

Signature

Date