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# THE CONTRIBUTION OF FAMILINESS TO THE PERFORMANCE OF FAMILY BUSINESSES

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While family businesses are known to consistently outperform non-family businesses in financial terms over the long run, family businesses have received comparatively little attention from researchers. In this article an explanation is offered for this superior performance in the form of the concept of “familiness” – the unique contribution that family involvement brings to any business (which is divided into founder capital and family capital). It is explained that family businesses possess no general competitive advantage over non-family businesses. The unique strength of successful family businesses does not lie in their espoused advantages, but in their ability to sustain and adapt, through family capital, the culture created by the founder. An evolutionary conceptual model of the creation and transmission of familiness is provided to explain how this unique strength influences family business performance over the long run.

Keywords: family, familiness, business, performance

## INTRODUCTION

Even though the family business is the most prevalent form of business throughout the world (Upton & Petty 2000:28; Kim, Kandemir & Cavusgil 2003:1-2; Heck, Upton, Bellet, Dunn & Parady 1994:2), it has received comparatively little attention from researchers (Litz 1997:55). Family businesses are even more important in emerging market economies (Gibson 2002:68; Kim et al. 2003:5). In South Africa it is estimated that 84 percent of all businesses in the formal sector are family-owned, in other words, a total of close to 1.2 million businesses. Of this total, approximately 330 000 are companies or close corporations and 870 000 are sole proprietors (Balshaw 2003:5).

The conventional wisdom about family business refers to the perceived lack of endurance of family businesses. The statistics that reveal that one in three family businesses are continued by the following generation and that their average lifespan is 24 years, have appeared in countless articles on family business since it appeared in Beckhard & Dyer (1983:5). Lesser known and quoted are the numerous studies that contradict the conventional wisdom. It has been shown in various countries that family businesses last longer (Westhead & Cowling 1998:44; Wall 1998:24; Bhattacharya & Ravikumar 2001:187), perform better (Ryan 1995:12; Anderson & Reeb 2002:13-21; McConaughy, Matthews & Fialko 1997:7-9; Neubauer & Lank 1998:11-12) and are more resilient (Church 1993:17; Jones & Rose 1993:1) when compared to non-family businesses.

Early research into the family business field (e.g. Donnelley 1964:93-105; Levinson 1971:90-98; Davis 1983:47-56) stressed how to overcome the negative side of family business and so set the research agenda for future family business research. As a result, the perception that family businesses lack endurance has dominated research. Given this negative outlook, the main question family business research addressed was: what is wrong with family businesses and what can be done to fix it? Or alternatively: how can family businesses avoid failure and survive longer? As Kepner (1983:69) pointed out, the family business field is occupied with the wrong questions; questions that perpetuate a mindset focused on eliminating the negative rather than developing the positive. In addition, studies that have emphasised the positive aspects of family business have rarely gone beyond a list of advantages of family business (Habbershon & Williams 1999:37-39).

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The purpose of this article is to draw academics' attention to the superior performance of family businesses relative to non-family businesses, and to find the underlying reasons for this superior performance.

### **DEFINING FAMILY BUSINESS**

A significant problem in the family business field is the lack of definitional clarity on the central concept of family business. From Chua, Chrisman & Sharma's (1999:25) review of the important definitions of "family business" offered since 1964, it is clear that most definitions have tended to focus mainly on the ownership and management dimensions.

Most authors (e.g. Barnes & Hershon 1976:106; Donckels & Frohlich 1991:152; Gallo & Sveen 1991:181) believe that family businesses are defined as those where a single family has controlling ownership (50 percent of the voting shares or more) as well as management control. Since this definition is easy to operationalise, it is also most often used in empirical studies of family business. This definition, however, seems to include businesses owned by a single person and businesses where the family has control but has little interest in the business' affairs or in continuing its involvement in the long run, while it excludes businesses where a family might have a significant influence over the direction of the firm but with little formal control.

To clarify, some authors (e.g. Donnelley 1964:94; Churchill & Hatten 1987:52; Ward 1987:252) have added further dimensions to the definition, most commonly the involvement of more than one generation in the business and the perception of being a family business.

The family business typology of Litz (1997:57) suggests that the essence of family businesses is better captured by the behavioural dimension i.e. businesses are family businesses because they behave like family businesses. Some empirical studies pointed out the need for a behavioural perspective since it is possible for firms to be professionally managed and still exhibit the characteristics of family businesses (Daily & Dollinger 1993:88). Chua, Chrisman & Sharma's (1999:28-35) empirical study confirmed that the behavioural dimension explains family business behaviour significantly better than any of the definitions that include easily operationalised variables such as ownership and management control.

