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**Developing a new typology of family firms based on professionalization and formalization**

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**Abstract**

*The purpose of this conceptual article is to create a novel way to analyze family firms from an entirely new perspective. Previous typologies mainly concentrate on how family firms are, as a static entity (e.g. representation of family in ownership and/or management). We create a dynamic framework which concentrates on how family firms operate. The framework comprises two continuums, namely professionalization and formalization, on which we distinguish four new types of family firms. Based on the features that depicts each type, we created the labels Autocracy, Domestic Configuration, Clench Hybrid and Administrative Hybrid. Family firms have the ability to shift between these types. In this paper, we present an array of reasons, based on the agency theory, which can cause these family firms to shift.*

**Key words**: private family firms, professionalization, formalization,  agency theory, typology.

## 1. Introduction

Governance practices have a decisive impact on firm's operations. One of the aims of managerial accounting is to reduce opportunistic behavior of managers and eliminate the principal-agent problem through different kinds of sophisticated incentive schemes or by implementing performance management systems, developed and refined by organizational boards. We are striving to uncover these managerial accounting aspects and governance practices in the context of the family business. Through this perspective, opportunistic behavior of managers, who are in some cases family managers, can be differently inferred. Hence, this may alter the governance structures and processes within the firm, but also the implementation of performance management systems, as it concerns a situation of family managing family. The unique way of how these family firms are governed, managed and controlled will be the focus of this conceptual paper. The distinctiveness of family businesses lies not only in tailoring governance and control systems to meet the firm and family needs, but also in the power they draw through the usage of informal controls.

Family businesses have been acceded as a multi-dimensional research field for several decades, which is still growing in popularity each year. The economic relevance and importance of family firms should not be underestimated. Over two-third of the businesses in many European countries are family firms. In America this proportion can climb to 95% of the total number of organisations (IFERA, 2003). Family firms are unique for their interaction of three dynamics, namely ownership, business and family. It is like a cobweb, the three components are intertwined and constantly affect each other. This makes family firms by structure, strategy and operation, very different from non-family firms (Gersick et al., 1997).

In recent years there is a growing consensus that family firms cannot be viewed as a homogeneous entity (Chrisman et al., 2005; Westhead and Howorth, 2007; Sharma et al., 1997). To create structure and clarity in this heterogenic group, multiple authors have tried to group several family firms together based on one or more components. As a result, different family firm typologies started to emerge in the family business research field (Birley et al., 1999; Corbetta, 1995; Dyer, 1988; Dyer, 2006; Gersick et al., 1997; Lubatkin et al., 2005; Sharma, 2004; Sharma and Nordqvist, 2007; Westhead and Howorth, 2007). Although these academics have been very creative in the development of different conceptual family firm typologies, we see several limitations to the existing classifications. Some of the current family firm types suffer from overlaps and are not jointly exhaustive, meaning that not all existing family firms can be subdivided into these categories. Additionally, less than half of the existing typologies are actually empirically tested and validated. Finally, to differentiate within the group of family firms, ownership composition and involvement in the management are often used. We opinionate that very restricted conclusions can be made based simply on how ownership is distributed and on the mere presence of family in the management team. This does not enclose any information on how the business is organized and run, nor do we know anything about the capabilities and applied techniques of the family members working in the firm. Moreover, these types with high family involvement in ownership and/or in management are not inherently better in their financial performance. Studies have revealed contradictory results of the effects of family involvement on firm's financial performance. Some of them indicate a positive effect on the performance (Anderson and Reeb, 2003; Lee, 2006), while others point to a negative effect (Filatotchev et al., 2005), or no influence on performance at all (Daily and Dollinger, 1992; Sciascia and Mazzola, 2008). Some academics even tried to grasp the complexity and conflicting results by adding nuances and conditions to the effect of family involvement on performance (Barth et al., 2005; Dyer, 2006; Sraer and Thesmar, 2007; Villalonga and Amit, 2006).

In this paper we contribute to the family business literature by developing a new and innovative way to scrutinize private family firms. Our typology differentiates family firms based on their orientation towards two aspects, i.e. professionalization and formalization. By doing so, this paper will be one of the few that combines these two aspects, as other empirical studies are usually restricted to only one of them as main subject (e.g. Dyer, 1989; Gedajlovic et al., 2004; Mustakallio et al., 2002; Perren et al., 1998; Trostel and Nichols, 1982). We believe this evolutionary way of classifying family businesses is necessary because of previous mentioned imperfections. This typology will allow a dynamic perspective of the family firm i.e. how it operates, contrary to some past literature which only indicates how a family organization 'is'. The framework comprises two continuums, professionalization and formalization, on which we distinguish four new types of family firms. Based on traits that have been discussed in previous literature (Barth et al., 2005; Blummentritt et al., 2007; Chittoor and Das, 2007; Chua et al., 2009; Corbetta, 1995; Dyer, 1989; Flamholtz, 1986; Gedajlovic et al., 2004; Gulbrandsen, 2005; Sharma and Nordqvist, 2007;; Whisler, 1988) we define professionalization as a process which coincides with hiring external non-family managers, establishing governance structures such as boards and councils, a delegation of control, a more official structure with dispersed responsibility and clear, non-overlapping role descriptions, and higher internal specialization. The formalization process is depicted as a movement from informal controls to a more formal setting with strategic planning, high quality formal training programs, explicit organizational strategy, formal recruiting programs and formal control systems like output controls, behavior controls, monitoring controls, incentive systems, budget standards and management reports (Chua et al., 2009; Dyer, 1989; Flamholtz, 1986; Gedajlovic et al., 2004; Kotey and Folker, 2007; Perren et al., 1999).

Four new conceptual types of family firms are deducted from this framework. Based on the features that depicts each type, we created the labels Autocracy, Domestic Configuration, Clench Hybrid and Administrative Hybrid. Moreover, these four types are mutually exclusive and jointly exhaustive, indicating that every private family firm can be subdivided into one of the four types. Firms have the ability to shift between these conceptual types, as a result of their movement on one or both axes. According to the literature, the main drivers of an increasing professionalization and formalization are the level of growth of the family firm and the size (Chenhall, 2003; Chua et al., 2009; Craig and Moores, 2005; Duréndez et al. 2007; Flamholtz, 1986; Gomez and Sanchez, 2005; Perren et al. 1999; Pérez de Lema and Duréndez, 2007; Suáre and Santana-Martín, 2004; Whisler, 1988). In this respect, we make another contribution to the family business literature by introducing an array of new causes or reasons to explain shifting on the professionalization and formalization axes. A theoretical foundation for our propositions can be found in the agency theory, through which we approach the family firm context. Different types of agency costs can emerge or disappear based on where the family firm is situated on the framework. Finally, we also contribute to the management research field by not only looking at the formal controls, but enlarging our focus to besiege also informal controls. This contrasts to some of the existing management literature which generally concentrates on a few formal control mechanisms (Daily and Dollinger, 1992; Henri, 2006; Otley, 2003). Through our formalization axis, we create a continuum going from a very informal context to a highly formalized one.

The remainder of this paper is structured as follows: First, we go through the existing family firm typology literature and note their limitations. Next, we present a newly developed typology for private family businesses. The basis of this typology lays in the combination of two continuums, i.e. professionalization and formalization, which will be explained in part three. The four new family firm types that are deducted from this framework, are then discussed in the following paragraphs. Finally, different events which cause family firms to shift between types are critically examined. We conclude with a brief discussion.

