When a firm becomes a trap. A longitudinal case study approaching the dysfunctional dynamics in family businesses

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The purpose of the paper

The idea of family business is linked to the idea of 'origins' in at least two ways. First, family business is perhaps the oldest form of business in the history of humanity. Second, some scholars assert that the overlapping of family and firm is the origin of several pathological outcomes, especially for the family members.

The purpose of this paper is to analyze and discuss the role of family business in generating dysfunctional outcomes. When serious problems arise, the family business is treated, for all intents and purposes, as a patient (Kaye, 1996), and this patient - the family's continuity in their business -must be saved. Thus, the purpose of this paper is also to demonstrate that in many cases the family business is not the patient, but an illness afflicting the family.

Using a 15-year longitudinal case study, in this paper I show a prototypical case of family business as an illness. Furthermore, I offer an explanation for this phenomenon in terms of developmental psychology and Family Systems Theory. I chose this field of study because several other approaches (organizational, managerial, and financial), focus more on success in terms of earnings, shareholder equity growth, and wealth retention, instead of human development and wellness. The economic and managerial literature, unfortunately, often equates *success* with *succession*. For the purposes of this discussion, I will *not* assume that succession to the next generation means the family business has succeeded. On the contrary, succession sometimes occurs as a result of developmental failure in a family, and (conversely) a thoroughly successful outcome for a family business can sometimes involve the decision to dispose of it.

The theoretical background

The field of organizational studies offers copious research on family business. In particular, many scholars have focused their work on issues like business transmission (ReF), differences between family and non-family firms (REF), and institutional overlapping of family and firm.

These topics have been studied using multiple approaches, like Agency Theory, Stewardship Theory, Resource-Based View, and even from an evolutionary perspective.

In particular, trust and commitment are two fundamental pillars upon which many of the positive approaches towards family business research are built (Eddelston, Morgan, 2014). These concepts are often used to describe distinct attributes of family businesses like *familiness* (Frank, Lueger, Nose, & Suchy, 2010; Irava & Moores, 2010; Zellweger, Eddleston, & Kellermanns, 2010), *social capital* (Arregle, Hitt, Sirmon, & Very, 2007; Pearson, Carr, & Shaw, 2008; Sirmon & Hitt, 2003), *reciprocal altruism* (Eddleston, Kellermanns, & Sarathy, 2008; Lubatkin, Durand, & Ling, 2007), *family firm identity* (Zellweger, Kellermanns, Eddleston, & Memili, 2012) and *stewardship* (Davis, Allen, & Hayes, 2010; Dibrell & Moeller, 2011; Eddleston & Kellermanns, 2007).

Research has argued that those family businesses that are able to channel family members' commitment toward accomplishing the family firms' goals will experience the greatest growth and entrepreneurship (Eddleston et al., 2012; Zahra, Hayton, & Salvato, 2004; Zahra, Hayton, Neubaum, Dibrell, & Craig, 2008). However, there is also a *dark side* of trust and commitment that can lead to opportunism, complacency and blind faith (Eddleston & Kidwell, 2012; Steier, 2001; Sundaramurthy, 2008).

This paper is grounded on the Social Psychology of the Family field of study (Kaye, 1996; 1992; Scabini, Iafrate, 2003) due to its powerful insights into processes and dynamics within a family, and among family members. Furthermore, Social Psychology of the Family underlines the fundamental role played by both *individuation/differentiation* and *legitimization* processes of the new generation in ensuring the overall success of the transmission.

Some anecdotal case reports and a small amount of statistical evidence suggest that the two variables are positively correlated (e.g., Swogger, 1991; Kaye, 1992; Lansberg and Astrachan, 1994).

Several authors (Barnes, Hershon, 1976; Kets de Vries, 1977, 1993; Lansberg, 1988; Peay, Dyer, 1989; Rubenson, Gupta, 1996) suggest that some sources of resistance to *legitimisation,* and *individuation/differentiation* of the second generation, could originate from characteristics of the entrepreneur (age, gender, attitude, personality traits). Literature has also paid? attention to the inner dynamics which involve both generations.

More in general, every situation experienced by a family can be defined by assessing two different and variable family features: its *cohesiveness* (how self-oriented the family is) and its *flexibility* (how changeable and adaptable the relationships within the family are; for assessment of these dimensions, see also Beavers & Hampson, 1995).