The definition offered by Chua et al. (1999:25) appears to come closest to incorporating the behavioural dimension and will consequently be used: A family business is a business governed and managed with the intention to shape and pursue the vision of the business held by a dominant coalition controlled by members of the same family in a manner that is potentially sustainable across generations.

### **FAMILY BUSINESS PERFORMANCE**

In this section it is shown that family businesses consistently outperform non-family businesses in financial terms. The idea of "familiness" is offered as an explanation for this superior performance.

#### **Comparative studies**

Various empirical studies (for example Anderson & Reeb 2002:1-37; Anderson & Reeb 2002:1-39; McConaughy et al. 1997:1-17; McConaughy, Walker, Henderson & Mishra 1998:1-19; Vilaseca 1995:1-13) have shown that family businesses tend to approach the pursuit of financial performance differently from non-family businesses and consistently outperform non-family businesses according to financial measures.

McConaughy et al. (1997:8-11) found that family businesses on the S&P 500 tend to outperform non-family business according to the measures of market-to-book equity ratio, stock market return, sales growth, gross and net margins on sales, cash flow per employee and working capital per unit of sales.

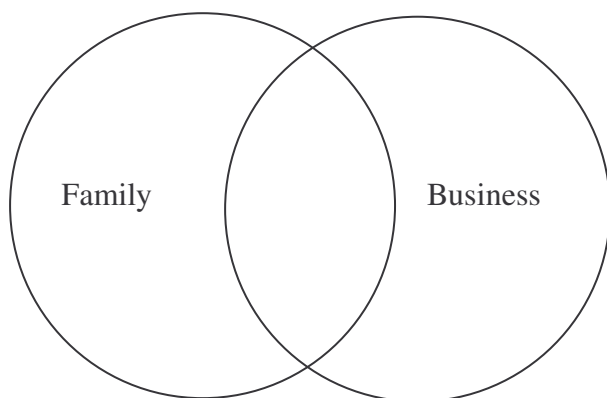
McConaughy et al. (1998:1) concluded that family businesses tended to be more efficient than non-family businesses. Anderson & Reeb (2002:17-18) found that family businesses on the S&P 500 tend to do better than non-family owned businesses in terms of Tobin's Q-ratio, return on assets and EBITDA (especially if founders or founder descendants occupied the CEO position). Anderson & Reeb (2002:3-7) confirmed that family businesses tend to be better at value maximisation than non-family businesses on the S&P 500. While family businesses showed no significant difference in risk-taking, they were more valuable and had a higher Economic Value Added (EVA) than non-family businesses.

The idea that family businesses and specifically family business groups are dysfunctional or in crisis, is soundly and consistently debunked by empirical studies. While no broad comparative studies have been done in South Africa, according to Ryan (1995:12) the situation is likely to be similar - family businesses listed on the JSE Securities Exchange delivered a 36 percent return on equity from 1987 to 1992 as opposed to an average 27 percent return in the non-family industrial sector over the same period.

### Orthodox explanations

Orthodox family business research sees family businesses as comprising separable dimensions (namely family and business). One of the earliest depictions of this so-called overlap model of family business was given by Lansberg (1983:44), as given in figure 1, and further refined by the developmental models of Gersick, Davis, Hampton & Lansberg (1997:17) and Carlock & Ward (2001:27).

**Figure 1: The two-circle overlap model**



**Source: Lansberg (1983:44)**

The explanation that such overlap models suggest for family business performance, is that family businesses were able to separate the family dimension from the business dimension, thereby avoiding the destructive conflicts that family businesses are prone to.

Overlap models create a perception that family and business can and should be separated. This view can be traced back to the good-bad approach where family influence is regarded as something that is to be tolerated in a business, and not necessarily crucial to a family business' performance. It is known, however, that family businesses tend to perform better than non-family businesses. If family businesses outperform non-family businesses, it is because they have some kind of sustained and unique advantage that non-family businesses cannot easily imitate. The better performance can only

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be due to the single differentiator between family businesses and non-family businesses – a family exercising strong influence as a dominant coalition. Keeping family separate from business is therefore harmful, as it attempts to extract the one thing that gives a family business its advantage over its non-family business rivals. Stafford, Duncan, Dane & Winter (1999:206) expressed this succinctly: "...it is not the business that makes a family business unique from other business arrangements; rather, it is the family." In other words, a family business that is able to extract and separate the family-element from the business will lose the one element that makes family businesses unique and allows them to outperform non-family businesses.