## 2. Typologyzing the family firm in the literature

There is a growing consensus that family firms cannot be viewed as a homogeneous entity (Chrisman et al., 2005; Westhead and Howorth, 2007; Sharma et al., 1997). It is not a 'one size fits all' situation. Ownership composition, involvement in management, family/financial objectives and strategy orientation are often used to differentiate within the group of family firms (Barth et al., 2005; Corbetta, 1995; Gedajlovic et al., 2004; Gulbrandsen, 2005; Kotey and Floker, 2007; Moores and Mula, 2000; Sharma et al., 1997; Pérez de Lema and Duréndez, 2007; Westhead and Howorth, 2007). Due to this heterogeneity, multiple scholars have proposed family firm typologies (Birley et al., 1999; Corbetta, 1995; Dyer, 1988; Dyer, 2006; Gersick et al., 1997; Lubatkin et al., 2005; Sharma, 2004; Sharma and Nordqvist, 2007; Westhead and Howorth, 2007). An overview is represented in table 1. Although these typologies are initially different from one another, most of them share a similar basis. If we scrutinize the diverse set of classifications, it becomes apparent that ownership and management involvement are usually the starting points. Academics have been very creative in the development of different conceptual family firm typologies. Yet, hardly half of them are actually empirically tested and validated.

One of the earlier classifications is that of Corbetta (1995). He identifies subgroups of family businesses based on ownership, presence of family members in the board of directors or in other directive bodies of the firm, and the number of employees. The intersection of these three variables permits the identification of four kinds of family businesses. Yet, Corbetta's family firm types suffer from overlaps and are not jointly exhaustive, meaning that not all existing family firms can be subdivided into these categories. Gersick et al. (1997) create four classic family business types based on the combinations of ownership, family, and business developmental stages. Based on Gersick et al.'s model, Lubatkin et al. (2005) distinguish between three types of family firms based on three broad stages of ownership dispersion over generations: the controlling-owner family firm, where the founder/owner/manager also exercises the rights of control, the sibling partnership, where ownership is in hands of several members of a single generation, and the cousin consortium, where ownership is further fractionalized when it is passed on to third and later generations.

The conceptual work of Birley et al. (1999) constitute another typology, which is then empirically tested in a study by Birley (2001). Family firms are grouped on the basis of family involvement in the firm. Again, family presence appears to be the foundation for differentiation. Another typology which is empirically tested, is that of Westhead and Howorth (2007). They conceptualize six types of private family firms, which are based on the differences with reference to ownership, management, and family versus financial objectives. However, two of their conceptualized types are not empirically validated after performing a hierarchical cluster analysis on their data. Ownership and management is also used by Sharma and Nordqvist (2007) to scrutinize family firms. This study suggests that familial norms with respect to property rights are likely to determine the extent and mode of family participation in ownership, while norms regarding the role of business in family determine the extent and mode of family participation in the management of the family firm. The four modes of family ownership and of family management lead to sixteen possible combinations of family firms, yet without any empirical testing.

Even though it might be applicable to a lot of them, not all family firm typologies are solely based on a combination of ownership and management. In the late eighties, Dyer (1988) examines forty family firms after which he deducts four types of family business cultures based on their orientation to several predetermined cultural assumptions (e.g. nature of relationships, nature of truth, nature of human activity, etc.). Sharma (2004) also dissociates herself from the traditional disposition by creating a typology for family firms based on their performance, respectively on both family and business dimensions. Performance is also one of the key components in the typology proposed by Dyer (2006). Four quadrants are composed based on agency costs, familial liabilities and familial assets. Dyer postulates that the Clan-type family firm, due to significant family assets and low agency costs, will have the highest performance. The contrary type is the self-interested family firm. With their significant familial liabilities and high agency costs, they can have difficulty in surviving.

INSERT TABLE 1 HERE

We see several limitations in the existing family firm typologies. Only very restricted conclusions can be made about, for example, firm operation, working procedures, management level, efficiency, etc., based simply on how ownership is distributed and on the mere presence of family in the management team, which are the major components of these existing family firm typologies. It provides a very static presentation of family firms. This does not provide us with the tools to differentiate between, two family firms which do not operate the same way although they have equal representation of family within ownership and management. For example, two family firms with the same amount of ownership concentration and family involvement in the management, can differ when one has highly educated and qualified family managers and where the other fills these positions based exclusively on kin, rather than on ability, resulting in poor management quality. Additionally, some of the current family firm types suffer from overlaps and are not jointly exhaustive, meaning that not all existing family firms can be subdivided into these categories. Therefore, we believe that private family firms should be conceptualized in a completely new and innovative way. A distinction that is not necessarily based on ownership dispersion and management involvement, nor on other aspects previously used, but rather on how the family firm is oriented towards aspects of professionalization and formalization, which will be further elucidated in following paragraphs.

## 3. Developing a new framework

### 3.1 Professionalization of the family firm

It has been validated in previous researches that there is concentration of decision-making authority in the hands of the family firm owner-managers and that they are reluctant to delegate control (Blumentritt, 2007; Gedajlovic et al., 2004; Gulbrandsen, 2005; Kellermanns and Eddleston, 2004; Sharma et al., 1997). When companies remain relatively small, personal control and centralization of authority can be preserved (Moores and Mula, 2000; Perren et al., 1999). However, with business growth, the growing pressure coincides to decentralize control. As a result, family business owners who attempt to maintain an extensive personal control will do so at the expense of firm expansion (Cromie et al., 1995; Daily and Dollinger, 1992; Goffee and Scase, 1991). Studies have shown that as size increases, decentralization of control, one of the features of firm's professionalization, appears to be inevitable (Chua et al., 2009; Duréndez et al. 2007; Flamholtz, 1986; Perren et al. 1999; Whisler, 1988). This professionalization can also increase the need for external non-family managers to enter the family firm (Barth et al., 2005; Chittoor and Das, 2007; Chua et al., 2009; Corbetta, 1995). However, this transition to external non-family management is seldom easy, and in the majority of cases, will not be undertaken or successfully completed. Therefore Gedajlovic et al. (2004) depict this as a 'threshold moment'.

Professionalization is defined in this paper in accordance with previous literature, which states that professionalization of the family firm will, besides the entrance of non-family managers, also coincide with the establishment of more governance structures, such as boards, councils and committees (Pérez de Lema and Duréndez, 2007; Sharma and Nordqvist, 2007; Suáre and Santana-Martín, 2004), delegation of control (Blummentritt et al., 2007; Corbetta, 1995; Gulbrandsen, 2005; Sharma and Nordqvist, 2007; Whisler, 1988), a more official organizational structure, with well-defined responsibilities that do not overlap several people and explicit role descriptions which are mutually exclusive and jointly exhaustive (Flamholtz, 1986; Gedajlovic et al., 2004), and a higher internal specialization (Geeraerts, 1984). Also, the quality of management seems to be higher, because in an owner-managed family business, the top manager is taken from a much more restricted pool of talent than when the manager is recruited from the general market (Barth et al., 2005; Chua et al., 2009; Gulbrandsen, 2005).