Regarding the different levels of *cohesiveness*, a family could be: disengaged, disjointed/divided, connected, and (too) involved; moreover, regarding the different levels of *flexibility* of the inner relationships, a family could be: strict, organized/structured, flexible/versatile, and chaotic. Each dimension/variable (both cohesiveness and flexibility) could be described in a curvilinear graph, whose extreme values are negative (dysfunctional).

The research gap addressed

Regarding several specific problems arising in family business, managerial literature provides evidence but doesn't offer an explanation. In order to progress from 'what' to 'why', it becomes necessary to investigate other approaches, such as the Social Psychology of the Family field of study (Scabini, 1995; Scabini, Iafrate, 2003).

Although organizational studies in the past paid attention to almost all aspects of family business, few researchers have challenged the idea that successful business transmission and a long-term surviving business are desired outcomes in themselves. The assumption is that because a family business is intrinsically good for its owners, its employees, its customers, and its community, it must be nurtured to a healthy enough state to survive.

In this research I highlight the fact that some families are very drawn to involving sons, daughters, and other relatives in their business because it appeared as if they were *trying* to prevent healthy individual growth and family adaptation.

Furthermore, organizational research often positively emphasizes the role of non-economic outcomes in family business, despite the fact that, often, such outcomes cut the life-cycle of a firm, because they are to the detriment of both psychological and economic outcomes. In this paper I provide an opportunity for understanding pathologies which can arise when a family business becomes a trap for their youngest members.

The chosen approach

It seems very difficult to obtain data about pathological relations in family firms, and often the elicited responses are biased, if not explicitly denied. For these reasons, this study used a qualitative, longitudinal protocol, collecting data that would otherwise have been difficult to obtain through other means, such as a questionnaires (Astrachan, Jaskiewitz, 2008; Zellweger, Astrachan, 2008). Despite the use of qualitative methods, I followed the literature guidelines scrupulously (McCollom, 1990; Chenail, 2009), in order to: produce generalizable data about

the universe of SMEs (external validity); achieve an epistemologically unobjectionable process of intervention; keep the distortion costs of the researcher under control; ensure a methodologically consistent system (internal validity).

The methods of analysis

I used an inductive, case-based methodology in order to study the influence of family ties and founder's leadership in family firms. Using a qualitative case study approach consisting of 15-year in-depth, semi-structured interviews and analysis of the data with grounded theory methodology (Strauss & Corbin, 1998; Corbin & Strauss, 2008), I conducted a longitudinal research design to add to existing theory about family firms.

The use of case studies in family business research is well established, e.g., Barach and Gantisky (1995); Cater and Justis (2009); Dunn (1999); Dyck et al. (2002); Lambrecht (2005); Lambrecht and Lievens (2008); Miller, Steier, and LeBreton-Miller (2003); Murray (2003); Santiago (2000); Tsang (2002); Steier and Miller (2010). Case study investigators seek to use localized findings to articulate global significance (Chenail, 2009) through ''an empirical inquiry that investigates a contemporary phenomenon within its real-life context'' (Yin, 2003: p. 13).

Eisenhardt (1989) proposed that case study researchers may choose cases that are likely to replicate or extend theory rather than examine cases selected randomly as in quantitative survey analysis.

Thus, I chose this case due its prototypical value, in order to highlight and offer an explanation for how family firms could become dysfunctional for both the family and the business, while in appearance everything is running smoothly.

The main findings

I carried out this longitudinal case study in a small family firm in the sector of healthcare and wellness services, from 1998 to 2014. I began my consultation when the firm, (in its current form), started its business. Immediately, during my consultation, I succeeded in reconstructing the facts (both professional and familiar) which had happened before that date.

From the beginning, the situation involved all of the family in the legal ownership of the firm: the parents, Maria[1] and Piero, and two children, Giulio, and Sara, are all associated with the company. However, only two (the mother and the daughter) worked in the firm. This fact shows the prominence of the family over the business: despite all efforts, only two members of the family were actually working in the firm, but all the family members shared the capital, even the members who hadn't invested in the business. It seems clear that the absolute priority for the first generation is to preserve the family cohesiveness, and ensure a shared estate.

The founder as an authoritarian leader

In this case study, the founder has a low socio-economical background. After an experience in a large hospital as a nurse, she retired early, and then she worked as a freelance masseuse. During the consultation she often told me 'I went to work early, when I was 16, straight after nursing school, and I wasn't able to attend university. I hoped that the situation would be different for my children… my wish was that they went to university. Unfortunately, the eldest achieved only a bachelors degree, and became a dental mechanic… hence, I put a lot of pressure on his sister (6 years younger) in order to ensure that she became a dentist… in this way, they could have worked together! But, she failed the admission test twice, and then she became physiotherapist, so she was able to work with me'.

