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Family firms as kinship enterprises

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Abstract
Evidence from around the globe shows that family firms are enduring, resilient forms of profit-seeking and not an archaic, transient form that will inevitably disappear. Social science research has tended to characterize the family values of these firms as producing "efficiency distortions" that adversely affect their financial performance. The author suggests an alternative heuristic approach of treating family firms as kinship enterprises that endure beyond the life of the firm. This approach enables us to understand how the timing of decisions about capital accumulation, expansion and diversification, as well as managerial organization, are shaped by kinship sentiments and intergenerational commitments without setting up an opposition between economic and kinship goals.

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Family firms have been prevalent throughout the world in both those areas characterized as having developing capitalist economies and those having mature capitalist economies. There is strong evidence that they are enduring, resilient forms of capitalist enterprise and not an archaic, transient form that will inevitably be supplanted by non-family firms. At the end of the twentieth-century, family firms comprised the vast majority of firms in western Europe—for example, 75 percent of all firms in Italy, 80 percent in Germany, and 76 percent in the United Kingdom (Colli, Fernández Pérez, and Rose 2003). They are not, moreover, limited to small and medium-sized businesses, but are also present among big businesses. At the beginning of the twenty-first century, almost half of the top hundred corporations in Italy were family controlled, as were one-third of the topic hundred Swiss corporations (Colli 2003,16). To cite a few well-known examples in the U.S., where family firms are not as predominant as in other European and Asian countries, just consider the Trump, Walton, Koch family corporations.

Let me insert a caveat here: one that has hampered the comparative analysis of family firm throughout the globe and throughout history: namely, there is no standard definition of the family firm among scholars and researchers. Thus, while "firm" generally implies a status of legal incorporation, whereas the more inclusive term "business" does not, the terms "family firm" and "family business" are widely used interchangeably. Both terms are used to refer to a wide range of profit-seeking enterprises characterized by varying degrees of family ownership, control, and management.[i]

I. On conventional social science characterizations of family values as producing "efficiency distortions" that adversely affect financial performance.

Attempts by economic sociologists and economic historians to explain the "persistence" of family firms in particular societies and particular sectors of business generally assume that the family firm is a historical anomaly destined to be supplanted by a more efficient and rational "managerial capitalism."[ii] Researchers have accordingly tended to focus their investigations on

[i] As Colli (2003) points out, depending on whether a "broad" definition (some degree of family control) or a restrictive definition (multiple generations directly involved, direct family involvement in strategic decisions; more than one family member having managerial responsibilities is employed) is used, the estimated number of family firms present in U.S. industry varies from 20 million to 4 million. Although the absence of a standard definition presents a challenge to the comparative analysis of family firms, attempts to fashion a universal definition of family firm are likely to be as futile and analytically unproductive as were the attempts to forge a universal definition of the family. Thus, while there is a large and diverse literature on family firms to which economic historians, economists, sociologists, psychologists, management specialists, and a few anthropologists have contributed, my talk today does not attempt to summarize it, but rather to identify a couple of key conceptual issues that have informed this literature which have hampered our understanding of family firms.

[ii] The view of the family firm as an anomaly in contemporary capitalism is rooted in the model of modern capitalism fashioned in the late-nineteenth century by Weber (1978) who posited a fundamental divide between modern capitalism and other forms of capitalism. For Weber, the orientation of family firms toward communal commitments of family unity and continuity disqualified them from modern capitalism, which he viewed as oriented exclusively toward the rational, calculated pursuit of profit and accumulation (Yanagisako 2002). Weber explicated this binary between modern and pre-modern forms of capitalism most clearly in his mammoth work, *Economy and Society* (1978), in which he argued that a distinctive feature of modern capitalism is its motivation solely by the desire for utilities (profits) (Weber 1978:68). While Weber recognized that most social actions are oriented towards multiple ends and shaped by multiple considerations, he argued that they could be analytically differentiated on the basis of their "conscious, primary orientation" (Weber 1978:64). He accordingly distinguished the calculative spirit and singular goal of profit and accumulation of "modern capitalism" from the pre-modern capitalism pursued by the large capitalist households of the medieval cities of northern and central Italy (Weber 1978:359). Because these households were based on "direct feelings of mutual solidarity rather than on a consideration of means for obtaining an optimum of provisions," Weber concluded that they have a "primarily non-economic character" (Weber 1978:156). His concept of "economic action" in modern capitalism thus rests on an opposition between the rational pursuit of utilities and sentiments of mutual solidarity—in other words, between economics and kinship. Given this dichotomy, for Weber, "modern family capitalism" or the "modern family firm" is an oxymoron (Yanagisako 2002).

the efficiencies and inefficiencies that the familial character of these firms pose for economic actors, including the risks and uncertainties of financial loss. A common assumption in these studies is that the presence of family firms is the result of an economic and political environment *lacking* in the institutional characteristics of modern capitalist society, in particular a legal system that secures and enforces property rights, political and economic stability, and the free circulation of information. In this view, family firms are a mode of coping with the uncertainties of capitalism, including its unstable and cyclical economic conditions, recurrent recessions, and periods of slow growth. Non-kinship based firms, on the other hand, are viewed as a more suitable form of enterprise in a well-functioning capitalist economy. Yet, as the history of capitalism has shown it to be continually characterized by unstable and cyclical economic conditions and uncertainties, such a functionalist explanation of the existence of family firms is clearly inadequate, because the same could be said of any form of enterprise that is prevalent in the world, including the joint-stock company.