Many authors have been concerned with the professionalization process within the family firm context. Different causes and obstacles of professionalization, as well as the course of action, have been subject of multiple academic papers (Barth et al., 2005; Blumentritt et al., 2007; Chittoor and Das, 2007; Chua et al., 2009; Daily and Dollinger, 1992; Dyer, 1989; Flamholtz, 1986; Gedajlovic et al., 2004; Sharma et al., 1997). When interpreting the problems that ligatures professionalization through an agency theory perspective, we can make following remarks. As the professionalization increases in family firms, the agency costs of self-control of the owner-manager and the problems originated by the altruism of the family will diminish, thus professionalization has a positive effect on the agency costs (Schulze et al., 2003b; Duréndez et al., 2007; Gedajlovic et al., 2004). However, if the family company decides to professionalize, the firm may have an external expert filling the manager's position, who is completely independent from the ownership. Based on the agency theory, the non-concurrence of the personal goals of managers and owners will create new agency costs (Jensen and Meckling, 1976). Thus, the agents might not always make the optimal management decisions, harming the well-being of the family owners (Duréndez et al., 2007). In this manner, professionalization can also have a negative effect on the agency costs within the family firm. Consequently, if the professionalization of the family firms increases, the need for sufficient control systems and incentive systems, to limit the agency costs created by external managers, will simultaneously increase (Daily and Dollinger, 1993; Dyer, 2006; Trostel and Nichols, 1982). Control systems, which is one of the features of the formalization process of the firm, are implemented with the objective to increase the congruence between the goals of organizational members and the organization as a whole (Flamholtz, 1968).

One might rightly wonder that even before the professionalization of the family firm, there were agency costs present in the organization due to parental altruism, nepotism, free-riding, shirking, etc.. As an outsider, we could judge that control systems are needed to restrict these agency costs, just as they can be needed to limit the agency costs due to goal incongruence of non-family managers. Yet, in the framework that we develop, the interpretations are made from a family perspective. In this manner, the family might feel that goal incongruence of non-family managers is an agency cost which they want to control, but they might not feel the same way about, for example, favoring and privileging their own children (parental altruism), and thus do not have the need to control for this.

### 3.2 Formalization of the family firm

Family firms typically start as small owner-managed firms, with not much formalized structure or established organization systems. They are depicted as organizations which rely heavily on informal controls and decision-making (Daily and Dollinger, 1993; Flamholtz, 1986; Kellermanns and Eddleston, 2004; Moores and Mula, 2000; Perren et al., 1999; Sharma and Nordqvist, 2007; Suáre and Santana-Martín, 2004; Trostel and Nichols, 1982; Whisler, 1988), on-the-job training for managers (Flamholtz, 1986; Kotey and Folker, 2007), and usually not more than a financial accounting system as their only tool of formal control (Flamholtz, 1986; Moores and Mula, 2000; Perren et al., 1999; Whisler, 1988). Controlling founders create norms, attitudes and values, i.e. the establishment of the collective knowledge base of the firm, which will function as the guidelines for all future generations (Craig and Moores, 2005; Dyer, 1988; Kellermanns and Eddleston, 2004; Kets de Vries, 1993). Family members refrain from challenging these belief structures with new insights. Even more so, the controlling individual is often reluctant to seek out advice and assistance (Gersick et al., 1997). Therefore, there is less discussion about strategies and processes, which are usually informally constituted (Kellermanns and Eddleson, 2004). Planning tends to be done in the head of the entrepreneur and frequently on an ad hoc basis (Flamholtz, 1986). Information acquisition and control is done by means of informal mechanisms. This does not imply that they are poor, but rather that this way might be appropriate for firms of that scale (Perren et al. 1999). In a study conducted by Adams et al. (1996) it appears that the strong bonds and shared interest of family members will lead to a perception of common values and trust among members. Therefore, there is an implicit assumption of moral and ethical behavior among members which overrules the need for a formal code of ethics. Behavior and behavioral norms are transmitted informally amongst members. Contrary, when ownership is not centralized around one family, for example due to organizational growth or ownership dispersion, the kinship bonds can become less intense. As a result, the organization must rely on more formal means such as an ethics code, ethics training, and sanctions (Adams et al., 1996). Formal methods are then needed to manage and transmit the corporate culture and goals throughout the organization (Suáre and Santana-Martín, 2004).

The process of formalization is not a clear step. Rather there is an evolution from informal towards formal as the business develops, although informal mechanisms might not be completely dropped in the formal setting (Moores and Mula, 2000; Perren et al. 1999). Several features of formalization are discussed in the literature, on which we base our definition. Instead of a situation with informal planning and where people simply react to events, the organization will, due to formalization, formulate a strategic and operational plan (Flamholtz, 1986). Also, formal explicit control systems are applied such as output controls, behavioral controls, monitoring controls, budget standards and management reports (Chua et al., 2009; Gedajlovic et al., 2004; Pérez de Lema and Duréndez, 2007). There is a much more explicit strategy (Blummentritt et al., 2007), formal recruiting plans (Flamhotlz, 1986) and high quality formal training programs are drafted (Dyer, 1989; Kotey and Folker, 2007).

We acknowledge that professionalization and formalization might mean different things to different people, or maybe have a great amount of overlaps for others. In previous paragraphs we listed the different features of each concept, as they are assessed in current literature, but we have also made a more general distinction. We argue that as a family firm professionalizes, new elements are introduced within the firm, such as external managers, boards, councils, educated (family) managers, etc., things that were not there in the past. Whereas, as a family firm formalizes, it is not so much the introduction of new features, but rather an alteration in how some things are done. Some examples are, amongst others, a corporate culture which used to be transmitted informally, can be reshaped in a written mission statement when a firm formalizes. On-the-job training of managers, which is typically an informal manner, can be replaced by high quality formal training programs. The inspection and evaluation of employees, which used to depend on the subjective judgment of the family owner, can be formalized through explicit control systems. Decision-making based on gut feelings of the owner-manager, can be substituted by formal strategic planning.

### 3.3 New typology for family firms

If we combine these two continuums of professionalization and formalization, we can create a framework with four groups based on high or low scores on both axes. Each group represents a specific type of family firm. Based on the unique traits that characterize each type of family firm, the four groups were given very distinctive labels, namely Autocracy, Domestic Configuration, Clench Hybrid, and Administrative Hybrid. For example, in the label Domestic Configuration, the term “domestic” indicates that everything in this family firm type is still very much centered around and dominated by the family. Whereas the term “hybrid” signifies a mixture of family and non-family influence. Every private family firm can be mapped on this scheme, based on their orientation towards the two concepts. In the following paragraphs each group will be further discussed in a stereotypical manner. Yet, we keep in mind that, within each stereotype, there can occur variations. For example, although two family firms are situated in the same group, they can still differ on the professionalization level, but they are not professionalized enough to switch to another group.

INSERT FIGURE 1 HERE

***Autocracy***: This group represents the typical small, owner-managed family firms. The owner retains personal control over his business and there is a high centralization of authority. All the planning is usually done in the head of the entrepreneur and frequently on an ad hoc basis. There is very low professionalization in this firm type. All management positions are expected to be fulfilled by family members, thus the probability of an external manager to be spotted within the Autocracy-type is very low. There are hardly any governance structures present, such as boards or advisory commissions. The company relies heavily on informal controls, such as shared values and norms, kinship ties, common interest and vision, rituals and ceremonies. There are no clear budget plans, monitoring systems, output controls or any other type of formal control present in the organization, apart from some financial accounting systems. These family firms are largely characterized by altruism, loyalty and trust. They acquire effective information and control by informal means. The main objective of this type of family firm is self-reliance and family maintenance.