Family influence is the one thing that is unique to family businesses, and could be regarded as a resource to a business. Family influence as a resource is referred to as familiness. Familiness is the unique bundle of resources a firm has as the result of the interaction of the family, firm and individual family members with one another (Habbershon & Williams 2001:18). Familiness is regarded as a capability in the sense that it is firm-specific, embedded in the firm and its processes, and is not transferable to other firms.

Familiness originates with a founder, so the founder as a resource to the business (founder capital) needs to be considered, before investigating the family as a resource (family capital). In a successful family business, founder capital and family capital interact to create superior business performance.

### **Founder capital**

The combination of the fact that family businesses outperform non-family businesses with the finding by Chandler & Hanks (1994:84) that founder competence positively influences firm performance, confirms that the founder can be regarded as a significant resource to the firm. For this reason, this article introduces a new concept to the family business literature – founder capital. Founder capital can be seen as an important part of a firm's human capital

The concept of founder capital is inspired by Erikson's (2002:275-278) concept of entrepreneurial capital. The concepts of entrepreneurial capital and founder capital are related since one of the founder's main roles is to act as innovator and entrepreneur (Chandler & Hanks 1994:78) and therefore the founder's entrepreneurial competence directly enhances a firm's performance (Chandler & Hanks 1994:84; Liang & Jek 2000:15).

According to Erikson (2002:275), entrepreneurial capital is a concept akin to social capital. He defines entrepreneurial capital as the present value of future entrepreneurial behaviour or the present value of the infinite series of shadow options that exist as a result of the entrepreneur's involvement with a firm. Entrepreneurial capital is used over time as the shadow options are converted into real options. The more the firm draws on its entrepreneurial capital, the more entrepreneurial capital becomes available and the firm's performance improves (Erikson 2002:279).

Erikson (2002:278) empirically demonstrates that entrepreneurial capital is a multiplicative function of entrepreneurial competence and entrepreneurial commitment. The founder of a successful family business is likely to have both in large doses, especially commitment. Erikson (2002:282) states that commitment is only meaningful if a vision and subsequently a goal exists and that the committed entrepreneur has a strong intention to achieve this goal and invests large amounts of physical, emotional and intellectual energy in pursuit of this goal. In the case of the founder of a family business, this goal is a vision of success "that is potentially sustainable across generations" (Chua et al. 1999:25). This vision is likely to go beyond financial wealth (although it may often include family wealth creation) and extend to a vision that will satisfy the founder's need for generativity.

Entrepreneurial capital is a more narrow concept than founder capital, because it does not include the founder's other main role [according to Chandler & Hanks (1994:78-79)], namely to act as a

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professional manager. By broadening the concept of entrepreneurial capital, founder capital can be defined as the present value of the founder's future entrepreneurial and managerial behaviour.

There can therefore be no doubt that founders are one of the most important resources of a family business in its early years (Costa & Gubitta 2002:3). This can however, easily work in the opposite direction. A founder, who remains virtually omnipotent and refuses to make crucial changes, or recognise great opportunities, can become a firm's greatest obstacle and, in many cases, cause a firm's failure.

However, this resistance to change is less likely to happen while the founder is still with the family business. Boeker (1989:510) found that strategic inertia and lock-in is less likely to take place while the founder is still around. His study delivered a surprising result: the longer the tenure of the founder, the more likely it is that strategic change will occur. The reason for this seems to be that, firstly, founders have the authority to change the practices and principles they impose, and secondly, founders understand the spirit of the principles and practices and are less likely to follow them to the letter.

Founder legacy in a family business refers to the extent to which succeeding generations refer to and are imbued with the founder's vision and management principles when making strategic decisions (Kelly, Athanassiou & Crittenden 2000:39). When the founder leaves the firm, founder descendants will invariably continue within the culture the founder created. If the founder was not able to communicate the spirit behind the principles and practices he imposed, founder descendants in top management positions will most likely regard them as prescribed law and follow them to the letter. In such a case, the founder's legacy inevitably constrains the business, causing it to become less responsive to change and harming business performance. Ogbonna & Harris (2001:25) refer to this state of affairs as founder legacy "hangover". However, if a founder's descendants focus more on the process and less on the content behind the founder's legacy, then the founder's legacy will become an "inheritance" and will enable family members to introduce the cultural adaptations necessary to continue the business' superior performance (Ogbonna & Harris 2001:25).

