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CULTURALLY-SENSITIVE MODELS OF FAMILY BUSINESS IN LATIN EUROPE
A Compendium Using the GLOBE Paradigm

Culturally-Sensitive Models of Family Business in Latin Europe

A Compendium Using the GLOBE Paradigm



Edited by

VIPIN GUPTA, NANCY LEVENBURG, LYNDA L MOORE
JAIDEEP MOTWANI, THOMAS V SCHWARZ

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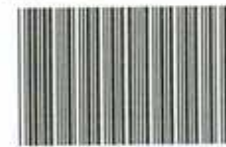
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**CULTURALLY-SENSITIVE MODELS OF
FAMILY BUSINESS IN LATIN EUROPE**
A COMPENDIUM USING THE GLOBE PARADIGM

Edited by

Vipin Gupta, Nancy Levenburg, Lynda L Moore,
Jaideep Motwani and Thomas V Schwarz



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School of Management, Simmons College, USA
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The Icfai University Press

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6

Advantages of Professionally Managed Family Firms in Spain

*Antonio Duréndez, Domingo García Pérez de Lema and
Antonia Madrid-Guijarro*

This paper studies the specificities of professionally managed family firms. In that sense, we try to identify the characteristics of the family businesses managed by external managers in comparison with family firms whose control and ownership are in hands of the family. With this aim, we get a sample of 952 Spanish manufacturing family companies. According to a theoretical framework and previous studies, we try to test the advantages that family firms obtain when they decide to professionalize the management of the company. The results validate our hypotheses, family companies ran by professionals show a higher size, more innovation capacity, possess a higher management and human resources policies development, and they obtain better performance than the family companies managed by the own family.

Introduction

There is a widespread agreement that the family companies are different from those non-family ones (Basu, 2004). The specific characteristics of family companies have given place to various empirical studies that try to contrast if there is a specific organizational structure associated to the family company. These differentiating characteristics have driven to affirm that the development and strategic planning of the family company are singular from the non-family businesses strategic conception (Daily and Dollinger, 1993; and Gudmundson *et al.*, 1999).

However, few research studies pay attention on the characteristics and particularities of family companies' management (Schulze *et al.*, 2001). The family companies are characterized by an active participation of the family in the company management, as well as for the intention that the ownership of the company remains in the hands of the family (Monreal *et al.*, 2002). Moreover, previous studies demonstrate that there are organizational weaknesses in the family companies due to lack of professionalism in the management function (Nachum, 1999).

In this work, we approach one of the main decisions that family firms should face, that is, to decide on management professionalism. The modern management theory defends the advantages of professionalism in order to improve competitiveness of the company. We set out the study with the purpose of testing if the management professionalism carries out a competitive advantage to owner-managed family companies. We are aware that the survival of family firms depends on their ability to strive for management competitiveness, since this factor implies their anticipation and reaction capacity to environment challenges. Thus, we contribute with new empirical evidence to support that professionalism of management function will improve competitiveness and performance of family firms through innovation, strategic planning, and human resources development. In this sense, we have developed an empirical study with a sample of 952 Spanish manufacturing family firms. The hypotheses we test are based on the following main questions: What the reason for professionalism of family firms is. Does management professionalism affect to family firm' performance, innovation, strategic planning and human resources policy?

The research is structured in the following way: firstly we carry out a theoretical approach and the revision of previous studies to identify key factors determining the management professionalism. Then, we analyze the family firms' research line so as to understand the essential characteristics of family management. The previous analysis let us to perform the hypotheses of the study. Later, we describe the sample and the methodology of the empirical study. We carry out the analysis of the results, the discussion and finally we show the main conclusions.

Professionalism of Management

Professionalism takes place when the owners of the equity do not assume the responsibilities of management, but rather they transfer the decision-making process to a professional manager who, due to his skills and abilities, should be more able to achieve the strategic goals of the firm. This separation between ownership and control is sustained by the hypothesis that the shareholder or owner of the capital has not to be competent for the management position. Fama and Jensen (1983) state that the separation of the ownership and the management of the company does not imply the loss of the control, but rather it supposes a specialization of functions, as long as the owner transfer the managerial tasks such as the operative management. Consequently, the entrance of a professional manager causes a higher specialization of the managerial functions.

