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Social capital of family firms and organisational efficiency: theoretical proposals for a transmission model through bureaucratic costs

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Abstract

Recent studies have highlighted the specificity of the family business, with particular focus on the perspective of its social capital arising from the interpenetration of the private (the family) and the professional (the organisation) spheres. We have extended these studies to provide a theoretical framework explaining how this social capital can lead to greater organisational efficiency. Here is a "missing link" in the literature on family business. After demonstrating how this mechanism works, we develop our analysis around two main sources of variation: the size of the company and the generation involved - factors that tend to evolve over time. We thus argue that the dilution of the family in the ownership and management of the business, and an increase in the number of actors and possible divergent interests, can handicap the family business in the long term with respect to organisational efficiency and can reduce its capacity for survival compared to a non-family business.

Key words: family business, social capital, bureaucratic costs, model of efficiency

INTRODUCTION

Family businesses are the oldest form of business organisation (Gersick et al. 1997; Bienaymé, 2009), and while this type of organisation continues to hold a key place in all economies (IFERA, 2003; Chrisman et al., 2004; Fogel, 2006; Combs et al., 2010; Nordqvist and Melin, 2010; Sharma and Sharma, 2011), statistics also show that many family businesses disappear, if they are not simply absorbed by large and non-family firms or forced to change their status to non-family businesses (Lin and Hu, 2007; Litz, 2008). Lester and Cannella (2006) noted how the lifespan of family firms is far from smooth: two-thirds fail in the transition to the second generation, their growth rate is low, they often display vulnerability and inertia when it comes to decision-making, and they can easily be victims of predatory managers or subject to high agency costs.

Despite the importance of the subject, as Schulze et al. (2002) noted, studies on family governance have long been ignored. Underpinned by the theory of agency, the argument of the alignment of interests between managers and owners certainly offered an initial theoretical basis to explain the advantage of family-based organisations (Villalonga and Amit, 2006). However, the recent literature on family governance issues has tended to move away from the position that a business both owned and managed by the same individuals presents a structure devoid of conflicts of interest between owners and managers as they are the one and the same (Jensen and Meckling, 1976; Daily and Dollinger, 1992). In effect, there is general agreement nowadays that the family-based structure can lead to conflicts of interest between the more influential family and the other owners (Combs et al., 2010), that it can be prone to both altruism and nepotism (Lubatkin et al., 2003; Chrisman et al., 2012) and that, as a result, a family-based structure can generate additional agency costs (Schulze et al., 2002; Chrisman et al., 2004; Lester and Cannella, 2006). In addition to these sources of malfunction, the needs, attitudes to risk and family priorities may change significantly as the business grows, or following a transfer from one generation to the next (Miller et al., 2007; Molly et al., 2011).

The resurgence of interest in family business research in recent years initially focused on gaining clearer insights into the specific nature of family businesses (Arregle et al., 2004), followed by the need to go beyond the over-simplified and largely unrealistic vision of the family, considered as a static, monolithic and homogeneous decision-making entity (Schulze et al., 2002; Chrisman et al., 2004; Lin and Hu, 2007). The family firm has to deal with a number of challenges that include maintaining the balance between keeping its control in family hands and bringing in talented managers, reconciling economic and non-economic goals over time, introducing original governance systems for innovation purposes, and the need to draw maximum value from the social capital that exists between the family members (Chrisman et al., 2011).

To this end, some studies have attempted to capture the specific nature of family businesses through the lens of social capital (Arregle et al., 2003; 2004 and 2007; Pearson et al., 2008; Gedajlovic and Carney, 2010). The main idea behind these studies is that interpenetration between the private (the family) and professional (the organisation) spheres creates a form of social capital that differs from other organisations. However, while some studies have mentioned the potentially negative aspects of family business social capital, more emphasis has been placed on the positive aspects of this asset (Lester and Cannella, 2006; Gedajlovic and Carney 2010). Arregle et al. (2004) therefore called on scholars not to neglect the negative aspects of social capital and to identify the contexts and conditions in which it is linked to the (good or poor) performance of family businesses. Moreover, since several factors are likely to affect the relationship between the family's involvement and the company's performance (Chrisman et al., 2012), especially following issues linked to growth and succession in family businesses (Allouche and Amann, 2000; Nordqvist and Melin, 2010), several of today's scholars suggest focusing on a better understanding of the difficulties experienced by family businesses in managing their growth as well as the impact of intergenerational transmission (Anderson and Reeb, 2003; Miller et al., 2003; Chrisman et al., 2004; Villalonga and Amit, 2006; Miller et al., 2007; Rutherford et al., 2008; Nordqvist and Melin, 2010; Molly et al., 2011; Chrisman et al., 2012).

In this context, our paper puts forward a coherent theoretical framework on the efficiency of family businesses, which includes both facets (positive and negative) of social capital directly linked to the challenges of growth and succession experienced by many family firms. We attempt to develop the following points: (1) we explore the theoretical insights into how family social capital impacts on the organisation's everyday operations and attempt to find the 'missing link' in the literature on family business governance, in other words, to identify the mechanism behind the transfer of social capital from the private (the family) to the professional sphere (the company); (2) we add more nuance to this basic model that takes into consideration the diversity of family firms in the light of growth and succession issues that many of them experience; (3) finally, we seek to initiate a strategic debate that includes the potentially negative effects of family social capital.

Consequently, we develop a streamlined analytical framework that links the specific factors related to family social capital with the organisational efficiency linked to organisational cost savings that can be made through the latter. In other words, we look at the issue of family social capital efficiency, through the lens of transaction cost economics (Masten et al., 1991, Williamson, 1991).

Our approach consists of firstly establishing this relationship with respect to a 'simple' case, namely, family businesses where most of the management roles are held by family members, which generally means small-scale firms that have not yet had to deal with intergenerational transfer issues, in other words, mainly businesses managed by the founder. We then develop our analysis according to two principle sources of variation, in other words, the size of the company and the generation involved[1]. Both of these factors tend to evolve over time.

