SMALL FIRMS WITH A FAMILY FOCUS IN THE SCOTTISH HIGHLANDS AND ISLANDS

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Introduction

It is widely recognised that family firms are the most common type of business organisation worldwide (Birley, Ng and Godfrey, 1999; Cromie, Stephenson and Monteith, 1995; Donckels and Frohlich, 1991; Dyer, 1989; Gersick, Davis, McCollom-Hampton and Lansberg, 1997; Heck and Trent,1999; Ibrahim and Ellis, 1994; Kotkin, 1992; Leach, 1994; Reed, 1989; Ward and Sorenson, 1987) although estimates of the precise number in existence vary depending on the definitions used (Shanker and Astrachan, 1996).

Family firms are often defined as ventures in which important ownership and management functions are performed by a family unit (Hutson, 1987; Leach, 1994; Ward, 1987a) but Litz (1997, p. 60) argues that in classic family businesses family members aim "to perpetuate or increase the degree of family involvement". These definitions focus on firms and consider the impact of families on firms but Heck and Trent (1999) approach the subject from a household perspective.

Despite definitional difficulties, there is a growing literature on family firms in Britain and Ireland (Baines and Wheelock, 1998; Birley *et al* , 1999; Cromie, Adams, Dunn and Reid, 1999; Dunn, 1995; Dunn, Hughes and Adams, 1996; Goffee and Scase, 1985; Leach, 1990; Ram and Holliday, 1993; Reid, Dunn, Cromie and Adams, 1999; Stoy Hayward, 1992; Westhead and Cowling, 1996) and this study aims to add to this work.

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Many studies of organisations adopt a systems frame of reference (Nadler and Tushman, 1997). From this perspective, it is suggested that all firms are socio-technical organisms with economic requirements (Lupton, 1971) in which individuals and groups cooperate in achieving technical and economic objectives *and* pursue their own goals (Mastenbroek, 1993; Buchanan and Badham, 1999). The coexistence of conflicting economic and social needs creates tensions but, in family firms, the needs of families must also be considered. In family businesses, Liz (1997) and Dunn (1995) argue that the criteria by which success is measured is different from non-family firms. A family is "a purposive social system" (Stafford, Duncan, Dane and Winter, 1999, p.204) and family goals must be considered alongside business objectives in a family firm. However, the general focus of family firms research has been on the business and the family is seen "as a component of the business environment" (Stafford *et al*, 1999, p.203). If family matters impose on business functioning, any resulting tension is said to be reduced by "keeping family and business affairs ... separate" (Birley *et al*, 1999, p. 603). There are indeed family firms in which business needs come first but there is increasing evidence that family firms are not homogeneous and that some firms focus primarily on family concerns. For example, many home-based firms are started to support the family (Heck, Owen and Rowe, 1995) and Ward (1987a) introduces the idea of family-first firms where family needs and values predominate. Furthermore, Birley *et al*, (1999) talk about firms in which "the family rules".

Whilst previous research on family firms has focused on the firm, it would be wrong to suggest that a family-first orientation is now the norm. Recent research indicates that family firms are heterogeneous: some focus on the family, some on the firm and some juggle with conflicting concerns (Ward, 1987a; Reid *et al,* 1999; Birley *et al*, 1999). However, earlier research conceived of family involvement in largely negative terms. Family firms were described as "dismal places to work [in]" that eventually fail (Birley *et al* 1999, p. 598) and some researchers claimed that they performed less well than non-family firms (Chandler, 1990). These viewpoints have been challenged (Church, 1993; Jones and Rose, 1993; Dunn, 1995; and Magretta, 1998) but this paper is not concerned with the economic consequences of family influence on family businesses. Family members own and are heavily involved with these firms and their presence influences the culture, structure, and behaviours in them. Therefore, in this paper typical aspects of behaviour in family firms will be considered followed by a discussion on the behavioural tendencies in firms that put the family first. It will then be suggested that small family firms in the Scottish Highlands and Islands have a family-first orientation and results from an empirical study of firms in this locality will be presented to support this contention.