Modern theory in management defends the advantages of professionalism the management of the company, in the sense that highly experienced managers run the day-by-day of the company. Drucker (1973) indicates that the achievement of firm goals depends on managers' style. This way, the effectiveness of the employees is mainly according to the style they are managed. Nevertheless, the Agency Theory arises to identify some troubles associated to the separation of ownership and control of companies known as agency cost by Jensen and Meckling (1976). If the family company decides to professionalize, then the firm requests a professional expert completely independent from the ownership. Agency Theory proves that the non-concurrence of the personal goals of managers and owners gives place to inefficiencies affecting to the value of the company. Thus, the agents will not always make the optimal management decisions, as it should be, harming the well-being of the capital owners. Also, this situation is possible since the information asymmetry, that characterizes the relationship between agent and

owner, causes that the owners of the capital do not have enough information to evaluate the performance of the agent.

Even so, Schulze *et al.* (2003) find agency costs associated to family firms, thought their nature and basis are different from the case where the companies does not join ownership and control. The agency costs in the case of family companies come from self-control of owner-manager and the problems originated by the altruism of the family. These costs in family firms give place not to allocate managing positions according to the abilities of the candidates, but exclusively due to family altruism. As a consequence of altruism, the family company faces adverse selection costs since it maintains the managers knowing that they may not be the best one for that position. According to Schulze *et al.* (2003), the intention of the family firm CEOs of maximizing the well-being of the family members also gives place to agency costs.

Management of Family Firms

Family Management and the Influence of Firm's Size

In family companies, the fact of having reached an important level of growth and development is usually the reason for the transition to professional management. The family management team may be unable to maintain an expansive or conservative strategy when the company reaches a certain size, the management duties may end up overflowing the manager's abilities. In this sense, Flamholtz (1986) establishes a starting point in terms of size, from which the company seems to transfer the management function, because the family founder is unable to deal with new conditions. When family companies reach a crucial sales volume, they hire external management teams. According to Cabrera and Santana (2004), family companies in a growing period need a more professionalized and complex government's system. In the same line, Bhattacharya and Ravikumar (2004) state that family companies just demand professional agents after reaching a certain size.

According to Craig and Moores (2005), the only way the family firm has to grow and to develop is management professionalism. In this sense, when companies, that have born small, reach an important growth, it is the moment for developing formal control and management systems, to deal with the large size and complexity of the organization. Thus, it is necessary to hire a professional manager in order

to develop a more advanced control and management procedures (Churchill and Lewis, 1983). As Fama and Jensen (1983) point out, to combine ownership and control of the company is an efficient decision when the business is small and the organization system is not complex, since the information is concentrated. However, in those companies where the information does not appear concentrated but diffuse, the efficient form to organize is separating the control of the company from the decision-making center.

Those family companies maintaining professionals in the management positions are expected to have already reached a critical size. Consequently, this larger dimension needs a professionalized highly skilled board for the decision-making process. The reasoning of our hypothesis is according to the results by Davis and Harveston, (2000) who suggest that there is a positive effect of education and training on the firm's propensity to change and grow.

H_{01} : The size of family firm determines the decision of management professionalism.

Family Management and Firm Performance

The qualification and professional education of the people who manage the firm are essential factors for the firm success. Authors such as Winter *et al.* (2004), point out that the lack of manager's skills may provoke the early failure of the family firm. The lack of professionalism in the firm management causes inefficiencies, due to family well-being is preferred to economic efficiency (Cromie *et al.* 2001).

Traditionally, many authors have considered that family firms have less agency problems than non-family firms. This is justified because in family firms there is no disparity between owners' goals and non-family managers' goals (Carney and Gedajlovic, 2002). However, others researchers such as Schulze *et al.* (2001) point out that agency problems may be even more important in family firms due to management control depends on the owner-manager, as well as the family altruism. The altruistic position toward family members leads to allocate work positions because of the fact of being a family member, without taking into account their skills. In this sense, family companies may face adverse selection problems because the founder tries that his relatives occupy management positions and,

therefore, the firm may be managed by non-skilled managers (Schulze *et al.* 2003; Lubatkin *et al.* 2005). The family managers' strong commitment towards the family well-being may cause inefficiency in the decision-making process, with a non-performance oriented incentive system (Cromie *et al.*, 2001). In summary, family firms may have a handicap in relation to the management, due to the lack of talent and skills in family members. As Gersick *et al.* (1977) point out the leadership of a non-family member is preferable to the incompetent leadership of the family.