Our theoretical approach includes the following stages: firstly, underpinned by an analytical framework inspired by the new institutional economy, we examine how predominately family-based social capital is likely to impact on opportunism and the risks of agency errors and, consequently, on the organisational costs incurred for the coordination and control of internal transactions. This diffusion mechanism informs the channel by which private relations in a family sphere impact on the way the organisation is run. After defining the diffusion mechanism, we can then analyse the savings on bureaucratic costs

1. Other sources of variation exist, notably family-related variations such as family conflicts, divorce, physical distance between family members who have become more autonomous, etc., which can have a negative impact on the organisation. Here, we focus on the organisational sphere with respect to the firm's size and the generation involved and, in particular, the challenges experienced by family firms with regard to growth and succession.

in family firms due to the family social capital. In the third stage, we investigate the variation in these effects by introducing factors reflecting disparities (size and succession). Based on the idea that the involvement of the family offers temporary advantages in the first stages of a firm's development (Chang et al. 2008; Ward, 1987), we show how factors linked to an increase in the firm's size or the number of generations involved would appear to reverse the cost savings effects of family social capital on bureaucratic costs. Finally, in the conclusion, we demonstrate how this theoretical approach can take us beyond the static vision of an advantage based on social capital and give rise to the proactive management of certain challenges arising from growth and transmission between generations.

PRINCIPLE OF DIFFUSION OF SOCIAL CAPITAL IN FAMILY FIRMS

In this first section, we present the underlying concepts of our model, in other words, the family firm, bureaucratic costs and family social capital. We then describe in detail the principle that links these concepts. We explain the development of an advantage for family firms in relation to this link. In other words, we attempt to demonstrate how family social capital enables such organisations to economise on their bureaucratic costs.

Basic concepts

Family firms. The exact definition of family businesses remains subject to debate within the academic community. Leaving plenty of room for manoeuvre, some authors have put forward definitions that are wide enough to determine the family's influence on the firm. Miller and Le Breton-Miller (2005), for instance, consider a family firm to be a business where the family controls most of the ownership interest or voting rights, and one or several of the family members hold key management positions. Other studies have tried to establish criteria through the lens of social capital specific to family businesses (Arregle et al., 2003; 2004; 2007). To this end, Arregle et al. (2007), in line with Litz (1995)'s definition of family firms, consider that a company is a family business if (1) its ownership interests and management are concentrated within a family unit, (2) its members endeavour to construct and/or maintain intra-organisational relations based on the family and (3) the unit disposes of substantial family-based social capital. The main concept behind these studies is that the interpenetration between the private (the family) and professional (the organisation) spheres lead to organisational social capital which differs from other firms and, as a result, the influence of the family on the organisation's management is potentially advantageous for the business as a whole. As we will see later, this advantage can be understood in terms of bureaucratic cost savings.

Bureaucratic costs. Symmetrical to transaction costs, which may be considered as all the costs involved in operating within the market system (Arrow, 1969), bureaucratic costs are understood as the firm's day-to-day operational costs (Williamson, 1991 & 1994). Since these bureaucratic costs are central to our discussion on the advantages linked to specific family-related factors, we need to dissect this complex notion in more detail. To this end, we examine the distinction between 'coordination costs' and 'measurement costs', in line with work by leading economists in the field (Williamson, 1985; Barzel, 1982).

First, coordination costs cover all the costs met by the organisation to ensure its economic activity (Coase, 1937). Coordination costs may be broken down into four sub-categories, although the different components constantly interact (Williamson, 1985). The first category concerns the costs to define an organisational mechanism, in other words, all of the costs necessary to define and explain the internal processes, communication channels and decision-making rules. The second category concerns first, the issue of lack of incentives which, when it occurs in the organisation, requires collective asset management, and second, reduced effort with respect to the principle of maximisation, which implies an individual assessment of costs and benefits (Williamson, 1985). The third category of bureaucratic coordination costs concerns the organisational management costs required to implement, follow and adjust the organisational mechanisms defined (Masten et al., 1991). Finally, the fourth type of coordination bureaucratic cost concerns the issue of 'clemency' in the organisation, in other words, the propensity of (family) firms to tolerate mistakes and poor performance by the staff or, at the very least, not to treat all issues solely from the standpoint of maximisation[2].

Secondly, in addition to these coordination costs, organisations incur 'measurement costs' (Barzel, 1982; Eisenhardt, 1985) linked to the difficulty of estimating the value of an asset or the performance of an agent. In effect, collectivisation within organisations is likely to lead to distortions in the allocation of available resources and, consequently, inefficiency. As a result, economic agents in organisations also incur substantial structural costs to limit and remedy the malfunction. Two sub-categories, which also interact, are especially relevant here. The first concerns the "evaluation costs of individual productivity" (Jensen and Meckling, 1976) since, in a collective system of joint profits, it is difficult to determine each individual's contribution to the overall production (Ouchi, 1980). The second category of measurement costs is called "costs of influence," in other words all of the costs linked to a loss of efficiency in the way resources are allocated, especially when agents can manipulate information to their own benefit (Milgrom and Roberts, 1992).

In short, these different bureaucratic costs are proportional to individual risks of error, opportunism and the loss or the expropriation of wealth that can emerge within a firm. Family social capital has an especially strong impact on the level of these bureaucratic costs.