Traditional Behaviour in Family Firms

Family members are often keen to restrict the allocation of company shares to family members to control the disbursement of residual profits (Leach, 1990; Leach, 1994; Dunn, 1996; Deeks, 1964; Lansberg, 1988). They fear that public offerings of equity finance will seriously dilute family ownership (Dunn *et al*, 1996; Dunn, 1996). To ensure family control in the future, it would be expected that prospective share allocations would also be limited to blood relatives. In general, a rather rigid approach to share ownership is taken

In addition, family members normally occupy senior positions in these businesses. Families dominate boards and there is a reluctance to use the services of outside advisers (Cromie *et al*, 1995; Leach, 1994). Furthermore there is evidence of managerial rigidity. Chief executives remain in post for longer than their non-family comparators (Leach, 1990), senior management teams are quite small, they have a longer tenure than management teams in non-family firms (Cromie *et al*, 1995; Leach, 1990), they tend to centralise decision making (Goffee and Scase, 1985) and they exert a significant influence on company policy (Chandler, 1990).

In very small firms, husband and wife teams are common. Baines and Wheelock (1998) report that, in half of their sample of 200 micro businesses, husbands and wives were highly involved in the business with women characteristically providing formal administrative, marketing and secretarial services and men offering technical support. Family and business fields are closely linked and all those involved adjust their roles to meet exigencies from the business or family. There is also evidence that non-managerial family labour is used informally in these ventures and that extended-family-members contribute but only on an irregular basis (Baines and Wheelock, 1998; Hutson, 1987; Ram and Holliday, 1993). Some services provided by family members are unpaid. This can occur because family members are willing to contribute to the firm without immediate financial rewards (Dunn *et al*, 1996), because of exploitation (Ram and Holliday, 1993) or to reduce the taxation burden on the family (Walter and Shuffain, 1995).

Managing Human Resources

In family firms, family members are simultaneously members of a family system, wherein relationships are based on affection, and members of a work system, which is organised on the basis of threat and exchange, and this can create role conflict (Beehr, Drexler and Faulkner, 1997; Minuchin, 1984). Conflict can arise because business-owning parents are keen to treat their offspring with equality even when individuals are not equally talented; others may be prepared to employ ineffective family members; they sometimes demand more effort from family members than they do from non-family counterparts and reward systems can be inequitable. Role ambiguity and conflict can create tensions between family members and between family and non-family personnel (Beehr *et al,* 1997; Hutson, 1987; Kets de Vries, 1993; Leach, 1994). Conflict is part and parcel of organisational life (Mastenbroek, 1993) but whilst individuals in non-family ventures can escape from the conflict when they leave their organisations, in many family firms this can not be done (Birley *et al,* 1999).

On the other hand, family members are often very committed and loyal to the firm (Kets de Vies, 1993). Furthermore, a long enmeshment in the family business can allow individuals to develop effective business skills and direct access to senior managers, who are also family members, can facilitate rapid decision-making.

Commitment to the community by family firms is also common in small localities. Dunn (1995) notes that this focus on the integration of community, work and family systems occurs frequently in Japan (Fruin, 1983) and speculates that the "clannishness" of Scotland's family firms, with their emphasis on tradition behaviour, breeds a commitment to the surrounding community. In America, Miller, McLeod and Oh (2001) argue that businesses in small communities enhance community development by providing goods and services, employment and tax revenues and that the community is an important source of customers. A strong reciprocal relationship can develop between the two.

Managerial Professionalism.

Because of their strong commitment to family ideals, it is claimed that management tends to be less proficient, roles and responsibilities are not clearly defined and planning is *ad hoc* in many family firms (Donckels and Frohlick, 1987; Donnelly, 1964). In addition, research on family firms indicates that, in spite of the potential for serious damage at each generational transition, few family firms engage in effective succession planning (Handler, 1990; Hutson, 1987; Kets de Vries, 1993; Levinson, 1971; Pare, 1990). Kets de Vries (1993) argues that this occurs because founders often regards their business as their life's work and the transfer of the company is seen as a loss of identity and power along with the potential for envy and conflict amongst succeeding generations. From the perspective of the family, discussion on succession can be regarded as a hostile act towards the current incumbent and his or her spouse which also engenders political rivalry between siblings. For these reasons, firms recognise the importance of choosing a successor and developing a general succession plan but do little about it.