The results shown by Bhattacharya and Ravikumar (2004) and Barth *et al.* (2005) confirm that family firms are less productive when they are managed by family members. The previous literature leads us to expect that professionally-managed family firms achieve a higher performance than owner-managed family firms, since the professionalism of the management avoids agency costs derived from altruism and self-control. Our hypothesis is the following:

H₀₂: Professionalism of family firm increases firm performance.

Family Management and Firm Innovation

Technological development and innovation constitute basic elements to achieve competitiveness in the market. In fact, one main area of recent research relays on the development of resources in order to create advantages through innovation (Ahuja and Katila, 2004). Many studies have shown evidence, which supports the hypothesis that innovating activities have a positive effect in the firm performance (Freel, 2000).

Most of studies about innovation conclude that family firms follow a more conservative strategy than non-family firms, which means that family firms are less innovative and more risk adverse (Daily and Dollinger, 1993; Zahra, 2005). In this sense, Gudmundson *et al.* (1999), reach the conclusion that family firms are very conservative in consumer markets. However, other studies defend that innovation capacity of family companies is the same or stronger than in the case of non-family companies (McCann *et al.*, 2001).

In this paper, our objective is not to compare if there are differences about innovation capacity between family and non-family firms, but to test if considering just family firms, the professionalism of the firm management causes a change in

the strategy or attitude towards innovation. We expect that the introduction of professionalism in family firms will impact their strategic position. This change of thinking will consider innovation as a way of increasing competitiveness. Therefore, we outline the following hypothesis:

H₀₃: Professionalism of family firm increases firm's innovation capacity.

Family Firm and Importance of Planning

In the case of family firms, research on the business strategic planning practices is sparse (Upton *et al.*, 2001). We know little about the strategic planning process of family firms. So, it is necessary to research about: how family firms scan their environments, assess their capabilities or research and evaluate alternative strategies; and, how the strategy formulation process is influenced by family considerations and interests (Sharma, *et al.* 1997). According to Mintzberg (1994), family companies prefer confidentiality and privacy, therefore strategic planning may be rejected because it implies to share confidential information. Afterwards, Poza *et al.* (2004) maintain that family firms avoid strategic planning because of the potential conflict between the CEO and the rest of the family.

Moore and Mula (2000) obtain that few family business CEOs use formal strategic-planning processes. Their results show that less than 50% of CEOs reported a low use of long-term planning while 16% indicated no use of long-term planning. Murphy (2005) suggests that family firms are not unaware of the need for family-management planning and development, but rather are struggling with more fundamental issues such as profitability and growth. Nevertheless, performing strategic planning decisions on issues as succession, involving outside managers, attracting outside money and stressing family values, is crucial factor to gain competitiveness (Leenders and Waarts, 2003).

Previous research denotes that family firms concede less importance to strategic planning and strategic management tools on decision-making process. In this context, our argument is that family firms that decide to professionalize their management will increase the use of management tools like the strategic planning, as a consequence of the importance attributed to these tools by the professional managers.

H₀₄: Professionalism of family firm increases the use of business plans and management tools.

Family Management and Human Resources

Family businessmen, who at the same time carry out management activities, are characterized by a lower education and qualification in terms of university studies than managers of non-family companies (Duréndez and García, 2005; Reid and Adams, 2001). Furthermore, family firms present a strong resistance to hire external professionals, as well as a high tenure of the manager in the family company, especially when the manager is at the same time the founder of the company. Yukl (1981) considers that managers' success may be considerably predicted by studying the characteristics and skills associated to the manager. Matlay (2002) demonstrate that family businessman does not consider the training as a crucial element in the managerial strategy. Cromie *et al.* (1995) and Reid *et al.* (2001) observe that management teams in family companies carry out less training activities than the non-family companies. According to Ibrahim *et al.* (2003), family companies tend to understand the training as an expense instead of an investment that favors the development and growth of the family company.