II. Family firms in Italian manufacturing districts were celebrated as ushering in a second industrial divide in the 1970s and 1980s

In the mid-1980s Italian industrial districts in which family firms predominated were acclaimed by scholars such as Piore and Sabel (1984) as ushering in a new period of industrialization that would succeed Fordist mass production. The economic success in the 1970s of the "Third Italy"—the central and northeast areas of the country—was attributed to the networks of small- to medium-sized firms that provided the decentralized structure for the manufacture of products ranging from wine and food to ceramics, machine tools, textiles, and electrical appliances. The flexible specialization and innovation of these firms, it was claimed, enabled them to better weather the economic challenges of the 1970s and 1980s. Yet, the rise of the "Third Italy" in the mid-1970s was hardly the first time that small- and medium-sized firms linked in local production networks had predominated in Italy. Some, such as Como's silk industry, had existed since the late nineteenth century.

Piore and Sabel recognized that family firms were the backbone of these Italian manufacturing districts but failed to understand that the dynamism of their industrial networks was a product of the generative power of their kinship structure. Not only were the vast majority of these firms owned and managed by families, but their manufacturing networks were commonly rooted in kinship, friendship and local community ties.[iii] What I learned about these family firms through intensive ethnographic and archival research in the industrial district of Como in the 1980s and 1990s was that their strategies and the timing of capital accumulation, reinvestment, firm expansion, diversification, and management organization are shaped by ideas, sentiments, and commitments of family and gender (Yanagisako 2002).

These firms were generally organized according to a patriarchal structure in which the head of the firm (usually the father) made decisions in consultation with adult children (usually

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It is worth mentioning here that family firms are conceptually problematic not only for Weberian theories of modern capitalism, but also for Marx's model of capitalism, which is rooted in the distinction between capital and labor. Family firms blur the boundary between capital and labor because in many family firms some family members who work alongside non-family employees are paid wages or salaries whereas others are not. Over time some of these family members may eventually become owners of the firm, but others will not. Hence, for some their work in the family firm is an investment in the firm, for others it is not—at least not in the conventional sense of financial investment.

[iii] At the same time that these firms were embedded in local production networks, they were far from isolated from transnational supply and distribution networks.

sons, but increasingly daughters) who managed divisions of the firm. The goals of firm owners were linked to ideas about the masculine self and men's desires to retain authority in their families. Fathers' goals of handing the firm on to their adult sons (and, to a lesser extent, their adult daughters) were motivated by their desire to provide their sons with the means to remain independent of other men (employers) and, at same time, to provide themselves with the means of maintaining their authority and centrality in the family.

In most of the small firms, but also in medium-sized ones, the owner and his family and relatives commonly worked alongside other employees – mong these were a wide range of kin, including siblings, siblings' spouses, uncles and aunts, affinal kin, and their children. Whether they worked on the factory floor or in the office as accountants and sales managers, the work of the owner and his family members alongside non-family employees blurred the distinction between labour and capital. Gender also played into the shifting boundary between owners and workers and their unequal share in the firm's profits. Wives, daughters, sisters and other female family members commonly worked in family firms, especially during the early years before the firm became well-established. As their work was treated as an extension of their family duties rather than as productive labor, they received less compensation than male family members, and sometimes none at all. This was especially the case where sons were expected to take over the firm whereas daughters were expected to marry out with a smaller share of the family patrimony. Often their work in the firm was not officialy reported and, needless to say, the work they put into caring for family members, mediating family relations, and helping to raise the next generation of the family was not recognized as productive labor.

In the initial years of a firm, family members were likely to accept a period of belt-tightening and to work for minimal compensation. But as firms became more established, expectations of remuneration change and conflicts emerged. The timing and form of these conflicts varied depending on the size of the family firm, the amount of capital invested, the division of labor among family members, and the configuration of the family. Commonly, however, family relations became especially strained during the transition of ownership and management from one generation to the next as disagreements emerged about which member of the next generation should lead the firm, how many of them could be supported by the firm, and how managerial responsibility should be divided.