### **Family capital**

Founder capital continues in the family business through the founder's descendants. If the founder left a legacy in the form of an "inheritance", then the founder's principles, beliefs, practices and general business philosophy is left open for interpretation, and will likely change as the next generation exerts its influence (Ogbonna & Harris 2001:25-26). The founder's descendants will absorb the founder's legacy and filter it through their own minds, personalities, and their view of the business environment as they see it at the time.

A new kind of resource will have to be introduced to refer to the unique resource the founder's descendants bring to the business, namely family capital. It is also quite possible that every generation will bring a different brand of family capital to the family business. This article therefore introduces a further refinement to the literature: the concept of generational family capital.

Family capital is a relatively young concept in family business literature having been introduced only recently by Karakoulaki (2002:2-3) and Hoelscher (2002:6-9). Both these authors see family capital and success in business as closely related. Karakoulaki (2002:7) sees family capital as a necessary condition for social capital to exist, while Hoelscher (2002:34) regards family capital as a more intense and immediately available form of social capital.

Karakoulaki (2002:2-3, 5) defines social capital as the relationships, networks, contacts, alliances, partnerships, culture, social practices, conventions and institutions within society generating trust, establishing expectations, creating and enforcing norms, and facilitating collective action. Karakoulaki (2002:2) similarly defines family capital as the relationships, networks, alliances, partnerships and other

non-economic factors within the family that affect the entrepreneurial activities of the family and define a framework for its economic actions.

Hoelscher (2002:13) sees family capital as a distinctive core competency of the family business that is not available to non-family businesses. While social capital is available to non-family businesses and family businesses alike, family businesses have access to the more intense and more immediate form of social capital, namely family capital (Hoelscher 2002:34).

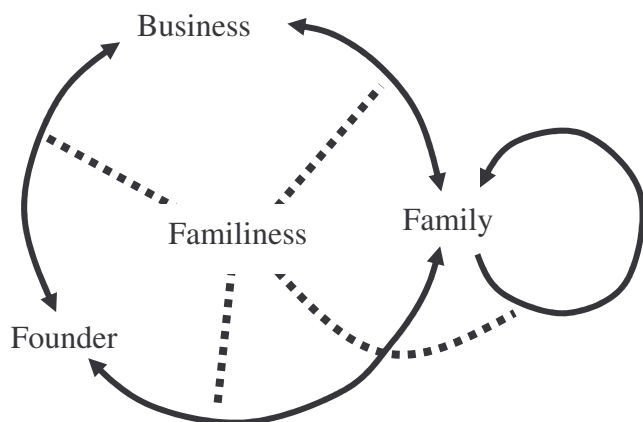
Hoelscher (2002:72) found a positive empirical relationship between the amount of family capital and a family business' performance, as one would expect. Hoelscher (2002:47-48) specifically tested for the effect that task conflict and relational conflict has on family business performance. He found that task conflict has a potentially positive effect and relational conflict a potentially negative effect on family business performance, but only when there is little family capital present. However, Hoelscher (2002:77,81-82) found that if high levels of family capital are present in a family business, then the degree of task or relational conflict has little effect on business performance. The lower the level of family capital, the more sensitive a family business' performance becomes to conflict.

One can draw several conclusions from Hoelscher's (2002:47-90) results. It now becomes even more obvious that attempting to separate family and business is likely to make things worse rather than better. A family business with high levels of family capital is resilient in the face of the inevitable relational conflict that occurs in a family business. Family capital is a resource that needs to be nurtured so, instead of separating it from the business so that it falls into disuse and loses its function, it should be strengthened and further integrated into the family business. While family business literature since Donnelley (1964:93-105) has focused on how to manage and constrain the conflicts that occur in a family business, Hoelscher's (2002:90) results suggest that this is a misdirection of effort. As family capital compensates for low levels of task conflict and high levels of relational conflict, family businesses will make much better use of their limited resources if they applied it to nurturing family capital than to constantly attempting to contain and manage conflict.

**Familiness**

The understanding of familiness presented in this article can be shown as figure 2. Figure 2 shows that there is reciprocal influence between the founder, the family, and the business. Family members of various generations reciprocally influence each other and the business. Familiness is created by the interactions between the founder (or founder legacy), family members, generations of family, and the business.

**Figure 2: The creation of familiness**



Source: Adapted from Habbershon & Williams (1999:17)

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It would be wrong to think that familiness is always a positive influence in a family business. Familiness, if not maintained and nurtured, can rapidly become a destructive force in a business. For this reason Habbershon & Williams (1999:20) distinguish between distinctive and constrictive familiness.