During these events, where was the father? The father didn't interfere with his spouse's decisions about the children at all, showing a lack of responsibility and decision-making capability.

Obstacles to the differentiation of the second generation

The identity of the founder and their business is inseparable. Father and son are consistently uninvolved in the management. Even the daughter, more skilled than her mother from a technical point of view, manages only the everyday routine situations autonomously. All decisions are made by the mother with, at most, the business consultant. Strategy, and its implementation, are controlled completely by the mother.

[1] All the names have been changed

The daughter often related to me that she sometimes attempts to highlight a problem, or make claims about, what she thinks are, poor decisions by her mother, but the mother's reaction is almost always rude and sometimes aggressive. On these occasions, the mother reacts explosively to the daughter, even in front of the other employees or clients.

Finally, all relationships with the most important providers (mainly the bank and the physicians' staff) and clients are managed directly by the mother.

Obstacles to the legitimization of the second generation

One day, the mother was involved in an accident, and she experienced complete (temporary) physical disability. This critical event could have been an occasion for the daughter to improve her autonomy and responsibility. It was also the perfect occasion for her to start a legitimization and differentiation process. However, this unexpected event resulted in a lost opportunity. The organizational system (made up of the daughter and the other employees) chose a palliative approach: everyday, the daughter went to her mother's bedside, in order to receive instructions. The daughter was very upset, and day-by-day she shared her concerns about an uncertain future. After some months, luckily, (or, maybe, unluckily), the mother recovered, and the situation returned to as it was before of the accident. The daughter was relieved, and the business went on.

Lack of *managerialisation*

In this firm meritocracy doesn't exist. The tax-planning approach of the business consultant results in a wage assignment mechanism grounded on fiscal matters rather than the individual contribution to the business. This is due to the fact that the founder is retired, and so she has a double-income taxation. Thus, the business consultant decides the retribution level for both mother and daughter, consistent with saving needs.

One day, the daughter bought a property, and she arranged for a mortgage with the bank. Hence, arose her desire to earn more (for example, producing much more profitable performance), in order to pay off the mortgage as soon as possible, but the ongoing described mechanism made it impossible.

The 'kid brother' syndrome

As I underlined above, the eldest child, Giulio, is not involved in the business directly. Giulio has always been affected by psychiatric problems, such as alcohol abuse and bipolar syndrome. Although he carries out a different job, his life is always under strict parental control. Thirty years ago, he had just become a dental mechanic, the parents made a business acquisition, starting up a dentist's surgery, and rented it to a non-family member dentist. They made an agreement, that they expected their son to become the dental mechanic for this dentist.

Five years ago, Giulio faced a business crisis, due to strong competition, but mainly due to his low skill level. Immediately, the mother decided that the eldest son would join the family business, too. Thus, in doing so, she instigated a future 'kid brother syndrome' (Kaye, 1992). This syndrome regards a child 'either as inadequate or as potentially able but unmotivated, lazy, incompetent, difficult to work with, unreliable, or irresponsible. Yet he not only receives financial support from the family, he does so through continued employment by the business despite their constant complaints about his poor performance (Kaye, 1992, 237)'. Furthermore, consistent with the Agency Theory approach an adverse selection problem arises, due to the lack of fit between the skills required and the skills possessed by the son.

Leibowitz (1986) observed that family businesses are most often formed by people trying to resolve a problem in their relationship with a particular relative, or to fix a dysfunction in their whole family. Tragically, it doesn't work. It only perpetuates the problem, and sometimes even makes it much worse (Kaye, 1996).

Conclusions

This study, paradigmatically, clearly shows a complete set of dysfunctional behaviours carried out by the founder in a small Italian family firm, with the intention both to preserve family cohesiveness and ensure a source of retribution for the second generation. According to the seminal research of Kaye (1991; 1992; 1996), this case study suggests that "contrary to the course of normal life-cycle development, family-owned and/or family-managed enterprises are often used to *resisting* the differentiation and development of children who join the business, and sometimes even of children who don't" (Kaye, 1996, p. 355).

Due to the aforementioned familiar dimensions/variables, given the different values of both *cohesiveness* and *flexibility*, each combination could result in eight different kinds of family. Among these eight types, business transmission experiences the highest likelihood of positive outcomes in families which are, at the same time, both connected *and* flexible/versatile.

However, from the dynamics described above, self-centred families and strict attitudes shown by mothers seem to be typical of both over-involved *and* strict families (Scabini, Iafrate, 2003).

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