***Domestic Configuration***: In this type of family firm, ownership and management is still in hands of the family. It is expected that no external non-family members are allowed in the management team. There are also hardly any governance structures present in the organization such as a board or a family council, indicating that the professionalization is still very low. This organization type is still very much family oriented and family dominated. The family firm is however increasing the formalization and is using more formal types of controls. They have formal budget plans which are jointly constructed, a strategic planning system, monitoring systems are in place to warrant that (family)managers act in correspondence to organizational goals, organizational output is being measured and compared to preset standards so that if deviation occurs it can be adjusted, periodic reports on behavior and output are drafted and organizational goals are explicitly documented and declared. Informal controls can still be present in this type of family firm but they are not as predominant as in the Autocracy type.

***Clench Hybrid:*** In the Clench Hybrid, the close family firm typically starts to open up to non-family members. All management functions are not solely in hands of the family anymore. Why they have called upon outside expertise, can be caused by several reasons, which will be extensively discussed in the next section. Clench Hybrids are organizations which are rapidly professionalizing by opening up their family firm to external expertise. Although this hybrid is a mix of family and non-family members in the organization, the control systems are not (yet) adapted to this new composition. They still rely very much on informal controls, such as shared values and norms, strong bonds, mutual trust, loyalty, routines, etc.. The members of the organization are, as it were, clenched together. Besides a financial accounting system, formal controls or other features of formalization (formal training, management reports, etc.) are very scant.

***Administrative Hybrid***: In this last group the family firms with high professionalization and high formalization are situated. These family firms typically have developed themselves over time. The family firm has opened up to external, experienced non-family managers, which creates a hybrid on the management level. Family and non-family managers find themselves in a co-dependent relationship. Family forums are established to preserve family objectives, but also other governing bodies, such as councils, boards and assemblies, are instituted to warrant an adequate and capable governance of the family firm. Productivity and efficiency can benefit of this increased professionalization. Simultaneously, more and more formal control systems and other formalization features are introduced. The family organization has strategic and operational planning systems, monitors the behavior and output of the firm, measures the results and compares them with preset standards so that deviation can be noticed and, if necessary, adjusted. Budget standards have to be complied and periodic reports are composed on financial results, but also on organizational weaknesses or future threats, market or product development, human resources, environment, etc.. Formal training programs are drawn up to further develop the capabilities of managers and to ensure long term welfare.

### 3.4 Critical remarks accompanying the new typology

Thus far, we can see that there can be significant differences between the four groups, and that these variations between the firm types go beyond the sole effect of ownership dispersion and management involvement, which marks the innovativeness of our typology. It also has to do with how the family wants to lead the company, what their intentions are, how much control they are willing to give out of hands so that the organization can grow in the future, their attitude towards externals, etc.. It provides us with an insight in firm's operations, which makes our typology much more dynamic. Further, we do not use size of the firm as a discriminative variable. Presumably the bulk of the firms of each type will be from a comparable size, but we however believe that the size of the firm does not predetermine in which group it belongs nor does it exclude the firm from belonging to one of the other groups. In addition, we also note that there is no ranking of any kind between the four groups. There is no predilection type of family firm that stands out. It is only through some specific firm needs or problems it might encounter, that one type can become more preferable than another. Finally, we interpret professionalization (and formalization) as a process, as something that evolves. Therefore, it is represented in the framework as a continuum, indicating that there can be high or low amounts of professionalization (and formalization) in a firm.

Some authors (Daily and Dalton, 1992; Gedajlovic et al., 2004; Whisler, 1988) interpret this process of professionalization of a family firm as a threshold moment, indicating a transition in which a professional manager takes over from an entrepreneur manager. Therefore, founders will have to cede control to these professional managers because they are, according to Daily and Dalton (1992), incapable of successfully negotiating this transition themselves. We however see several limitations to this threshold-approach. First of all, it seems that this situation only occurs when family firms are transferred from the founder (as the entrepreneur) to external managers, and therefore neglecting and excluding all later generational family firms. Second, these authors (Daily and Dalton, 1992; Whisler, 1988) proclaim this transition is inevitable because all firms outgrow the expertise and resources of the entrepreneur-founder, thereby saying all family firms must endure this transition to professionalization. We however presume that this can be the case, but it is not determined to be so. Family firms, in a certain context, can be successful without ever having to turn to external, professional managers. In our view, professionalization can be a necessity, for example due to a lack of internal capabilities to generate firm growth, but it can also be a free choice. Third, by creating a threshold moment, professionalization becomes binary, meaning that a family firm either is or is not professional. We however believe that there can be gradations in the level of professionalization, thereby imposing that two firms can be qualified as being professional, yet one being more so than the other. As a result, it is important to acknowledge that the two axes are continuums with certain degrees of professionalization/formalization, and not a yes-or-no type situation. Hence, there can be two family firms situated in the same group, but with one having a higher degree of professionalization/formalization than the other. Therefore, if we would visualize the entire group of family firms on the diagram, a scatter plot would originate, with each dot representing a firm which would (slightly) differ from another firm based on its orientation on the two axes, but with the possibility to cluster the variety of firms into four main groups. Movements *within* the groups is therefore possible, but not the main interest of this paper. What does appeal to us, is when a family firm moves *between* the groups.

## 4. Shifting between the groups

We hypothesize that the Domestic Configuration and the Clench Hybrid are more along the lines of transition phases rather than permanent firm states. As family firms grow out of the typical Autocracy-type, due to reasons which we label “Family firm needs”, they will move across the axes to one of the other three groups. Most optimal would be a straightforward shift to the Administrative Hybrid, because this would generate an equilibrium between the amount of professionalization and formalization. However, it is possible that firms get sidetracked to one of the other two groups (Domestic Configuration or Clench Hybrid), due to several reasons which will be the focus of the following paragraphs. We do emphasize that these two groups are not inherently negative, nor is the firm type with low professionalization and formalization (Autocracy) superior or inferior than that with both high professionalization and formalization (Administrative Hybrid). Family firms scoring high on one axis and low on the other (Clench Hybrid and Domestic Configuration) can initially manage themselves very well. Although, eventually and inevitably, we theorize that these firm types will become dysfunctional due to several causes which we label “Dysfunctionalities”. Therefore, it can either be an intermediate step which is followed by the movement to the Administrative Hybrid type, or the family firm can be impeded to make this transition due to several factors and gets stuck in the earlier mentioned group, which in turn limits the firm's chances for survival. In figure 2 the entire process of shifting between the four groups has been mapped into a model to visualize cause and effect of the transitions. In the succeeding paragraphs we elaborate on the different steps in the model.

INSERT FIGURE 2 HERE

### 4.1 A straight shift to the Administrative Hybrid

A model of Barth et al. (2005) shows that a young family firm is more likely to be managed by the owner. Centralization of authority, as Moores and Mula (2000) have demonstrated, may be particularly characteristic for the early stage in the lifecycle of a family business. Results of a study conducted by Suáre and Santana-Martín (2004) show that almost half of the first generation family firms are not governed by a board. Those who do have boards are often completely dominated by business founders. Moreover, Dyer's (1988) study found that 80% of the first generation family firms were located in his typology under the "paternalistic culture" family firm type, which is comparable to our Autocracy to a certain extent. Therefore, more often than not, a family firm will start in the Autocracy group, where we can find a lot of small, owner-managed family firms. Authority is centralized around the family owner, there is very low professionalization and a heavy dependence on informal controls. Although, this type has a scarce amount of formal control systems to rely on, it can still be very proficient. These types of owner-managed family firms are largely characterized by altruism, loyalty and trust (Gulbrandsen, 2005). However, we do acknowledge that starting points of family firms can also be located in one of the three other groups.