Constrictive familiness develops when founder and family capital are eroded and family involvement becomes an encumbrance to the family business. Distinctive familiness exists when family involvement in a family business provides a firm with a sustainable competitive advantage.

#### THE MODEL

In this section, the effect of familiness is explained further and then expanded into an evolutionary model of family business. The evolutionary model is then extended through a model of the transmission of familiness in every stage of the evolutionary process.

#### The real effect of familiness

The familiness of a business, which results from the interactions between and within the family and the business, cannot be separated from its corporate culture. Corporate culture can be defined as the values, beliefs, and attitudes that influence individual and group behaviour within a business organisation (Miller 2000:22). Barney's (1986:657) definition also adds assumptions and symbols as elements of corporate culture. Familiness overlaps with the corporate culture of a family business, as the founder's and founder's descendants' own values, beliefs, assumptions, and attitudes are absorbed in the corporate culture and influence the way things are done in the business. When culture is transmitted, familiness will then be automatically transmitted as well.

Culture (and the familiness absorbed in it) affects business performance, but for culture to have a positive influence, it needs to be valuable, rare, and inimitable (Barney 1986:658). If cultures that enable success are rare and inimitable, then successful family businesses cannot be said to possess some kind of general "family business culture". The same is true of any variable or combination of variables that have the potential to create sustained competitive advantage, since they have to be unique to provide an advantage. If family businesses possessed some kind of general family business competitive advantage, they would not have something unique and thus would not exhibit superior performance relative to other firms. Trying to find the general competitive advantage of family business is inappropriate and doomed to failure (Habbershon & Williams 1999:10; Jones & Rose 1993:4).

Since culture decisively influences business performance (Barney 1986:659), the secret of family business success can most likely be found through an investigation of how the rare, inimitable, and valuable culture that enables superior business performance is created. It is a difficult task to capture the nature of a rare and inimitable culture, or to explain how such a culture came into being. Barney (1986:660) attempts an explanation when he states that unique cultures almost invariably have their origin in the unique personality of the founder or the unique circumstances of an organisation's founding or growth.

A business cannot choose the personality of its founder or the founding conditions that create its corporate culture. Both successful family businesses and successful non-family businesses will have unique founders and founding conditions. There are therefore no clear commonalities in family business in the way culture is created, just as there are no commonalities in their corporate cultures as such.

If it is futile to attempt to find the secret of family business success in their actual cultures or the factors that create their cultures, the question still remains: what allows successful family businesses to consistently, and over the long-term, outperform successful non-family businesses? The central argument of this article is that the crucial difference lies not in commonalities of culture or in how a

unique and valuable culture is created, but rather in how a proven culture is sustained, nurtured and adapted to changing circumstances.

As stated before, successful businesses achieve success in large part due to the initial and sustained strategic leadership of their founders. In many businesses, this founder capital continues to influence the business even long after the founder has left. The businesses where this sustained influence is most likely to be found are family businesses, where founder capital is transmitted to, and absorbed by, subsequent generations of the founder's family.

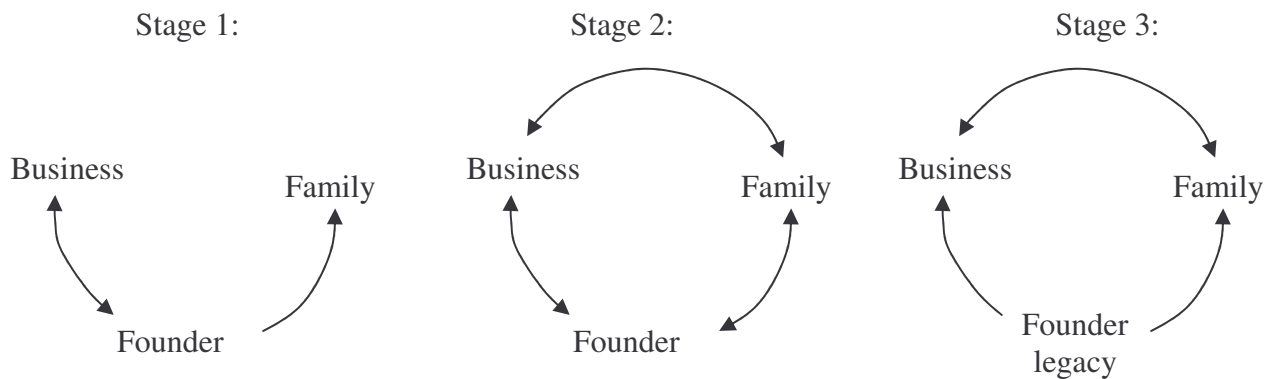
Non-family businesses may still be influenced by the founder's legacy after the founder leaves, but it may become so rigid that it harms the business (e.g. IBM) or dissolve over time (as new employees enter the business and parts of the business are sold e.g. Premier Milling in South Africa). In successful family businesses the family will have absorbed, not the letter, but rather the spirit of the founder's legacy. They adapt the legacy to circumstances, by sustaining the positive and discontinuing the negative aspects of the founder's legacy. This is what makes successful family businesses unique – their ability to sustain and adapt the culture that created the business' success, in such a way that the success is maintained.