Family social capital. Social capital is defined as the characteristics of the social organisation, such as networks, norms and trust, which can increase efficiency by promoting coordinated actions (Putnam, 1995). In management terms, family social capital is the social capital that develops between the family members, especially within family firms (Arregle et al., 2007). Thus, the specificity of family firms is based on the unique coexistence of two forms of social capital: that of the company, which belongs strictly to the economic sphere, and that of the family, which, on the contrary, belongs to the private sphere (Arregle et al. 2003, 2004, 2007). The dimension of a firm's social capital involves the commercial relations with the different stakeholders, the employees, suppliers, customers, creditors, etc., while that of family social

2. As Oliver Williamson wrote (1994, p.185, back-translated by us here); "While extreme market results may be accepted as a question of chance, governance actions are interpreted by all the parties affected (…) as choices based on merit. For the internal organisation, this implies substantial costs in terms of fair proceedings. A plausible case is not enough. The preponderance of proof is necessary if heavy penalties are to be imposed."

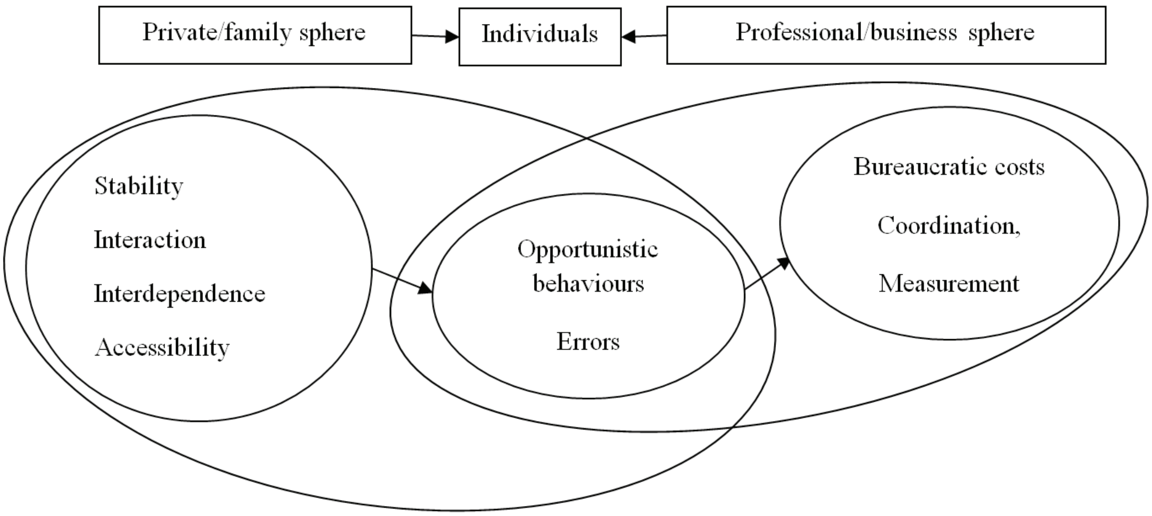
capital concerns all the knowledge, know-how and practices, and all the social values, beliefs and behaviours adopted by the family group (Hirigoyen, 2009).
According to Arregle et al. (2007), four factors determine the permeability from the private sphere to the professional sphere in family businesses: 1) the stability of the network over time, which promotes the emergence of strong social relations; 2) the interactions between family members, which contributes towards the development and preservation of mutual obligations between individuals; 3) the interdependence between family members that binds them together and gives value to a collective patrimony (Coleman, 1990); and 4) accessibility (or the "closed-loop"), which is naturally regulated and defined by the social rules of membership to the community (Coleman, 1988).
These four factors enable the firm to use the family network social mechanisms in order to adapt, coordinate and protect exchanges (Jones et al., 1997), and to apply sanctions when rules are violated if necessary (Williamson, 1996). The degree of family social capital within a firm is subject to two conditions that we find in the defining criteria mentioned above: i.e., a condition of power with respect to the family's predominance in terms of ownership, and a condition of involvement linked to management control by family members. On the one hand, the greater the family's involvement in the firm's ownership and management, the greater its influence in the company's strategic decision-making. On the other hand, the more key posts are held by family members, the greater the latter's potential influence in the firm's operational choices. This dual influence gives rise to a specific form of management; thus, remuneration practices, for example, and, more generally, employment policies may be decided and modified by the family members, reflecting their values and norms (Arregle et al., 2007). Consequently, the level of family social capital can help us to differentiate family businesses according to the degree of family influence. On one side are the firms that are entirely under the family's influence, where there is complete superposition of the private sphere over the organisational sphere, and where ownership and management are exclusively in the family's hands. On the other side, there are firms with no family influence, where, on the contrary, the family social capital fades into the background with a governance model based on the clear separation between ownership and management. Accordingly, Chrisman et al. (2012) argued that it is the association between ownership, management and family governance which gives a family the power and legitimacy to influence a firm's objectives.

Principle of transmission of family social capital towards the organisation's bureaucratic costs.

At present, without seeking to 'family-orient' non-family firms,[3] we can define a family influence mechanism on a business through the family social capital, and assess the effects of the interpenetration factors between the private and professional spheres on the bureaucratic costs.
As illustrated in Figure 1, we can thus postulate the general principle that by

3. Other sources of variation exist, notably family-related variations such as family conflicts, divorce, physical distance between family members who have become more autonomous, etc., which can have a negative impact on the organisation. Here, we focus on the organisational sphere with respect to the firm's size and the generation involved and, in particular, the challenges experienced by family firms with regard to growth and succession.

Figure 1. Interpenetration of private and professional spheres and transmission of family social capital in the business



regulating opportunistic behaviour and the risks of error by individuals, the structural factors that underpin family social capital will influence bureaucratic costs. This principle of diffusion is based on the interpenetration between the private and professional spheres, which is specific to family businesses and which we believe occurs via the individuals who belong to the family and are also involved in the ownership and management of the firm. [4]

4. For more details, Litz (2008, p. 220) identifies four dimensions that take into consideration the different ways that families influence firms and vice versa, i.e., scope (diversity of inter-system transfers), scale (size of transfers), sign (contribution to the welfare of its members or its interests) and singularity (related to the degree of complexity of transfers between the sub-systems).