So when does the family firm move from Autocracy to one of the other three types? The main drivers of an increasing professionalization and formalization are, according to the literature, the level of growth of the family firm and the size (Adams, 1996; Chenhall, 2003;

Chua et al., 2009; Craig and Moores, 2005; Duréndez et al. 2007; Flamholtz, 1986; Gomez and Sanchez, 2005; Perren et al. 1999; Pérez de Lema and Duréndez, 2007; Suáre and Santana-Martín, 2004; Whisler, 1988). If a firm grows and develops itself, the organizational needs can, at a certain point, exceed the capabilities of family managers, and thus necessitate experienced outside managers (Flamholtz, 1986; Chua et al., 2009). According to Suáre and Santana-Martín (2004) family firms in a growing period would need a more professionalized and complex government system. Also, due to firm growth, the organizational resources, means and output would have to be managed more formally, thereby introducing a set of formal control systems. The same goes for firm size. According to Craig and Moores (2005), family firms have to develop formal control and management systems to deal with the large size and complexity of the organization. They see a professional manager proficient to develop these more advanced control and management procedures. Results of a study conducted by Duréndez et al. (2007) verify that once the family company reaches a considerable size it will be managed by a non-family professional. Flamholtz (1986) approximates this point when an organization reaches $ 10 million in sales. As a firm increases in size, there will come a point on which it becomes impossible for a single person to oversee all organizational activity. Delegation of control and governance structures are needed, but also predetermined guidelines on how to act in certain situations, monitoring systems for output and employees, etc., hence, an increase in professionalization and formalization occurs.

According to several authors, an increase in professionalization typically coincides with an increase of formal management systems (Blummentritt et al, 2007; Chua et al., 2009; Duréndez et al., 2007; Flamholtz, 1986). In our framework, this would result in a straight shift from Autocracy to Administrative Hybrid. The amount of professionalization would be more or less in balance with the amount of formalization, since one triggers the other in this case.

As was previously mentioned, professionalization of the family firm means that, amongst other things, external non-family managers can be recruited. Agency costs, due to the non-concurrence of personal goals of non-family managers and family owners, will increase the need for sufficient formal control systems to diminish these costs (Duréndez et al. 2007). Leaptrott (2005) proposes that the involvement of non-family organizational members is positively related to the degree of formalization (e.g. organizational documents) of the family firm. Thus, if professionalization and formalization would gradually increase with the same amount, then, a family firm would develop as we expected, from an Autocracy into an Administrative Hybrid in a straightforward line, without getting sidetracked to one of the other two groups. As the authoritarian owner-manager of the family firm gives the centralized control out of hands to succeeding family members but also to external non-family managers, governance structures and a set of formal management control systems simultaneously start to emerge. Conflict of interest and orientation between family and non-family is, to a large extent, intercepted by governance structures such as a board of directors and a family forum. Monitoring and control systems will guard goal congruence and reduce problems of self-control and altruism, to keep agency costs low.

But what stimulates organizations to cross the borderline between groups? And what causes them to move to a specific group? What instigates formalization and professionalization to not increase simultaneously? And what are the effects of this on the family firm? As was mentioned earlier, firm growth and size are, according to the literature, the main drivers for shifting on the professionalization and formalization axes (Chenhall, 2003; Duréndez et al., 2007; Gomez and Sanchez, 2005; Perren et al., 1999; Pérez de Lema and Duréndez, 2007; Whisler, 1988). We however believe that there can be other motives or needs of the family firm, such as internal conflict, succession or generational mix. In the following paragraphs we discuss the possible transitions from one group to another.

### 4.2 Passing by the Clench Hybrid

Succession has been a significant part of academic research within the family firm context. Family firms are carried on from one generation to the next for several decades. But what happens if the successor is not qualified and lacks necessary capabilities to manage the firm? Or if he has no interest in the family business whatsoever? At this point a family firm can be forced to look outside the family pool for a qualified manager to carry on the family business (Blumentritt et al., 2007). Lee et al. (2003) state in their paper on family firm's choice of successor, that if the offspring is so poorly qualified that handing over the business to the offspring is clearly detrimental to the business's profitability and long-term survival, they will prefer an external agent. Also Dyer (1989) distinguishes several reasons why a family owned business might want to bring in professional managers. He sees a *lack of management talent within the family* as the most common reason. But also *growth* will necessitate family firms to look outside the family. As the family business grows, it is unlikely that the family will be able to staff all the key positions and have all the necessary skills. A third reason for professionalizing is, according to Dyer (1989), to *change the norms and values* of business operations. When a family leader is unwilling or unable to change his or her own assumptions, there are alternative ways of changing firm's basic values and assumptions through the means of outsiders (Dyer, 2006). A last reason he mentions is to prepare for *leadership succession*. This is in conformity with Lee et al.'s (2003) reason on choice of a successor. These four causes of professionalization are listed in our model under the term "Family firm needs". So, as non-family managers start entering the firm and other features of professionalization emerge, the organization moves over the professionalization axis and evolves from an Autocracy type into a Clench Hybrid.

We believe that family firms located in the Clench Hybrid type can uphold for a significant period of time, there can even occur a little boost in their business performance, but eventually the situation will become dysfunctional and the family firm will be pushed into the next group, i.e. Administrative Hybrid. By reviewing the current literature, we distinguish a number of reasons for this, which are listed under the term "Dysfunctionalities" in the model. First, Chua et al. (2009) state that professionalization can lead to increased agency problems. Owner-managers have to delegate authority to non-family managers (agents), who can have diverging goals of those of the family firm owner(s). This *goal-incongruence* inflicts agency costs upon the family firm and compels them to establish appropriate incentives for the agent and incur monitoring costs designed to limit the aberrant activities of the agent (Jensen and Meckling, 1976).

Second, due to altruism within the family, family agents have incentive to free-ride or shirking, causing agency costs to rise. Moreover, parental altruism biases parental perceptions and thus color performance evaluation and can create exorbitant compensation for family members (Schulze et al., 2001). This is not a phenomenon which is restricted to the Clench Hybrid type, it will also be very prominent in the Autocracy and Domestic Configuration, but we believe that in the Clench Hybrid the problems of altruism will become unendurable. Due to this familial altruism, which treats people for who they are rather than what they do, outside managers (one of the features of professionalization) might start feeling surpassed, neglected or disfavored. Van den Berghe and Carchon (2003) labeled this as a feeling of "*distributive injustice*". It can arise when family-controlled firms, for example, withhold upper management positions for family agents and, thus, offer fewer promotional opportunities for non-family agents. In addition, this feeling is enhanced when perquisites and privileges are offered to family agents but not to non-family agents. These activities based on familial altruism and nepotism are, according to Gedajlovic et al. (2004), not perceived as legitimate in the context of professional-managed family firms. It can give non-family agents the incentive to engage in shirking or other forms of opportunism (Lubatkin et al., 2001). They will start objecting against the unjustified situation. Conflict and tension will increase, having negative effect on firm performance. If the family firm wants to avoid being ruptured, its only choice will be to increase formal control mechanisms to create transparency in performance evaluation and rewarding systems, to non-family as well as family members.