**Stages of development**

In order to understand how familiness influences a family business over the long run, an evolutionary model of the family business system is presented. This evolutionary model then forms the basis for a more elaborate explanation of how familiness is transmitted, sustained, and adapted in a family business.

The family business will evolve over time and start as a much simpler version of figure 2. A possible evolution of the family business system over time is shown as figure 3.

**Figure 3: The evolution of the family business system**



Stage one in figure 3 represents the start-up phase of a family business. At this stage, the founder's descendants are young, and the founder is more concerned with the firm's survival than generational continuity. The founder influences the rest of the family and there is a reciprocal influence between the founder and the business. In this stage the interactions create only founder capital. If founder capital is distinctive, the family business will grow and become so successful that the founder's descendants also join the business. In stage two, all elements have a reciprocal influence on each other, and family capital is created and combined with founder capital. If the family capital is distinctive and aligned with founder capital, the family business will be ready for stage three. In this stage the founder leaves the business, but the founder's legacy continues to influence both the family and the business. If the founder's legacy is an "inheritance", the family business will continue for another generation. From then



on the challenge facing the family business is to create strong family capital across generations and to ensure that the family capital of the generations involved in the business remains aligned.

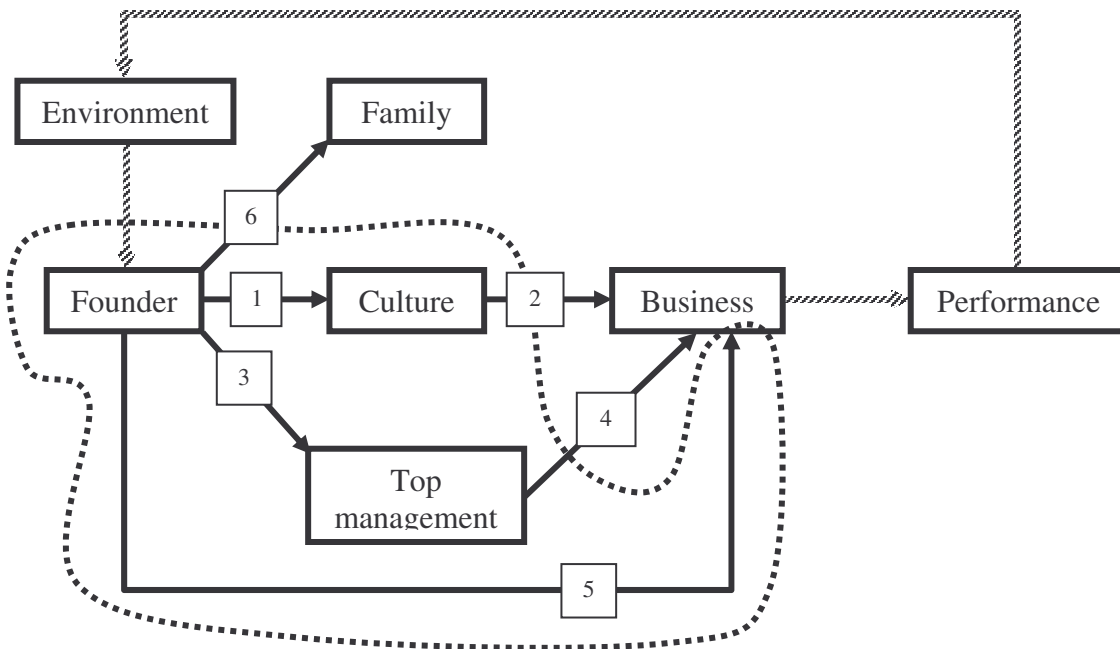
**Transmission models**

Given the proposition that the appropriate focus of the study of family business success is the investigation of how the culture created by the founder is sustained and adapted, this section expands on how this might happen. Based on the evolution of family business presented in figure 3, the analysis is broken up into three stages. At each stage familiness is created, sustained, and adapted through various channels.