Stokes and Blackburn (2002) reveal that those formal training activities received by owner-manager of small firms may improve the surviving probabilities of the family firm. Understanding the benefits of professionalism of family businesses, through comprehensive training will support small family firms to identify their strategic competitive advantage, and to develop their strategic plan towards achieving their full potential. This will hold their competitiveness and will enable them to sustain or grow their business in the future (Peters and Buhalis, 2004).

Therefore, in this study we want to assess the differences in relation to the human resources policy between owner-managed firms and professionally-managed family firms. We expect that professionally-managed firms show a higher preoccupation about employee training and motivation than owner-managed firms do. Therefore, we outline the following hypothesis:

H₀₅: Professionalism of family firms supposes a more formal human resources policy.

Methodology

Sample

The sample consists of Spanish manufacturing firms with 10 or more employees. Data was obtained from the AECA (2005) and SABI. Those database contains qualitative and quantitative information gathered through a questionnaire sent to managers of each firm. The fieldwork was carried out between February 20th and May 10th 2004. A total of 9.337 contacts were made. The total number of valid questionnaires was 1.201, what supposes a 12.9% rate of response. The precision of the estimation in the final sample, in the most unfavorable case in terms of relative frequency response in a specific item, is $p = 0.5$. It is characterized by a maximum error of 2.8 percentage points with a significance level of 95%.

Due to missing information, our final sample is composed of 952 family companies (803 owner-managed firms and 149 professionally managed family firms). In our research, we have just been able to identify family ownership in the capital structure, so we have considered a business to be a family firm when the family holds more than 50% of the capital ownership. To test for non-response bias we use late respondents as surrogates for non-respondents (Nwachukv *et al.*, 1997).

Variables Definition

Professionalism

Professionalism starts when the separation of ownership and control takes place. This variable is the main object of the research and it identifies those firms managed by external managers to the family. In this way, the variable takes value 1 when the firm is managed by a professional and value 0 when the decision-making process is in hands of the family.

Size

The size variable is an important element that determines the management professionalism of the family company (Bhattacharya and Ravikumar, 2004; Cabrera and Santana, 2004). To define the size variable, we have selected the natural logarithm of the average number of employees for the period of the study.

Performance

Following the methodology of previous studies, Shepherd *et al* (2000), we use profitability ratios to measure the performance: Return on Asset, Return on Equity, Cash-Flow generation and Operating Margin on total sales. These ratios are calculated as the mean value for the period 1999-2003.

Innovation

We use a subjective method in order to evaluate innovation. This subjective approach, has been used in European Union Harmonized Studies on Innovation (2004). To evaluate innovation in products, processes and management, we apply a 4 items multi-criterion measurement with a 5-point-Likert scale for each type of innovation (Table 1). In order to validate these measures, the reliability of the scales is verified (Cronbach's Alpha), and by means of a factorial analysis we prove that the previous indicators sum up in a single factor.

Table 1: Innovation Variables

Indicate your position, regarding products, processes and management methods in the last two years: (1=quite below, 5=quite above)		Validation of scales
Innovation in Products	<ul style="list-style-type: none"> - Number of new products introduced or modified per year - Pioneering character of your company when it introduces new products - Response speed to the introduction of new products by other companies - I+D+i cost of new products 	Cronbach's Alpha = 0.781 Factorial: 1 factor Explained variance: 61% Sig. Bartlett: 0.000 KMO: 0.768
Innovation in Processes	<ul style="list-style-type: none"> - Number of processes modifications introduced per year - Pioneering character of your company when it introduces new processes - Response speed to the introduction of new processes by other companies - I+D+i cost of new processes 	Cronbach's Alpha = 0.838 Factorial: 1 factor Explained variance: 67.8% Sig. Bartlett: 0.000 KMO: 0.809
Innovation in Methods of Management	<ul style="list-style-type: none"> - Number of changes in your management systems - Newness of management systems of the company - Search by managers of new management systems - Pioneering character of your company when it introduces new management systems 	Cronbach's Alpha = 0.908 Factorial: 1 factor Explained variance: 78% Sig. Bartlett: 0.000 KMO: 0.807

Management Planning

In order to verify managers' strategic planning as a competitive factor, we use a variable to measure whether the firm carries out strategic planning. The managers were asked to answer if the firm performs strategic plans. This variable takes value 1 when the firm carries out strategic plans and value 0 otherwise.