Third, *nepotism*, the outcome of altruism, can also inflict unendurable damage to the Clench Hybrid. Favoring (sometimes poorly educated) family members in top management positions based on kinship ties, will become untenable, for the reason that they lack essential management skills (Dyer, 2006). This might also lead to resentment on the part of senior non-family managers because tenure, merit and talent are apparently not seen as requisite skills (Sciascia and Mazzola, 2008). It is often the case that family firms create internal labor markets favoring family members, i.e. self-employment (Van den Berghe and Carchon, 2003). Again, the Clench Hybrid is forced to increase formalization, by introducing sufficient screening and selection controls and formal training programs. This will also prevent the family from engaging in particularism, meaning that irrelevant criteria such as being a relative of the boss, are used when choosing an employee, instead of universalistic criteria, e.g. competence (Dyer, 2006).

Fourth, the organizational systems and methods of operation that are preferred by professional managers are often antithetical to those of family leaders, who are accustomed to a more informal management style. Moreover, family managers usually grow up in the firm. They learn skills and practices that tend to be idiosyncratic to that organization, they learn the importance of the family's values within the firm. On the contrary, professional managers are typically socialized collectively in the classroom, through formal training and where generic skills are taught. This explicit *difference in mentality* can be source of conflict (Dyer, 1989).

Based on these four arguments, we propose that a Clench Hybrid, due to conflict and tension, will become dysfunctional over time. If they fail to recognize the need to increase formalization, the company is likely to experience difficulties (Flamholtz, 1986). The family firm has the choice to keep following this road which inevitably leads to multiple problems, or to increase formalization to get the firm back on the right track. They can decrease the agency costs by the imposition of formalized rules and monitoring, with such monitoring helping the firm avoid adverse selection, shirking, opportunism and free-riding (Dyer, 2006). Also transparency in recruitment and rewarding systems, both features of the formalization, can be beneficial for reducing the agency costs that accompany the Clench Hybrid type. Hence, eventually the Clench Hybrid will evolve into the Administrative Hybrid.

### 4.3 Passing by the Domestic Configuration

After seeing how we can make an upwards shift in the diagram, we shall now focus on a sidewards transfer. This is illustrated in the lower section of our model (see figure 2). An Autocracy family firm type is usually represented by a single owner-manager who, in most cases, is also the founder. The family firm can go from one generation to the next without deviating from this format. Therefore, a third or fourth generation owner-manager can still be situated in the Autocracy type, with very low professionalization and controlling his firm on a very informal manner. It is however also possible that through the succeeding generations and ownership dispersion, the family firm evolves in a sibling partnership and in a third or later generation, due to further ownership dispersal, a cousin consortium (Gersick et al., 1997). Within the sibling partnership, each sibling might have different interests or expectations of the company's future (e.g. growth through reinvestment versus personal wealth through high dividend payouts), which can result in a tangle of competing values and interests, leading siblings to display self-interested behavior, and thus increase agency costs (Lubatkin et al., 2005). Another outcome is that siblings may start to distrust each other, creating the need to control one another's actions. These situations will deteriorate if ownership dispersion increases, i.e. in the cousin consortium (Davis and Harveston, 1999). As family bonds become less strong, forces are unleashed that diminish trust (Steier, 2001). Also, to prevent family offspring to free-ride on other family member's labor can give the family management incentives to draft some type of formal control systems. According to Suáre and Santana-Martín (2004), the presence of formal mechanisms increases with the passing generation.

We propose that, as ownership gets fractured and more family members enter in the family business, especially across *generations*, the conflict and tension between parent and child or siblings or cousins will extend, due to distrust, conflicting goals, jealousy, etc. (Davis and Harveston, 1999). This will create a non-refrainable need to control relatives and thus, impel the family firm to constitute formal control systems. At this point, the family firm will move from Autocracy to Domestic Configuration, which is a more formalized but still family oriented and low professionalized firm type. Yet, we can think of a second reason for family firms to make this transition. Parents can stimulate their children to get a *formal training* within a business school setting, before taking over the family business (Dyer, 1989; Sciascia and Mazzola, 2008). Although this can be beneficial for the firm's professionalization, the greatest influence however is noticeable on the formalization, as these children can implement the freshly learned management techniques and control systems in their own firms, shifting them over the formalization axis. These professional family managers then have the same skills and capabilities as an external professional manager would have. Sciascia and Mazzola (2008) also suggest the firm should adopt formal mechanisms (e.g. control mechanisms) to avoid conflicts between these professionalized family managers, hence, another step towards firm formalization. These two reasons are listed in the model under the "Family firm needs".

Nonetheless, we believe that the Domestic Configuration, just as the Clench Hybrid, will become dysfunctional over time. Family firms which turn into Domestic Configurations, can initially manage their development quite well. The increased formalization, resulting into the use of different types of control systems, budget standards, strategic planning and management reports, can boost economic performance of the firm (Duréndez et al., 2007; Dyer, 2006; Henri, 2006; Kaplan and Norton, 1992; Langfield-Smith, 1997). However, this will usually be of a temporary nature, because it cannot outweigh the emerging agency cost due to a lack of professionalization. As it was mentioned by Schulze et al. (2001):"There may be two types of family firms, one that recognizes the need to adopt the kind of internal governance mechanisms used by successful widely held firms to compensate for the agency problems they face, and another that does not."

We distinguish four causes for this transition to an increased professionalization and list them under "Dysfunctionalities". First, although the family firm has implemented formal control systems in the Domestic Configuration type, a lot depends on the effectiveness of their usage. What if the monitoring systems uncover the presence of an unproductive family member? Family managers can be *reluctant to discipline a family agent*, due to ramifications that such actions might have on familial relationships inside the firm, as well as among the extended family outside the firm (Schulze et al., 2003a; Lubatkin et al., 2005). External managers are therefore often burdened with the job of firing the children of the family that owns the firm (Blumentritt et al., 2007). The family managers might not only be unwilling to discipline family members, but also unable. Altruism and particularism makes it difficult, if not impossible, to effectively monitor and evaluate family members who work in the firm (Dyer, 2006) and dismiss them in case of unsatisfactory performance (Sciascia and Mazzola, 2008).

A second reason is that, even though the family manager is willing, he is not capable because he *lacks the necessary managerial qualifications*. Organizational requirements can exceed the family manager's capabilities, and thus, compels them to employ experienced non-family managers (Dyer, 1989). This is in accordance with Sciascia and Mazzola (2008), who indicate that successful management implies the need for competence, which is sometimes missing in family-managed firms. Hiring non-family managers with previously developed capabilities can be a method of overcoming such a problem.

Third, *altruism* can cause dysfunctional effects in sibling relationships. It gives each sibling shareholder the incentive to place their own nuclear household's welfare ahead of the welfare of their extended family members, and even the firm. Also, the principal shareholder in a sibling partnership is likely to serve as the family business's CEO. But because this sibling is neither the founder of the family firm nor the head of the family, he or she will be less able to obtain the necessary support from the other family shareholders to make investments and pursue opportunities that are in best interest of the firm (Schulze et al., 2003b). Successful sibling partnerships will anticipate these problems and plan accordingly. They will institute governance mechanisms to monitor the conduct of employed siblings to reduce agency costs and organize family councils in an effort to enhance communication within the family and build consensus (Lubatkin et al., 2005).