As Italian inheritance law requires equal division of the patrimony among siblings, most family firms were unable to survive beyond the second generation because they were unable to expand sufficiently to incorporate grandchildren into the firm. This is an example of how kinship law and custom directly shape what we might call the developmental cycle of family firms. Equal division of the family patrimony is a structural feature of kinship that leads to the division of the firm's assets and, in most cases, of the firm itself. While some children and grandchildren may be strongly committed to the family firm, others (especially those who are not actively engaged in its management) may not. If the latter demand their equal share of the family patrimony, the resulting fragmentation of capital can lead to the division of the firm or its demise. Large family firms are sometimes able to put off dividing the firm's assets by transforming themselves into joint-stock holding companies in which family members are the major shareholders. By paying dividends to family stockholders, those managing the firms may be able to satisfy other members of the family, at least for a while. Yet, the likelihood of division before the firm can be handed on to the third generation is captured in a number of popular adages, including the Italian version of "from shirt-sleeves to shirt-sleeves in three generations."[iv] Inheritance and succession are crucial to the continuity of family firms, and consequently differences in inheritance law and custom create different outcomes. Consider the Napoleonic laws of equal inheritance among children in hold sway in Italy in contrast to U.S. inheritance law where individuals are not required to transmit their property to their children, let alone to divide it among them equally. These differences in kinship structures and dynamics produce significant differences in the form and timing of accumulation, reinvestment, diversification and division in the developmental cycle of family firms throughout the world.

Because scholars and business consultants recognize that the transmission of the firm from one generation to the next is the most difficult phase in the developmental cycle of the family firm, considerable attention has been paid to it. Much less attention has been devoted to understanding what leads to the generation of new family firms. Indeed, there is a tendency among researchers to explain the persistence of family firms as a business form as a result of the success or failure of the intergenerational transmission of these firms. This entails conflating the low rate of intergenerational transmission with the low rate of persistence of the family firm as a type of business. This, in turn, leads to misconstruing the low rate of intergenerational transmission of family firms in a particular setting as evidence that it is an unsustainable business form in that setting. The error in this conflation is obvious when we consider the parallel of equating the low rate of survival of particular families over successive generations with the low rate of survival of the family in general or equating the low rate of survival over time of particular firms with the survival of firms in general. We know that new businesses are constantly being produced even though the high failure rate of businesses is common knowledge. Likewise new families are constantly being formed, including by individuals who consider their family of origins to have been dysfunctional disasters.

Family firms are no different. New ones may be continually created regardless of whether old ones are successful in surviving no longer than one generation. In Como, new family firms frequently rose out of the ashes of previous ones. Family firms that dissolved as a result of disagreements, moreover, commonly spawned new family firms as siblings or other fractions of the family hived off to initiate their own firms. In short, the demise of a particular family firm did not necessarily mean the demise of the kinship enterprise.

Kinship sentiments and commitment produced another crucial dynamic of Italian industrial districts. Whether they survived beyond the first, second, or third generation, family firms were the breeding grounds for managers and technicians who commonly left to start up their own firms. This was a crucial dynamic of these industrial districts. Many of the owners of subcontracting firms began their careers working as technical directors or managers in other firms in the period before the owner's children were old enough to take on managerial jobs. As these employed managers were well aware that they would eventually hit what I have called "the kinship glass ceiling" – in other words, the ceiling beyond which only family members were promoted – they often took on their jobs with the clear intention of acquiring both the practical training and the clients that would enable them to open their own firms. The cap on their advancement in the firm, combined with the desire of men to be their own boss to fuel the ambitions of managers to start their own firms. The transformation of salaired managers into the owners of subcontracting firms was a well-established pattern of upward mobility in industrial districts such as Como and an integral part of the process of the reproduction of the network of

[iv] The Italian version of this adage is "Il nonno fondò, i figli sviluppano, i nipoti distruggono" -- the grandfather founds the firm, the children develop it, the grandchildren destroy it. A variation end with "i nipoti mangiano" (the grandchildren eat it).

firms. Indeed, the dynamism of Italy's industrial districts depended in good part on what was experienced by Como firm owners as forms of betrayal.

This account of the structure and dynamics of Italian family firms hopefully explains why I have concluded that family firms are usefully conceptualized not merely as profit-seeking enterprises, but as kinship enterprises. By "kinship enterprise" I mean that they are the projects of collectivities of people who construe themselves to be connected by enduring family bonds and whose relations are structured by beliefs, sentiments and commitments attached to these bonds. In treating family firms as kinship enterprises, I am suggesting that we move beyond the recognition that economic action is embedded in structures of social relations to the recognition that what is commonly narrowly construed as economic action is actually a nexus of social action in which kinship goals, sentiments and commitments are at play. This enables us to understand how decisions about the investment and reinvestment of capital, expansion and diversification, and management structure are made without setting up an opposition between economic and kinship goals.