Human Resources Policy

To analyze the human resource policy of the firm, we use a subjective perception measurement of the manager about the position of the company, in relation to the following items: motivation and training, internal promotion and development of professional career plans in the company. Previous studies as Matlay (2002), Reid *et al.* (2001) and Peters and Buhalis (2004), successfully consider some of these items in their research. The variable Human Resources Policy is the average of those 4 items, ranging from 1 to 5 (Likert's scale, see Table 2).

Table 2: Human Resources Policy Variables

Indicate to what extent the following sentences can identify your company behavior (1 = totally agreed, 5 = totally disagreed):		Validation of scales
Human Resources Policy (HRP)	<ul style="list-style-type: none"> - The company motivates the participation of employees in the decision making process. - Internal promotion is usually considered to cover new tasks - The company invests very often in employee-training - The company designs plans of professional career for its Employees 	Cronbach's Alpha = 0.525 Factorial: 1 factor Explained variance: 42% Sig. Bartlett: 0.000 KMO: 0.636

Sector

We use the activity sector (technological intensity) as a control variable. The sample has been divided depending on the technological level of the activity sector. The need to consider technological level has been addressed in numerous studies (Poutziouris *et al.*, 2000). In order to assess the technological intensity of the sector we have used the classification of OECD (1997). Thus, when the company belongs to a low and medium-low technological sector, the variable takes value 0, and when the company belongs to a high and medium-high technological sector takes value 1.

Age

We also use as a control variable the age of the firm, since there is not a general consensus on the influence of age to differentiate family firms from non-family firms. This should be a variable to consider when researching on family businesses. In that sense, family firms should face some family problems associated to survival of the company due to complexity of the succession process (Daily and Dollinger 1993; Ward, 2001).

Models

Once we have configured the two groups of analysis (owner-managed family firms and professionally managed family firms), we use: (1) for continuous variables the ANOVA test, and Kruskal-Wallis test when the hypotheses of normality and variances homogeneity are not matched; (2) for categorical variables we employ contingency analysis based on the χ^2 of Pearson test, with Yates's test due to tables 2x2 are considered. After univariate tests, several multiple linear regression analyses estimated by OLS and logistic regressions models are carried out in order to test the hypotheses. Two models are estimated to test the different hypotheses. The methodology choice depends on the characteristics of the dependent variables.

Model 1

Hypothesis 1

$$\text{Professionalism} = \beta_0 + \beta_1 \text{Size} + \beta_2 \text{Sector} + \beta_3 \text{Age} + \varepsilon$$

In this case, a logit regression is carried out, where Professionalism is a dummy variable that identifies those family firms managed by people external to the family.

Model 2

$$\text{DependentVar}_i = \beta'_{0i} + \beta'_{1i} \text{Professionally Managed Family Firms} + \beta'_{2i} \text{Sector} + \beta'_{3i} \text{Age} + \varepsilon$$

Where *Dependent Variable_i* identifies the different variables of interest in our hypotheses: *Performance*; *Innovation*; *Business Plan*; *Human resources*.

In the research, we consider the size variable as explanatory of our first hypothesis. In the second model it is not considered due to the multicollinearity problems that it would be caused due to the causal relationship between the size and the professionalism of the management.

Results

Univariate Analysis

Table 3 summarizes the univariate analysis of the control variables: age and sector. In relation to the activity sector, the result shows that a higher percentage of high

and medium-high technological firms are managed by a professional. In fact, the 26.6% of professionally-managed family firms develop their activity in medium-high and high technological sectors, while this percentage decreases to 17.1% for the group of owner-managed family firms.

Table 3: Univariate Analysis – Control Variables

Control Variables	Owner-Managed Firms	Professionally Managed Family Firms	(Sig.)
^a Firm's age	28.6	30.6	n.s.
^b Sector (% of firms in high and medium-high technology sector)	17.1%	26.2%	**

^a For these items ANOVA and Kruskal-Wallis tests have been used. F's significance, *: $p \leq 0,1$; **: $p \leq 0,05$; ***: $p \leq 0,01$; n.s.: not significant.
^b χ^2 Pearson Test, *: $p \leq 0,1$; **: $p \leq 0,05$; ***: $p \leq 0,01$.