Fourth, family firms can be breeding grounds for relationships fraught with *conflict* (Dyer, 1988). Family members can have *competing goals and values*, which might have been caused by complex conflicts, they can have different views within a family about the distribution of ownership, compensation, risk, roles, and responsibilities (Dyer, 2006). A Domestic Configuration family firm type, without any form of governance structures or delegation of control or strong boards, becomes a battlefield where family members compete with one another. As family firms evolve into sibling partnerships or cousin consortiums, the dispersion of ownership drives a wedge between the interests of those family owners who lead a firm and other family owners (Schulze et al., 2003b). Family forums - a governance instrument where employed and non-employed family members discuss various corporate and familial issues - are needed to give the family a say in firm's activity, in a structured and organized manner (Suáre and Santana-Martín, 2004). Mustakallio et al. (2002) state that generation in charge and family size are negatively associated with the social interaction among family members, they weaken familial bonds and reduce family members' identification with the company. Even more, Corbetta (1995) states that later generations have a higher chance of creating conflict amongst family members in the firm, because bonds between cousins, distant relatives or in-laws is much weaker than between, for instance, brothers. According to several authors (Mustakallio at al., 2002; Suáre and Santana-Martín, 2004) these generational problems can be overcome by implementing systems such as family councils, which is a part of the professionalization process. A study by Blumentritt et al. (2007) emphasizes the critical role played by a strong board within family firms. Although family business boards can take multiple forms, strong boards include the significant presence of individuals who are not part of the family (Anderson and Reeb, 2004).

Based on the foregoing arguments, we propose that, just as the Clench Hybrid, the Domestic Configuration will eventually become dysfunctional and evolve into the Administrative Hybrid with high professionalization and high formalization. Unless, of course, the family is disinclined to professionalize its firm, which will prevent the firm from making the transition and keep them in the Domestic Configuration. This will create anxiety, conflict and dissension, which can cause family firms to flounder or fail.

## 5. Discussion and conclusion

Family firms indeed differ from one another, and they cannot all be taken on in the same way. That is why academics are appreciating that different ‘types’ of firms have been established. The need for a basis to discern between family firms kept on mounting, and as necessity is the mother of invention, different typologies for family firms started to emerge. Yet, these typologies suffer from several constrains. Most of them try to deduce family firm behavior or performance from the mere involvement of family members in ownership and management. However, they are neglecting facts such as family member’s skills and capabilities, and the organization of authority, responsibility and decision making. This paper explores a gap in the knowledge base relating to family firm diversity, by scrutinizing the components which are overlooked by other classifications. By using the concepts of professionalization and formalization, we are able to create a novel framework on which all private family firms can be situated. We strive to create a dynamic framework which encloses the firm’s operations, instead of simply presenting what it ‘is’. The location of a firm on the framework can give insights in how the business is organized, which role is fulfilled by the family and, just as important, which roles are fulfilled by externals, what management techniques they are using (or not using), what their current needs are and which problems they might be facing now or in the near future. We are able to deduct four new conceptual types of family firms from this framework. Based on the unique traits that characterize each type of family firm, we created the labels Autocracy, Domestic Configuration, Clench Hybrid and Administrative Hybrid. Moreover, these four types are mutually exclusive and jointly exhaustive, indicating that every private family firm can be subdivided into one of the four types. By generating four different types we endorse that not all family firms cope with similar problems or have comparable needs, hence they all require tailored approaches.

We know from previous research that when family firms are small companies under the supervision of an owner-manager, control is typically relative informal (indicating low formalization) (Daily and Dollinger, 1993; Whisler, 1988). Usually the entrepreneur can exercise control simply through his or her day-to-day interaction with people in the organization (Flamholtz, 1986). Due to monopolization of control (indicating low professionalization), these controlling owners usually have authority over decision making, but might lack planning skills and employ very few managerial tools (Kellermanns and Eddleston, 2007). Perhaps, depending on the situational context of the firm, the business can be more in need of entrepreneurial skills than managerial skills, the former of which are expected to be provided better by an owner-manager (Chittoor and Das, 2007). Though, over time the control needs can increase dramatically for reasons which have been subject of this paper. There is an increased need for the kind of coordination that only a formal system can bring (increase formalization) (Flamholtz, 1986), but also a need for structure through corporate governance systems and external professionalism (increase professionalization). This indicates how a family firm can move across the formalization and professionalization axes, depending on its needs. In the current literature, this increase of professionalization and formalization which cause family firms to shift between the developed conceptual types, has been attributed to the level of growth of the family firm and the size (Chenhall, 2003; Chua et al., 2009; Craig and Moores, 2005; Duréndez et al. 2007; Flamholtz, 1986; Gomez and Sanchez, 2005; Perren et al. 1999; Pérez de Lema and Duréndez, 2007; Suáre and Santana-Martín, 2004; Whisler, 1988). Guided by the insights of the agency theory, we are able to theorize several novel reasons for these movements between the different types of family firms. We made a distinction between "Family firm needs" and "Dysfunctionalities".

Our conceptual paper has implications for theory. First, a contribution that this study makes to the family business literature lies in the development of a family firm typology which goes beyond the mere presence of family members in ownership and management. Previous typologies namely focus on how family firms are (static), we however focus on how family firms operate (dynamic). By doing so, this study is one of the few to combine professionalization and formalization, as most other empirical studies usually focus on one and sometimes briefly mention the other (e.g. Dyer, 1989; Gedajlovic et al., 2004; Mustakallio et al., 2002, Perren et al., 1998; Trostel and Nichols, 1982). Our typology enables academics to scrutinize family businesses from an entirely new perspective. They can critically examine which management systems are used by different types and why (or why not), how well a firm is on its way to professionalization and what implications or problems this might enclose. We also contribute to the management systems research field, by acknowledging the important role that informal controls have within an organization (Adams et al., 1996; Flamholtz, 1986; Perren et al., 1998). In this theoretical piece we see control as the overt, established control which is intentionally exercised through different control systems by the directors of the firm, but also as the covert, less perceptible type of control which can be enforced through habit, tradition, shared norms and values, loyalty or culture, but which can be equally strong.

Finally, we believe that after testing and validating our typology in succeeding studies, we will be able to provide a tool to assess family firms for academics, but also for practitioners. The device would allow the user to determine specific needs or problems of the firm. Moreover, it would also sort out the correct actions and interventions that can be taken (if they are needed). The entrepreneur would then be able to deduce if he should (or should not) increase (or decrease) the professionalization and/or the formalization of his firm, and through which means. However, this is something that has to be examined and verified by means of future quantitative but also qualitative research.

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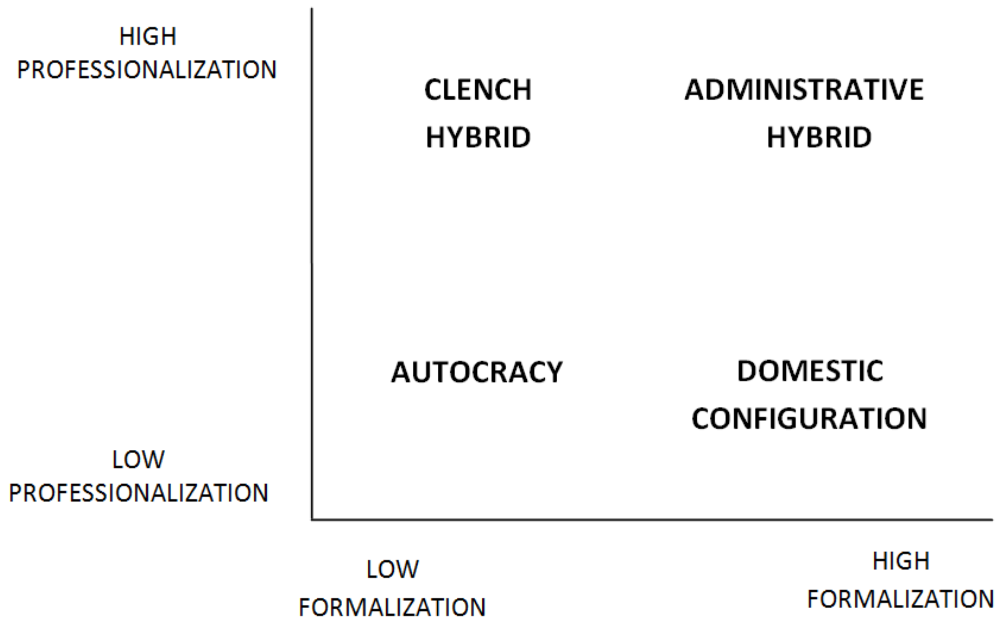
**Table 1** Overview of previous typologies of family firms