The aim of this discussion of the three stages is not to identify every single relationship and influence that exists between the founder, the business, the family, and the environment. While realistic, such an approach would be too complex and not contribute significantly to the aim of this section, which is to identify the main channels of creation, sustenance, and adaptation of familiness.

Stage one begins when the founder establishes a business, and this stage is represented by figure 4. The founder’s actions are not only determined by his own personality and inclinations, but also by the particular environmental conditions at that stage. The environment also contains the external stakeholders of the business with whom the founder continuously interacts.

**Figure 4: Creation and transmission of familiness in stage one**

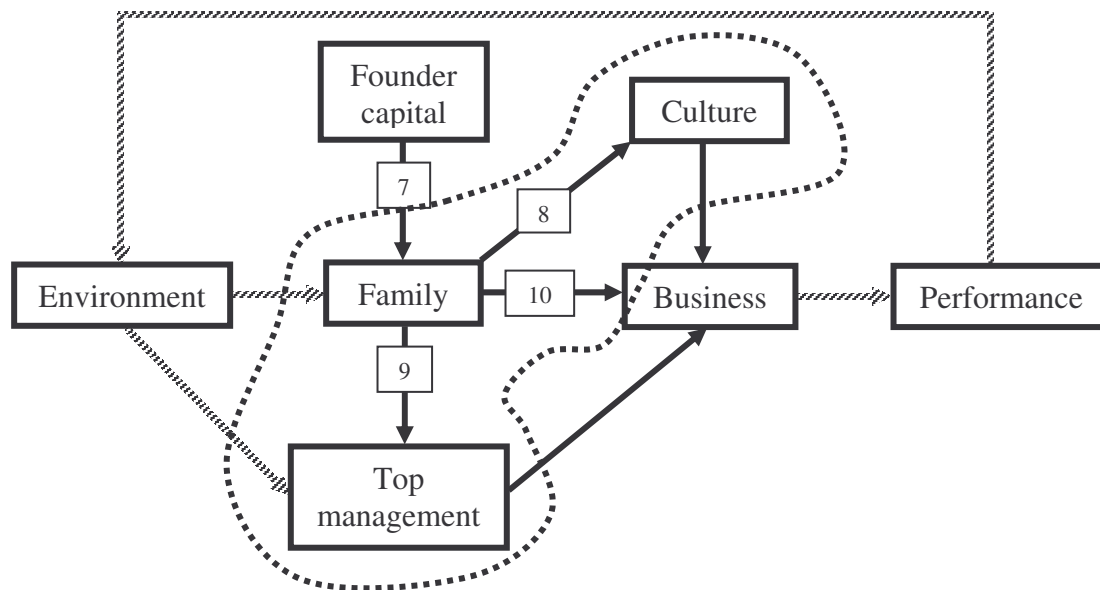


The founder creates a culture (based on his “theory of success”) which is transmitted to the rest of the business (channel 1) through various primary and secondary mechanisms explained by Schein (1983:22). Once this initial culture is firmly established, it is transmitted to new employees (channel 2) through socialisation, recruitment and selection, anchoring values, and rites and rituals (Wiener 1988:542; Harrison & Carroll 1991:554). The founder also influences the values, beliefs, and actions of the top management team (channel 3) by establishing his centrality in the top management team (Kelly, Athanasiou & Crittenden 2000:27-40). The top management team filters what they receive from the

founder through their own mental models and indirectly transmits this to the rest of the business (channel 4) through the strategic choices they make (Hambrick & Mason 1984:195-198). Since top management are influenced by the culture and transmit the culture themselves, separating them from culture is somewhat artificial. However, the distinction is maintained for the sake of analytical clarity as top managers are unique from other family business employees in the sense that they are in closer and have more regular contact with the founder, and thus are a distinctive transmission channel. The founder may also influence the business directly through what Rowe (2001:81) referred to as strategic leadership i.e. bringing both managerial and visionary leadership directly to bear on the business (channel 5). Even though founder descendants are often too young to join the business at this stage, the founder already exerts his influence on them (channel 6), and shapes their identity, values, skills, and behaviour through parental influence (Lansberg 1999:78; Narva 2001:3). In figure 4, everything inside the area bounded by the dotted line represents the processes through which the founder introduces founder capital to the business.

In figure 5, the channels of the second stage are explained. The processes that lead to the creation of founder capital (as indicated in figure 4) are now simplified and encapsulated in one box.