Table 4 presents the results about the differences in behavior between the two groups of analysis in relation to the variables of interest in this research.

Table 4: Univariate Analysis – Variables of Interest

Variables	Owner-Managed Firms	Professionally Managed Family Firms	(Sig.)
^a Size of the firm (employees)	35.2	70.3	***
^a Return on asset (mean 1999-2003)	9.01	9.86	n.s.
^a Return on equity (mean 1999-2003)	13.41	11.06	n.s.
^a Cash Flow / Sales (mean 1999-2003)	6.78	7.97	**
^a Operating Margin / Sales (mean 1999-2003)	6.03	7.19	**
^{a,b} Product innovation	3.11	3.29	***
^{a,b} Process innovation	3.01	3.15	**
^{a,b} Management innovation	3.16	3.39	***
^c Quality (% of firms with quality assurance)	34.6%	62.3%	***
^c Business plan (% of firms that develop business plans)	47.6%	70.2%	***
^d Human Resources Policies	2.83	3.13	***

^a For these items ANOVA and Kruskal-Wallis tests have been used. F's significance, *: $p \leq 0,1$; **: $p \leq 0,05$; ***: $p \leq 0,01$; n.s.: not significant.
^b Mean value of the items associated to the different type of innovation (product, process and management innovation), according to Table 1.
^c χ^2 Pearson Test, *: $p \leq 0,1$; **: $p \leq 0,05$; ***: $p \leq 0,01$.
^d Mean value of the items associated to Human Resources Policies as in Table 2.

The univariate analysis indicates that the professionally managed family firms are significantly larger than the owner-managed family firms. In fact, the mean number of employees in the professionally managed firms is 70.3, while this number decreases to 35.2 for the case of owner-managed family firms (Table 4).

Professionally managed family firms exhibits a higher level of performance, in terms of capacity to generate cash flow and operating margin (Table 4), than the owner-managed family firms. The values of these performance ratios for professionally managed family firms are 7.97% and 7.19%, while for owner-managed family firms are just 6.78% and 6.04%.

Respect to innovation, the univariate results show that professionally managed family firms carry out a higher level of product, process and management innovation. These differences are significant at 99%, except for the process innovation variable where the difference is significant at 95%. The mean innovation position of professionally-managed family firms in the market, in terms of product, process and management innovation (3.29, 3.15, 3.39), is above than the mean position of owner-managed firms (3.11, 3.01, 3.16) (Table 4).

The variables related to planning in the firm reveal a more favorable situation for those firms managed by non-family professionals. In fact, while the 70.2% of professionally managed family firms do develop business plans, this percentage decreases to 47.6% for the case of owner-managed firms (Table 4).

Finally, professionally-managed family firms motivate to higher extent the employee participation in the decision-making process, employee internal promotion, employee training and the development of professional career, as it is demonstrated by the Anova analysis applied to the Human Resources Policy variable. In fact, the mean value of this variable is higher in the case of professionally-managed family firms (3.13 vs 2.83), being this difference significant at 99% level.

Multivariate Analysis

Tables 6 to 10 show the multivariate estimations of the different models in order to test the hypotheses through a more reliable method. Absence of multicollinearity in each estimation was verified after analyzing the correlations among the different independent variables and the variance inflation factor collinearity diagnostic.

In relation to the H_{01} , the model estimated in Table 5 confirms the size of the company positively affects the probability of being managed by a non-family professional. The coefficient associated to the size variable is 0.897 and it is significant at 99% level. Regarding the control variables, the sector is significant and its coefficient is positive demonstrating a positive effect of technological sector intensity on the probability of being a professionally-managed family firm. The results prove acceptable model fit (Hosmer Lemeshow test 8.595 sig.: 0.378) and verifies H_{01} . Once the company reaches a considerable size, the organizational complexity causes the management professionalism with the aim of improving the efficiency of the decision-making process.