BUREAUCRATIC COST REDUCTION MECHANISMS

Having established the principle of diffusion of family social capital towards organisational efficiency, we can pursue this line of reasoning by analysing how this influence is exercised. The analysis enables us to assess how factors of stability, interaction, interdependence and accessibility reduce bureaucratic costs by reducing opportunism and the risks of agency errors.

Stability and interactions

The network's stability and the interactions between different members of the family network result in an intensive sharing of practice and experiences. This sharing is all the more frequent in that, compared to non-family structures, family firms foster strong and long-term social relations arising from the private sphere. These relations underpin the "pooling of knowledge" which facilitates the transfer of each of the member's individual know-how to a collective know-how within the organisation. Stability is an important factor in this respect, as this knowledge constitutes a resource which is created and develops over time (Nordqvist and Melin, 2010). Moreover, the interactions which contribute to the development of mutual obligations further the creation of an identification process within the firm. Identification is the process by which the members consider themselves and others as belonging to a same group (Nahapiet and Ghoshal, 1998). This enables the organisation to avoid errant individual actions that work against the group's expectations. It also promotes knowledge-sharing, apprenticeship and knowledge creation (Nahapiet and Ghoshal, 1998). In this way, the stability of the family network, which facilitates the pooling of knowledge and identification, reinforces trust and fosters interpersonal cooperation.

The operational principles rooted in a family network also reduce the need to formalize the organisation's processes. Frequent family contact limits discussions and negotiations in the organisational setting. This contact facilitates the tacit use of processes through the introduction of norms created by the family. Management practices can therefore be more flexible (Goffee and Scase, 1985; Poza et al., 1997) and decision-making faster, which in turn increases the firm's efficiency (Goffee and Scase, 1985; Tagiuri and Davis, 1996; Ward, 1997a). Compared to a non-family business, the stability of the network and the interactions between the members reduce the need to define and explain the internal processes or to determine communication channels and decision-making rules. They also reduce the risk of error and individual rogue actions, without the organisation needing to introduce more explicit and formalised coordination processes. In short, both stability and interaction reduce coordination costs.

On the basis of these arguments, the following proposal can be formulated, all other things being equal:

Proposal 1 Family-related factors of stability and interaction help to reduce the firm's coordination costs

Interdependence and accessibility

The interdependence of family stakeholders and the conditions of access to the firm reserved for the family give rise to a community of interests through the development of a shared capital, as group interests come before individual interests (Ouchi, 1980; Fukuyama, 1997; Allouche and Amann, 2000). This interdependence reduces the risk of expropriation of the common wealth by some family members and, in turn, reinforces trust and adhesion to the group values and norms, all of which limit opportunistic behaviour (Ouchi, 1980; Nahapiet and Ghoshal, 1998; Sirmon and Hitt, 2003; Steier, 2001).

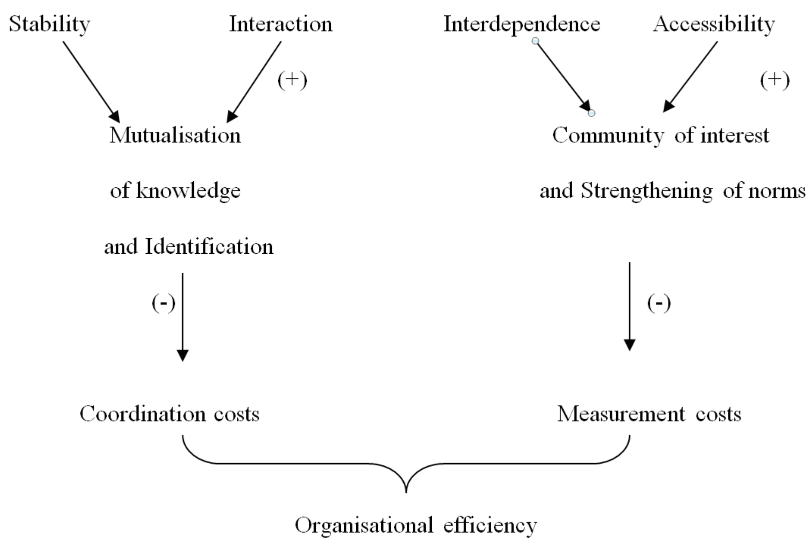
This community of interests that arises from the family sphere reduces the need to determine individual contributions to the overall productivity. At the same time, strengthening membership norms lessens the risk of information and resources being misused for personal gain. Interdependence and accessibility also tend to limit opportunism in family firms, or the risk of expropriation of the common wealth. Miller and Le Breton-Miller (2005) observe that family businesses have an additional mechanism compared to non-family firms, namely, "clan control," where socialisation based on trust is used as the principle mediation or control mechanism. This can prove highly effective in transactions between individuals (Ouchi, 1980). As long as the family provides the firm with a high level of trust and shared values, there is less need for costly assessment and follow-up transaction procedures (Steier, 2001; Dyer, 2006). In line with Kanter (1972, 41), Ouchi (1980) observed that individual discipline is not achieved through contracts or surveillance, but rather by the extreme belief that individual interests are best served by an individual's full adherence to the interests of the community. In effect, when there is no divergence of interests, it is unnecessary

to measure behaviour or results to ensure control (Eisenhardt, 1985). Thus, interdependence and accessibility give rise to a community governed by shared interests and distinctive norms, enabling the family firm to save on both individual productivity measurement costs and influence costs.
On the basis of these arguments, the following proposal can be formulated, all other things being equal:

Proposal 2 Family-related factors of interdependence and accessibility reduce the firm's measurement costs.

In sum, stability, interaction, interdependence and accessibility reduce bureaucratic costs in family businesses and, as we argue, develop a source of greater efficiency compared to firms with low family influence.