**Figure 5: Creation and transmission of familiness in stage two**



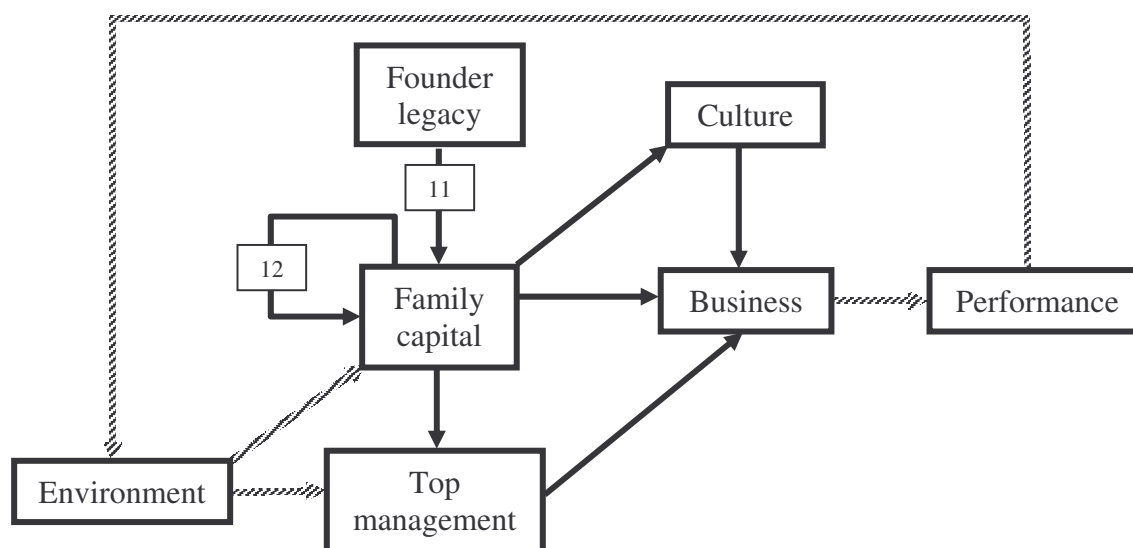
What happens in this stage determines whether the business advances from being a founder-controlled business to a family business. The founder’s descendants (abbreviated as “family”) join the business in stage two. While employed, they learn from and are influenced by the founder (channel 7) transmitting his vision directly and indirectly (Fiegener, Brown, Prince & File 1996:16-21). The family itself absorbs the founder’s influence, filters it through their mental models, and transmits this to the corporate culture (channel 8), top management, (channel 9) and those parts of the business they are involved with (channel 10) in ways that are usually similar to the founder. The founder’s descendants will probably find it more difficult to establish their authority and centrality in the business (Narva 2001:10), and are likely to formalise and adapt some aspects of the culture. Top management is changed by the influence of the family and filters and transmits this to the rest of the business (as in stage one). The family’s values and actions are also influenced by the environment i.e. conditions and interactions with external stakeholders. In figure 5, everything inside the area bounded by the dotted line represents the processes through which the founder’s descendants introduce family capital to the business.

In figure 6, the processes that lead to the creation of family capital are now simplified and encapsulated in one box. The focus in figure 6 is on the channels involved in the third stage of evolution, when the founder leaves the family business.

Once the founder leaves the business, founder capital remains in the business, but in a changed form as founder legacy. Founder legacy is absorbed in the business' culture and continues to influence subsequent generations of the founder's descendants (channel 11). The effect of founder legacy depends on whether it exists as a "hangover" or an "inheritance" (Ogbonna & Harris 2001:25). Older generations of the family influence younger generations (channel 12). Younger generations filter and absorb this influence, and transmit this influence to the culture and the business in general.

It is important to indicate that, as with the two previous two figures, figure 6 does not indicate all possible influences and relationships. Some relationships, for example, the impact of the environment on the business in general, have been omitted in order to focus the attention on those relationships that are involved with the transmission of familiness. Figures 4 to 6 serve to concentrate on how familiness is created, transmitted, and adapted at each of the three stages of a family business' evolution, and consequently do not exhaust all the possible interactions between the founder, the family, and business.

**Figure 6: Creation and transmission of familiness in stage three**



**CONCLUSION**

The secret to success of family businesses lies in the unique culture initially created by the founder (founder capital) and in the ability of successive generations of the founder's family to sustain and adapt this culture (family capital). The differentiating advantage of familiness is then consequently created through the optimal interaction between the founder (founder's legacy), the succeeding family members, and the business and its environment (embodied in the transmission models). However, these transmission models cannot operate in any family business if an artificial separation of family and business were attempted. Orthodox theory of family business, where this separation is promulgated, must consequently be revised.

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