Table 5: Influence of Size on Professionalism of Family Firms
(Logit Estimation)

Independent Variables	Dependent Variable Professionalism of Family Firms
Size	0.897 (0.000)
Sector	0.554 (0.013)
Age	-0.002 (0.623)
Intercept	-4.873
Hosmer Lemeshow: Chi-square (sig.)	8.595 (0.378)
R ² Cox and Snell	0.081
R ² Nagelkerke	0.14
(%) correctly classified cases	83.8
Note: Numbers in brackets are significance levels.	

The estimation on firm performance, considering as an explanatory variable the professionalism of the firm (H_{02}), is summarized in Table 6. The coefficients associated to the professionally managed family firms are 0.011 and 0.010 for cash-flows and operating margin in ordinary least squares estimations respectively. In both cases the coefficients are positive and significant. The fact that the firms are managed by a non-family member increases their capacity to generate cash-flow and operating margin. The age, as a proxy of firm's experience, positively influences on the performance of the company. Furthermore, the sector variable

is significant in the estimation of the operating margin ratio, which implies that the technological intensity of the sector increases profit margin. The results show acceptable models fit (Cash-Flow regression: F (Sig.): 4.378 (0.005); Operating Margin regression: 4.250 (0.005)) and verifies H_{02} . This result is justified by the higher skills of the external professional, demonstrating the altruism towards family employees could let the familiars remaining in management positions without the necessary skills.

Table 6: Influence of Professionalism on Performance (OLS Estimation)

Independent Variables	Dependent Variables	
	Cash Flow/Sales	Operating Margin/Sales
Professionally Managed Family Firm	0.011 (0.040)	0.010 (0.068)
Sector	0.003 (0.572)	0.009 (0.096)
Age	0.0002 (0.005)	0.0002 (0.017)
Intercept	0.061 (0.000)	0.053 (0.000)
F-Snedecord (sig.)	4.378 (0.005)	4.250 (0.005)
Adjusted R ²	0.013	0.013

Note: Numbers in brackets are significance levels.

Table 7 shows the models estimated in relation to H_{03} . Regarding to innovation activity, the results reveals significant and positive coefficients for professionalism of the family firm in relation to product (0.154), process (0.122) and management innovation (0.221). The results prove an acceptable models fit (Product innovation regression: F (Sig.): 7.559 (0.000); Process innovation regression: F (Sig.): 2.998 (0.030); Management innovation regression: F (Sig.): 4.088 (0.007)). The sector variable is significant and positive in the estimations of product and process innovation, showing the importance of the sector effect on the firm strategy. High and medium-high technological firms develop more product and process innovation than low and medium-low technological firms. The positive effect of the professionalism of the family firms on the innovation activity validates H_{03} . Professionalism of family firms motivate a more innovative and proactive strategy. This fact improves family firms capacity to adapt their decision process to market needs.

Table 7: Influence of Professionalism on Innovation (OLS Estimation)

Independent Variables	Dependent Variables		
	Product Innovation	Process Innovation	Management Innovation
Professionally Managed Family Firm	0.154 (0.020)	0.122 (0.066)	0.221 (0.002)
Sector	0.237 (0.000)	0.136 (0.030)	0.082 (0.216)
Age	0.000 (0.225)	0.000 (0.902)	0.000 (0.930)
Intercept	3.119 (0.000)	2.345 (0.000)	3.158 (0.000)
F-Snedecord (sig.)	7.559 (0.000)	2.998 (0.030)	4.088 (0.007)
Adjusted R ²	0.022	0.007	0.010

Note: Numbers in brackets are significance levels.

Table 8 presents the logistic regression that studies the influence of the professionalism on the probability of developing business plans. This result indicates significant and positive coefficients associated to professionally-managed family firms (0.934), sector (0.688) and age (0.006). The probability that a firm develops business plans increases, when it is managed by a non-family professional, the firm belongs to a high and medium-high technology sector and is older. Analysis is characterized by acceptable model fit (Hosmer Lemeshow test: χ^2 6.035 sig.: 0.643) and verifies H_{04} .

Table 8: Influence of Professionalism on Management Planning (Logit Estimation)

Independent Variables	Dependent Variable/ Development of Business Plan
Professionally Managed Family Firm	0.934 (0.000)
Sector	0.688 (0.000)
Age	0.006 (0.086)
Intercept	-0.656 (0.000)
Hosmer Lemeshow: Chi-square (sig.)	6.035 (0.643)
R ² Cox and Snell	0.057
R ² Nagelkerke	0.076
(%) Correctly classified cases	59.6

Note: Numbers in brackets are significance levels.