Figure 2. Breakdown of family impact on bureaucratic costs of family businesses: a basic model [5]



5. The theoretical model (Figure 2) presents stylised relations. In empirical reality, the impact of stability, interaction, interdependence and accessibility on costs are not mutually exclusive but can be cumulative. Stability and interaction can generate a community of interest and strengthen norms, while interdependence and accessibility can foster the pooling of knowledge and identification. Thus, these different factors can help to reduce coordination and measurement costs. Moreover, the two sources of costs are interdependent (Williamson, 1985).

THE EFFECTS OF EROSION ON THE PRINCIPLE OF DIFFUSION

The preceding underlying reasoning concerns firms in which the family predominates in its ownership and management. In tangible terms, this analysis focuses on small- and medium-sized family businesses, mainly controlled by their founders, ensuring harmony between the different actors and the focus of activities around the economic interests of the organisation, as is generally the case of authors in the field (Schulze et al., 2002; Allouche and Amann, 1998, 2000; Chrisman et al., 2004; Piluso, 2004; Miller et al., 2007; Rutherford et al., 2008; Combs et al., 2010; Chrisman et al., 2012). To develop our argument, we based our study on a general situation where the family represents a relatively closed unit and the interests and values of the family and the company are aligned by a dominant vision that shapes the behaviours specific to the company (Chrisman et al., 2012). In other words, we used an organisational situation with a highly developed sense of community, where the individual and organisational interests coincide. Ouchi (1980) observed that such a situation considerably reduces the risk of opportunism, while fair pay and other rewards may be obtained at lower cost. However, this basic situation can be subject to variation (Hirigoyen, 2009; Litz, 2008). Depending on the situation, the family's influence may offer the company considerable support or can present a drawback (Nordqvist and Melin, 2010). Redding (1988), for example, suggested that family businesses are governed by values that facilitate the initial stages of entrepreneurship, but which become obstacles when the firm expands, requiring a more complex degree of coordination. Ward (1987) argues that the relatively informal decision-making processes in family businesses may become problematic with its expansion as the business becomes complex. In effect, we might go from a simple situation where family involvement is uniquely in the interests of the company, to a complex situation where this involvement serves the interests of both the family and the business, or even a situation where there is a conflict of interest (Litz, 2008). For instance, family relations can make it more difficult to resolve conflicts or change unproductive behaviour (Chrisman et al., 2004). Some owners, while being very family-oriented, may prove opportunistic by misappropriating a substantial part of the value created (Shleifer and Vishny, 1997). Moreover, it should be noted that in comparison to non-family businesses, family firms tend to be smaller and so adopt a simpler governance structure where the dominant family coalition tends to impose its will (Bocatto et al., 2010; Chrisman et al., 2012). The advantages linked to the family business organisation tend to concern small, private companies under the control of one family member (Chrisman et al., 2004; Lin & Hu, 2007). However, once a company starts to grow, even this dominant family member may waver from his or her initial commitment and use the position to appropriate an accumulation of individual advantages (Combs et al., 2010). Furthermore, many family businesses experience problems when transferring to the second generation (Aronoff, 1998; Chittoor and Das, 2007; Royer et al., 2008). Lansberg (1983) even went as far as to suggest that family businesses have an average lifespan of 24 years, corresponding to the number of years that founders generally run the company. Miller et al. (2007) clearly conclude that the founder's influence is a key factor in the performance of family businesses. Similarly, Mehrotra et al. (2011) suggest that in most developed countries, large businesses managed by their founders are more successful, while those managed by the biological heirs are less successful. In short, the management literature tends to suggest that the goal of wealth creation for the shareholders may be compromised if family interests take precedence during the process of succession or when a firm grows in size (Ward, 1987; Martin and Lumpkin, 2004; Lin and Hu, 2007; Bocatto et al., 2010; Chrisman et al., 2012). From a dynamic perspective, these different observations lead us to consider the company's size and the number of generations involved as possible contingency factors in the advantages linked to the specificities of family businesses (Gedajlovic and Carney, 2010; Arregle and Mari, 2010; Hirigoyen, 2009). Based on our founding principle of transmission of family social capital towards bureaucratic costs, we suggest that the initially advantageous effects of family social capital may be eroded or even reversed when the business increases in size or as different generations get involved. The present sub-section therefore analyses the impact of growth and succession on the general principle of interpenetration between the private and professional spheres. In other words, we consider that with the organisation's growth or an increase in the number of generations involved, factors of stability, interaction, interdependence and accessibility become more unpredictable, leading to reduced managerial competence and/or behavioural bias that increase the risk of mistakes and opportunism by individual family business members. Consequently, the initially advantageous impact may be reversed and the factors promoting permeability between the private and the professional sphere become counterproductive, leading to greater opportunism and risk of mistakes that require more investment in formal coordination and measurement mechanisms. Thus, in what follows, we distinguish between, first, the reversal of family social capital advantages linked to an increase in size, and second, the reversal of the advantages linked to succession. [6]

6. An increase in the firm's size or in the number of generations involved may be considered as factors liable to lead to the dilution of the family's social capital, in other words, as factors that reduce the family's influence over the company. In our argument, this corresponds to the loss of the firm's family-related specificities, in other words, the transformation of the family firm into a non-family business. This is not, however, our main interest, as our aim is to explore the effects of growth and succession(s) on businesses that remain family owned.