| Author(s) | Year | Basis of differentiation | Types of family firms | Empirically tested |
|---|---|---|---|---|
| Dyer | 1988 | - nature of relationships<br>- human nature<br>- nature of truth<br>- the environment<br>- universalism/particularism<br>- nature of human activity<br>- time | * Paternalistic Culture<br>* Laissez-Faire Culture<br>* Participative Culture<br>* Professional Culture | YES |
| Corbetta | 1995 | - ownership<br>- presence of family in board of directors/ directive bodies<br>- number of employees | * Domestic family business<br>* Traditional family business<br>* Extended family business<br>* Open family business | YES |
| Gersick et al. | 1997 | - ownership<br>- family<br>- business developmental stages | * Controlling owner<br>* Sibling partnership<br>* Cousin consortium<br>* Passing the Baton | NO |
| Birley et al. | 1999 | - family involvement in the business | * Family In<br>* Family Out<br>* The Jugglers | YES |
| Sharma | 2004 | - performance on family dimensions<br>- performance on business dimensions | * Warm hearts-deep pockets<br>* Pained hearts-deep pockets<br>* Warm hearts-empty pockets<br>* Pained hearts-empty pockets | NO |
| Lubatkin et al. | 2005 | - ownership | * Controlling owner<br>* Sibling partnership<br>* Cousin consortium | NO |
| Dyer | 2006 | - agency costs<br>- familial liabilities<br>- familial assets | * Clan family firm<br>* Professional family firm<br>* Mom & Pop family firm<br>* Self-interested family firm | NO |
| Westhead and Howorth | 2007 | - ownership<br>- management<br>- family/financial objectives | * Average family firm<br>* Professional family firm<br>* Cousin consortium family firm<br>* Professional cousin consortium family firm<br>* Transitional family firm<br>* Open family firm | YES |
| Sharma and Nordqvist | 2007 | - ownership (4 modes)<br>- management (4 modes) | 16 different types | NO |

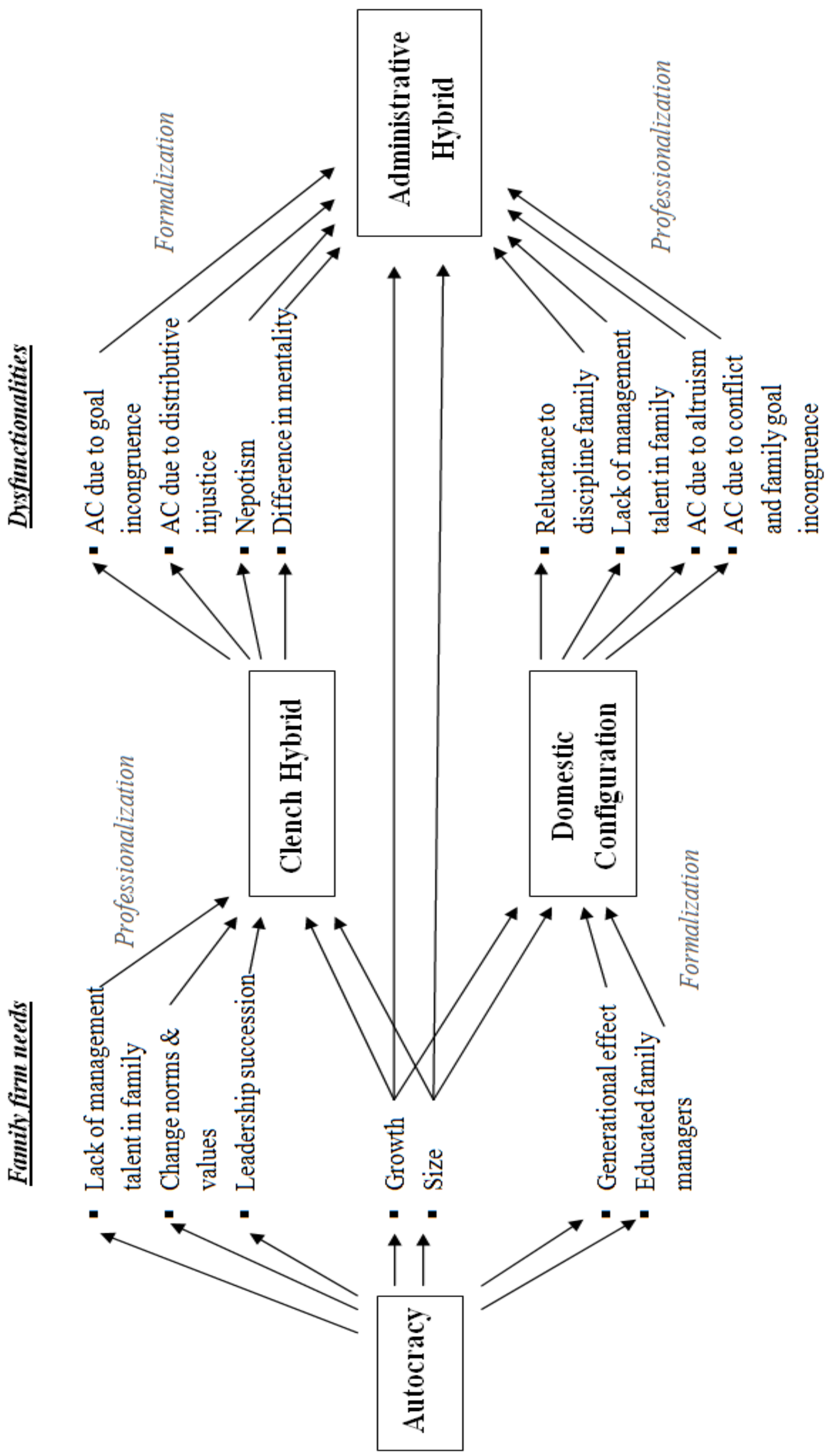
An overview of the previous typologies of family firms. For all typologies the autor(s), year, basis of differentiations, different types of family firms that are distinguished and whether or not they are empirically tested, are shown in this table. They are ranked based on year.

**Figure 1** Professionalization/Formalization typology of private family firms




A new developed typology for private family firms based on two continuums i.e. Professionalization and formalization. The horizontal axis indicates the amount of formalization which is present within the family firm, ranking from low formalization to high formalization. The vertical axes represents the amount of professionalization, ranking from low professionalization to high professionalization. These two continuums enable a distinction between four different types of family firms, i.e. Autocracy, Domestic Configuration, Clench Hybrid, and Administrative Hybrid.

**Figure 2** Shifting between the groups




Several ***Family firm needs*** can cause family firms to shift from the Autocracy type to one of the three other types. When family firms get sidetracked to the Clench Hybrid or to the Domestic Configuration, numerous ***Dysfunctionalities*** will start to emerge, which in turn will lead to the transition to the Administrative Hybrid Type.