**Table 9: Influence of Professionalism on Human Resources Policy
(OLS Estimation)**

Independent Variables	Dependent Variable/ Human Resources Policy
Professionally Managed Family Firm	0.282 (0.000)
Sector	0.104 (0.090)
Age	0.001 (0.392)
Intercept	2.793 (0.000)
F-Snedecord (sig.)	8.110 (0.000)
Adjusted R ²	0.022
Note: Numbers in brackets are significance levels.	

Table 9 summarizes the model estimation to test H_{05} . The professionalism of the family firms increases the efforts to motivate employee participation, employee training, internal promotion and the development of professional career plans in the company. The coefficient associated to the Human Resources Policy variable is positive and significant (0.282). Furthermore, technological intensity of the sector positively influences on the human resources factor. In the sense, human resources policies are highly developed in firms with a high technological activity. The results prove an acceptable models fit (F. (Sig.): 8.110 (0.000)), so we accept H_{05} .

Discussion

Professionalism of family firms takes place when capital owners decide to transfer the decision-making process to an external professional. This decision pursues an organizational change able to efficiently manage the company and control the agency costs associated to the family firms, as the altruism towards family members and self-control problems. This research demonstrates that professionalism of the Spanish industrial family firm provokes important changes in the firm strategy.

Firstly, the results reveal that family firms mainly decide to professionalize the management when they reach an important size. In this sense; previous papers such as Bhattacharya and Ravikumar (2004), Romano *et al.* (2000), justify the

professionalism decision of the family firm by the organizational complexity that an important size supposes. Moreover, the achievement by the company of a significant size additionally requires non-family financial resources, in this context the new investors will demand that management of the company relies on non-family managers.

Secondly, our results imply that once the professionalism of the family firm takes place, the firm performance increases in terms of cash-flow generation capacity and operating margin. This fact reveals the advantage associated to management professionalism in family firms. Therefore, our research is in line with the results of Barth *et al.* (2005) who confirm that professionalism avoids the fact of management positions are allocated to family members without taking into account their education and abilities. This problem has been identified in the family firm literature as a consequence of founder's altruism (Schulze *et al.* 2003; Steier, 2003; Lubatkin *et al.* 2005).

Thirdly, the results demonstrate that family firm professionalism has allowed a more proactive strategy in terms of innovation. In fact, Spanish industrial family firms that have decided to professionalize their management have a better position in the market, in terms of number of new products, pioneering character, response speed to market needs, searching of new management systems, and the development and implementation of new processes. This proactive character is linked to a better planning. Innovations enable firms to offer a greater variety of valuable and differentiated products, but as Heunks (1998) found, profits derived from innovation initiatives may not be realized in the short term, but may take time to be realized due to the cost associated to innovation process.

Finally, in relation to the hypothesis on human resources policies, the results show that professionally-managed family firms carry out a higher effort in relation to employee motivation through training programs, development of internal promotion plans and professional career. These policies are developed in order to maintain better prepared and qualified workforce. As we expected, professional manager use in a higher extent the human resources policies, knowing that these policies will impact on the employee performance as well as on firm value.

Conclusions

The results of our work suggest that the size of the family company determines in most of cases the decision to professionalize. Besides, we have been able to test that professionalism, far from worsening the position of the firm, gets it better, since professionalism affects to the strategy maintained by the company. Professional managers discard traditionally conservative strategy associated to family firms, since they choose a more proactive strategy, being able to continually adapt to changing circumstances of the environment. This way, professional manager will prefer a more innovative policy, using modern management tools, and developing to a greater extent formal human resources policy in order to incentive employees and to face competitors.

We expect our results to be useful for family firms' entrepreneurs, in the sense they should be aware of benefits from professionalism of management. They should not understand professionalism as a threat but as an strength, so management professionalism is not just related to transfer management power to externals, but taking advantage of a new view, ideas and skills in order to gain competitiveness and assure the future of our firm. In second place, we also expect the results of the study help policy makers to drive their efforts in continually facilitating the progress of family firm, knowing they are the real engine driving and contributing to welfare and well-being of developed economies.

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