The size of the organisation and the reversal of the effects of family social capital

The organisation learns either through its present members, or through the arrival of new members who have knowledge that the company previously lacked (Simon, 1991). In the specific case of family businesses, the factors of stability and family interaction inevitably facilitate transfer and knowledge-sharing between family members. However, the strong ties that emerge over time and the preservation of mutual obligations can make it more difficult to bring new managers into the organisation in key positions (Sirmon and Hitt, 2003). While the skills and knowledge-sharing of family members may be sufficient in a small structure, when organisations grow in size, new skills are generally needed that are difficult to find in the restricted family circle. Recruiting the best people should ideally occur from a very large pool of potential candidates (Mehrotra et al., 2011); new owners and managers from outside the family can inject fresh energy and resources that will boost the strategy, innovation and the development of new activities (Nordqvist and Melin, 2010). The stability of the core family, understood as keeping family members in key positions, thus becomes counterproductive, as giving key management positions exclusively to family members, or the lack of sanctions (e.g., dismissal) with respect to inefficient family members (Handler and Kram, 1988) may restrict the acquisition or fast renewal of management skills compared to businesses with less family influence. The latter will have no hesitation in looking for the new skills it needs to deal with the challenges of the company's growth and to immediately place the newcomers in suitable positions. Interactions between managers or employees outside the workplace, which are generally more frequent in family businesses (Arregle et al., 2007), may also hinder a firm's openness and recruitment of talented managers directly from the market, especially since, as Nordqvist and Melin (2010) suggested, families often introduce and nurture rites to promote integration and unity, which bind them and help to develop an enduring impression of sharing a common destiny. Moreover, the greater the family's involvement and influence, the more such family firms tend to adhere to non-economic goals and the more these goals reflect the vision, attitudes and intentions upheld by the family (Chrisman et al., 2012). Chrisman et al. (2004) suggested that family businesses tend to select and retain a workforce with little expertise, preferably or, in extreme cases, recruited uniquely from within the family. Consequently, the competencies of family managers are generally inferior to those of professional managers (Morck et al., 2000). Thus, unlike a

business that is willing to take on professional managers who are subjected to the pressures of the competitive job market (Lin and Hu, 2007), in family businesses, where the stability factor favours family managers, there is more incentive to invest time and energy to understand the initiatives developed by the latter, and to ensure that such initiatives remain in the family's interest (Combs et al., 2010). On the other hand, managers who stay in their positions for a long time often end up being less efficient (Miller, 1991). In short, stability in key management positions deprives family businesses of the benefits of the external market which controls and disciplines managers. Thus, while the network's stability and the interaction between members helps to reduce risks of error and deviant actions, and so saves on coordination costs in small and medium-sized family businesses, these effects tend to be reversed when the organisation grows in size. In depriving the company of talented managers and limiting their managers' mobility (dismissal), the ensuing stability and interaction increase the risk of error and deviant actions, and thus require more formal coordination mechanisms.
On the basis of these arguments, the following proposal can be formulated, all other things being equal:

Proposal 3 The larger the organisation, the more family-related factors of stability and interaction will increase the firm's coordination costs proportionately to a non-family business

Chrisman et al. (2012) observe that the family's involvement in a business gives it the ability to influence the behaviour of the firm. However, they also add that this does not determine how and in what way such influence will be exercised. More specifically, Ward (1987) suggests that when an organisation becomes bigger and more complex, the motivation of the owner and the family tends to shift from the company's success to the stability, comfort, education and development of the family members (children). The firm's growth legitimizes the pursuit of the family's social interests. The growing firm is expected to "pass the ball" back to the family to some extent. Thus, interdependence and accessibility can promote the family's private (social) interests to the detriment of the firm's professional (economic) interests. There are many examples of this. It could be in the form of mutual help by recruiting people from within the family network whose skills do not correspond to the needs and responsibilities required for the job. [7] It can also involve keeping these individuals in positions that are way beyond their abilities, on the grounds that the integrity of the family structure has to be maintained.[8] This occurs, for instance, when emphasis is put on job security and family members' socio-emotional well-being (Gomez-Mejia et al., 2003; Combs et al., 2010). In the long term, this may well limit the company's managerial competencies. These factors will have a direct impact on measurement costs, to the extent that the gap between the organisation's capital and productivity grows wider. Chrisman et al. (2004) gave the example of the need for family business owners to ensure a minimum standard of living for family members. In this case, there is a risk of 'over-paying' under-productive family elements. Equally, with an increase in size, influence costs may substantially increase insofar as the dominant family core is courted by a large number of actors awaiting positions. Thus, opportunism by the individuals in place and the risk of expropriation of the firm's wealth increases when there

7. Jacquemain (2006, p.17) speaks of the bright side vs. the dark side of social capital and observes: "(…) the density of connections or their nature does not in itself imply any pre-established result. Networks can be formed as we saw with many different goals, and all networks, even the most informal, are in part defined by those they exclude."

8. Hiring a professional (non-family) CEO may improve the company's performance, especially when new competencies are required and on condition that the family does nothing to hamper the professional CEO's initiatives (Lin and Hu, 2007).

is high interdependence between the members and accessibility (closed loop) reserved for family members. These factors make it easier to safeguard social cohesion rather than try to improve the firm's economic performance. Chrisman et al. (2012) also suggest that as the company's growth makes the family and the organisation more visible in the community, it also increases the emphasis on non-economic goals such as saving social status, and the family's identity and harmony. Interdependence and accessibility then reinforce the social interests and norms of family solidarity to the detriment of the organisation. Litz (2008) mentions the clearly favourable family implications where "only family benefits." Thus, an increase in the size of the firm linked to factors of interdependence and accessibility require the introduction of more formal mechanisms in order to avoid expropriation of the firm's wealth by the family members.
On the basis of these arguments, the following proposal can be formulated, all other things being equal:

Proposal 4 The larger the organisation, the more family-related factors of interdependence and accessibility will increase the firm's measurement costs proportionately to a non-family business