III. Family Firms in an era of transnational production of Italian fashion

These generative kinship processes continued to operate in the 1990s and the first decade of the twenty-first century as Italian family firms began to outsource production to China, as well as to other countries, and to forge joint ventures with Chinese firms. As Italian family firms in the textile and clothing industries expanded production in China in the first decade of the 2000s, China also became the fastest growing market for Italian luxury fashion. As a result, some luxury fashion brands began to forge joint ventures with Chinese firms. Throughout this period of dynamic change and decline in manufacturing in Italy, the kinship sentiments of these firms were their most enduring characteristic. Indeed, the primary motive for relocating production to China, forging transnational joint ventures, and developing transnational distribution chains has been to enable the firm to survive and expand, thus providing the next generation with the means of family continuity.[v]

One consequence of the expansion of Italian family firms into China has been the alteration in the relations between proprietary families and the managers they hire. The establishment of overseas manufacturing divisions, joint ventures, and distribution offices has created managerial positions that family members are unwilling or unable to fill, thus increasing the opportunities for non-family managers, who can now rise to higher levels of management, such as director of production in China, director of a joint venture with a Chinese partner, or director of the company's operations in Asia.[vi]

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[v] When Italian textile and clothing firms began moving production to China in the 1990s, China was already becoming known as the workshop of the world. Like firms in other countries, Italian manufacturers were initially lured to China by the low cost of labour and subsequently by its huge domestic market. By the late-1990s, the increasingly favorable environment for foreign investment and trade created by various levels of the Chinese government made China the most-favored-nation for the outsourcing of some or all the phases of production of Italian textiles and clothing. After 2000, these shifts in policy along with the growth of the Chinese domestic market and the end of import quotas established by the Multi-Fiber Agreement led to a further increase in Italian textile and clothing firms engaged in manufacturing in China through a variety of forms of collaboration with Chinese partners. The Italian firms involved in these collaborations are all family firms that are both owned and managed at the upper levels by family members. Their presence in China parallels the predominance of family firms in Italian capitalism recounted above. Some of these firms produce clothing priced for the middle-level of the fashion market, others for the luxury market. Others produce high fashion textiles and garments.

[vi] Non-family managers working in China occupy a range of positions — from setting up the management structure of a new joint venture, directing production in a joint venture's manufacturing plants, marketing franchises to sell an Italian designer brand, and finding and recruiting Chinese manufacturers to collaborate in joint ventures with an Italian firm that produces several

At the same time that managerial positions in overseas production and distribution have increased, the Italian managers who take these jobs are blocked from what had been the main path of social mobility in Italian industrial districts discussed above — namely, opening a firm of their own. The outsourcing of manufacturing to China has largely closed off this avenue of career advancement and class mobility to managers. As large, vertically-integrated firms sent subcontracting work overseas, the opportunities for opening small, subcontracting firms in industrial districts like Como shrank. Transnational managers are in an especially weak position to embark on this path of class mobility because they have neither family labour on which to draw nor the social networks in either their home districts or in China to provide them with clients and business associates. Initiating a business in China without these resources requires a large amount of financial capital — much more than most have. Their expatriate social network, while useful for finding other managerial jobs, does not give them access to either the financial or social capital necessary for opening a new firm.

Chinese managers employed in these Italian firms, however, have both family labour and local networks to embark on this path of social mobility. They have much better prospects of moving from paid employment to starting up their own firms. This has fueled entrepreneurial ambitions among many of them and, along with this, the generation of Chinese family firms.

IV. On the hidden productivity in family firms and the productive dynamics between regions

Let me end with a few suggestions as to how macro-economists might draw on these anthropological insights into family firms to revise their calculations of productivity in national and transnational businesses and the relations between them. First, the unreported work of family members, especially wives and daughters, are not included in assessments of the productivity of these firms; this includes not only the work they do in the firm whether in the factory or office, but also the intimate, affective work they do bolster relations among family members who work in the firm; the care and support they provide for retired family members as well as for children who will become workers and managers in the next generation. This means that a considerable amount of the labour that goes into firm productivity is excluded from macro-economic analyses.

Second, understanding the dynamism of industrial districts in which family firms prevail requires an understanding of the kinship sentiments and commitments that shape the continuation and demise of these firms as well as the generation of new firms.

Third, the inter-regional dynamics between the Italian textile and clothing manufacturing districts and the Chinese districts in which the former initially outsourced production requires an understanding of the kinship structures and dynamics of both Italians and Chinese. In short, kinship is as central to the Chinese industrial manufacturing districts as they were to the Italian districts that they have now eclipsed.

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middle-market brands. Managers on the production side work closely with Chinese factory managers, shift supervisors, accountants, technicians, and office staff, but they rarely supervise Chinese factory workers. Those involved in distribution and sales, on the other hand, work with Chinese franchise managers, retail clerks, warehouse managers, and office staff.

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