Succession and the reversal of the family social capital effect

The notion that the family forms a cohesive unit is more likely in the first generation than in succeeding generations (Astrachan et al., 2003; Hirigoyen, 2007). Thus, while the entrepreneur, the central figure in the family and firm network, can benefit from the reinforcement of norms regarding the firm's values, this is not necessarily true for his or her successors. Villalonga and Amit (2006) observed that second generation family businesses appeared to have fewer values than the first. Firms controlled by the founder alone behave differently to those with multiple family members (Miller et al., 2007). With the departure of the founder and the arrival of successive generations, the members' cohesion may either be lost or else obtained at higher cost to the company. The larger the recruitment pool, the greater the chances of finding a talented person (Mehrotra et al., 2011). Sourcing uniquely from within the family deprives the firm of talented managers, and so increases the risk of errors in the day-to-day running of the business. In addition, there is often no 'natural' leader within the family to replace the founder. Consequently, successions often lead to a management team being put in place (Beckhard and Dyer, 1983; Steier, 2001), resulting in disparate actors entering the company. It also leads to another disparity as only some family shareholders will also work in management positions, thereby increasing their relative power in the shareholding. However, as Hirigoyen (2009) pointed out, there may be a category "of shareholders in a framework of negative psychological ownership," who consider that they have special decision-making and management rights over and above their legal rights, such as the right to special benefits for services that their ancestors, their family branch or themselves gave the company in the past. This increases the risk of expropriation, especially as the personalisation of authority in family businesses may lead to decisions that deviate considerably from rational profit maximisation behaviour (Chrisman et al., 2012). Thus, whereas stability and interaction factors generated by the private sphere gave the firm an advantage in the first generation, they may in fact increase the risk of errors and expropriation of a common patrimony by some successors. Family businesses consequently need to invest more in formal coordination mechanisms.[9]

On the basis of these arguments, the following proposal can be formulated, all other things being equal:

Proposal 5 The more successions there are, the more family-related factors of stability and interaction will increase the firm's coordination costs proportionately to a non-family business

As the different generations take over or get involved in the firm, a strong family social capital consolidates its members' cohesion. However, this cohesion may come at a high cost for the organisation as a strong family influence over the company can increase the risks of error and opportunism by some individuals who claim rights in terms of management positions or other advantages. These risks may increase as, over the generations, family businesses place greater emphasis on the creation and preservation of socio-emotional wealth, harmony, its members' status and stability (Martin and Lumpkin, 2004; Chrisman et al., 2012). Interdependence and closed loop factors may have counterproductive effects and increase the risk of error, its agents' opportunism and the risk of expropriation of the firm's wealth by some family members. Kellermans and Eddleston (2004), for example, suggested that information asymmetries between owners and managers can occur with succeeding generations. In particular, brothers and sisters may focus on their own interests to the detriment of the family community overall (Hirigoyen, 2009; Schulze et al., 2003). To address these risks, Chrisman et al. (2004) recommend the introduction of strategic planning as a basic control measure which, while not enough to guarantee the complete removal of opportunism by the actors, can allow sales forecasts, cost estimates and performance goals to be formalised. Thus, to reduce behavioural bias and control opportunistic family members, Hirigoyen (2007) suggests introducing formal governance mechanisms (family board, family charter) to complement or replace the informal mechanisms. These formal mechanisms are even more necessary given that, first, the stability and the closed loop tend to protect certain family members and, second, the number of generations involved increases the risk of expropriation of the common wealth by some individuals. As Bawin-Legros (1996) noted, the greater the social or genealogical distance (in our case, when the number of generations in the organisation increases), the more individuals seek to maximise their personal profit. The means used can range from ruse to violence. Chrisman et al. (2012) also suggest that non-economic goals tend to increase in line with the number of generations involved in the firm. The greater distance between the family members involved following these successions, together with the diversity of their powers and the emphasis on non-economic goals increases the risk of expropriation of the company's wealth by some members. The more these factors of interdependence and accessibility promote the family members interests and reserve access to certain positions to them alone, the higher these risks. Consequently, governance mechanisms need to be stepped up in order to determine the contribution of each individual and prevent resources from being misused.

On the basis of these arguments, the following proposal can be formulated, all

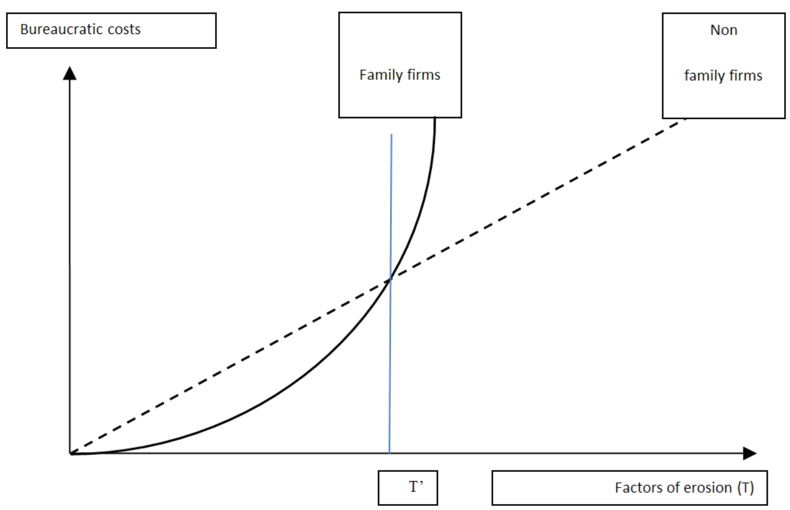
9. To be even more precise, we would point out that an increase in the number of generations impacts on stability and interaction. There is therefore an endogenous type of impact on the number of successions pursuant to the older family social capital and its larger size, linked to the number of successions (and the effects of time). In order not to over-complicate the model, we will leave this additional effect for the time being.

other things being equal:

Proposal 6 The more successions there are, the more family-related factors of interdependence and accessibility will increase the firm's measurement costs proportionately to a non-family business

In short, as the firm grows in size and/or the number of generations in the business expands, the interpenetration factors between the private and the professional sphere lead to a risk of errors and opportunism by the actors, and these risks subsequently require more formal mechanisms and bureaucratic costs. In particular, although bureaucratic costs increase for organisations in general simply when they grow in size (Williamson, 1985), our proposals suggest that factors linked to stability, interaction, interdependence and accessibility tend to accelerate this rise in costs due to the greater risk of error and opportunism by family members. Thus, the initially beneficial influence of the family on the business may quickly become a liability as the company grows or as new generations come in. These arguments help to explain why many family businesses find it very difficult to grow or transfer to succeeding generations. Graph 1 summarises the logic of these arguments, suggesting that while factors leading to an erosion of social capital (such as size or succession) increase bureaucratic costs for all companies, these costs grow faster in the case of family businesses than non-family businesses. We can thus theoretically define a point T' beyond which family businesses suffer from a disadvantage compared to non-family businesses, even though they benefit from a relative advantage beforehand.

Graphe 1. Increase in the size of the firm and loss of advantage of bureaucratic costs for family businesses [10]



10. This graph is based on a simplified assumption of the linear growth of bureaucratic costs for a non-family firm, although theoretically, there are no factors that justify a rise or a fall in the coefficient.

(T' maps the erosion factors of social capital over time that can be linked to growth or successions in the firm)

CONCLUSION

Our study attempts to critically examine the family's influence on the advantages of family businesses. It argues that (1) within family businesses, there is a family social capital linked to the family's predominance in the ownership and management of the firm; (2) factors related to stability, interaction, interdependence and accessibility from this family social capital reduce opportunism by the actors and the risks of error, enabling family firms to make considerable savings on bureaucratic costs, in other words, coordination and measurement costs; (3) however, with the company's growth and/or the increase in the number of generations involved in the company, the advantage may be eroded, or even reversed, with strong family-based social capital preserving the private interests of family members to the detriment of the firm's economic interests. In a growing family business or as new generations come into the firm, factors related to family social capital may prevent the integration of a competent workforce and increase opportunism and the risk of expropriation of the firm's wealth by certain members of the family. To guard against risks of error and limit behavioural bias by the stakeholders, family businesses must invest more in formal coordination and measurement mechanisms. Thus, as businesses grow in size, a formal structure becomes more necessary and bureaucratic costs rise (Williamson, 1985), whether or not it is a family firm. This increase in bureaucratic costs may be proportionally higher in family businesses, however as, although stability, interaction, interdependence and accessibility generate trust, promote cooperation and initially reduce bureaucratic costs, these same factors can generate additional friction through the development of opportunistic behaviours and the risk of expropriation of the firm's wealth by family members when the company grows or when increasingly far removed new generations of family members come into the business. As it grows and/or as new generations come in, family members may claim the repayment of their original investment, possibly reversing the advantages initially enjoyed by the business. Thus, whilst altruism and certain other factors procure benefits for family businesses in the short term through reduced costs, these factors have compensatory non-economic costs with an economic impact in the long term (Chrisman et al., 2004).

From a managerial perspective, our arguments do not mean that the family's influence on a growing businesses or the arrival of new generations will always have a fatally negative impact on the firm. On the contrary, Molly et al. (2011) argue that new family members can inject fresh knowledge and visions to the business with each succession. They suggest that the new generations may have a positive impact on the incentive to innovate, to become more global and grow. Observing the predominance of family businesses in countries where cultural attributes favour arranged marriages, Mehrotra et al. (2011) suggest that these attributes lead to succession practices that are favourable to the generational sustainability of family businesses. However, we believe that these 'counter examples' concern the rare family businesses that manage to survive and develop through the generations. They should not overshadow the fate of many family businesses that disappear with the generations, or which are obliged to become non-family firms to support their development. Our arguments simply suggest that family business management needs to be aware

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of the adverse impact that often accompanies the change in actors' behaviour when the organisation increases in size or when it absorbs increasingly far removed family members. In effect, although the family may accept sacrifices to support a small family business, its attitude may change as the firm grows larger. Thus, while spouses or direct brothers and sisters of the founder may agree to long-term returns on their investment, this is not always the case for increasingly far removed cousins. Family business governance bodies should develop a proactive vision and plan an accumulation of expertise within the family or, failing that, avoid the situation where retaining strong organisational family social capital prevents new talent from entering the firm.

Moreover, our emphasis on the principle of the diffusion of family social capital on the firm's bureaucratic costs does not mean that the specificity of family businesses only boils down to this either (we deliberately presented our arguments with the proviso "all things being equal in other respects"). True, the bureaucratic coordination and control mechanism is more efficient when divergence of aims and ambiguity regarding performance are relatively high (Ouchi, 1980), as is the case when the organisation grows and as new generations take over. However, the costs invested in bureaucratic surveillance and control mechanisms constitute a clear loss when compared with additional costs that could be invested in acquiring new resources or improving working conditions (Ouchi, 1980). The increase in bureaucratic costs may also be seen as a symptom of a rise in opportunism by family agents and their dwindling commitment to the success of the company. In short, an increase in bureaucratic costs may also indicate a change in the stakeholders' behaviour as they put more emphasis on non-economic goals to the detriment of economic goals geared towards the firm. This can have serious ramifications for the firm's growth or survival.

We believe that this theoretical model offers a cohesive argument which can help to explain first, why family businesses, which are so predominant in the population of small firms (Westhead and Cowling, 1998), become relatively rare in the population of large organisations, and second, why they tend to experience difficulties during the trans-generational transfer phases. At the same time, our model, based on an increase in bureaucratic costs, can also help to explain the dysfunctional impact of conflicts in the private sphere (divorce, rivalries, sibling conflicts…) on the life of family businesses. It suggests and explains why growing family businesses frequently bring in professional managers, thereby avoiding conflicts over succession and other types of dispute that can occur in the family with a subsequent knock-on effect on the business. Family capitalism can give rise to social capital that is unique and extremely valuable for businesses, but it would be utopic to believe that the family is always a harmonious group and that family members always use their power solely in the interests of the firm.

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