Family-oriented Firms

Family firms are complex entities in which business and family issues interact in various ways. Sometimes family issues will dominate decision-making and sometimes business rationality will prevail. However, this piece of descriptive research focuses on firms that place the family first. This is done because recent research suggests that family considerations dominate thinking in very many family firms. This state of affairs could occur because most family firms are small. Recent research in the USA (Miller, Fitzgerald, Winter and Paul, 1999) indicates that the majority of family firms employ less than 10 people and that they tend to be service firms. Miller and her colleagues also found that, in busy periods for the family or the business, no additional labour resources were made available. The family drew on business resources and *vice versa*. Furthermore, in small service firms with limited human resources, family matters will impinge strongly on business issues. This contention is supported by Ward (1987a) who suggests that family firms with smaller business wealth, few employees, small family management teams, unsophisticated technology and a service orientation will tend to have a family-first orientation. Finally, Baines and Wheelock (1998) note that the less growth-oriented firms in their sample relied heavily on the family.

In view of the importance of family oriented ventures, both Ward (1987a) and Dunn (1995) have developed models of behaviour in these firms and **Figure 1** is an attempt to depict the characteristic assumptions and practices that obtain therein. It is our contention that the businesses in this piece of research, small family firms in the Scottish Highlands and Islands, will have a strong family-first orientation and will display many of the features presented in **Figure 1**.

FIGURE 1: ASSUMPTIONS AND BEHAVIOURS IN FAMILY-ORIENTED FAMILY FIRMS

Assumptions	Practices
Are more rigid in their views A rigid family struggles to prescribe the rules of the game as well as outcome control	Restrict shares to blood relatives Retain control of residual profits Long-tenured management teams Don't use outside advisers Long-term orientation
Family are in control of management	Family are the senior managers Small management teams Boards dominated by family Few outsiders in key managerial positions Centralised decision-making Family are very visible to customers and staff Family control policy matters
Family provide non-managerial labour	Family members work in the business both formally and informally Founders and spouses heavily involved Family labour can be unpaid or underpaid
Would like to maintain business in present condition	Incremental approach to market and product development Monitor opportunities and threats Family values non-negotiable
Contentious issues in relation to control, management, relationships and labour supply not widely discussed	Few formal meetings No family councils or constitutions Conflict suppressed or avoided
A job is a family birthright	Incompetent family members are employed Promotions are reserved for family Resentment from non-family members Equal reward for family irrespective of contribution Strong commitment and loyalty from family Spillover between family and business relationships
Commitment to the community	Sponsorship and donations to local interest High profile in the community Burden of responsibility felt by family

Assumptions	Practices
Poorly-defined roles and responsibilities	Role ambiguity and conflict Few family and business boundaries set Inefficient management Lack of planning, including strategic planning
Little or no discussion or action on succession	No successor chosen No general succession plan

Based on models developed by Dunn (1995) and Ward (1987)

We believe this to be the case because firms in this region have few employees and small turnovers, they use simple technology and focus on business services. In addition, ethnic businesses in Britain rely heavily on family involvement for economic success (Mars and Ward, 1984; Ram and Holliday; 1993; Ward, 1987b; Werbner, 1984). Ethnic solidarity engenders an ideology of self-help, the use of fraternal networks and trust supported by kinship and family ties. Family firms in peripheral regions in Scotland will hardly experience ethnic solidarity but their remoteness and embededness in clan-based communities could well create similar conditions to those faced by ethnic businesses in parts of Britain. Further research on ethnic firms in Britain (Jones, McEvoy and Barrett, 1994, cited by Baines and Wheelock, 1998) reports that family involvement emanates more from the inherent drawbacks of small business than from their ethnicity and peripheral Scottish small firms could experience similar problems. Furthermore, remoteness and a small local labour market may well increase the reliance of the firm on the family as a source of recruitment and labour flexibility (Dick and Morgan, 1987).

There is another reason for believing that Highlands and Islands firms will have a strong family orientation. Many are farms, and farms in Britain and Ireland are predominantly family businesses that rely heavily on family owners, managers and labourers. Hutson (1987) notes that a pool of family labour is much less important nowadays than family management and his discussion on the dynamic interaction between owners, managers and other family stake-holders reveals that family and firm are strongly intertwined. In general, the peripherality, small scale, service and farming focus, and community involvement of Highland and Islands family businesses leads us to predict that they will have a family-first orientation.

This Study

This study, which is largely descriptive, reports on behaviours in a sample of 162 family firms in the Scottish Highlands and Islands. This has been done to build a portfolio of knowledge about these ventures and to gauge the extent of family involvement. Firms in this region are geographically remote and small (comparative data, based on regional information provided by the Department of Trade and Industry (1998), confirm that 66% of firms in this study employ between one and 10 people, compared to 21% in the whole of Scotland) and this presents a *prima facie* case for believing that a family orientation will obtain.

It is expected that there will be indications of a family-first orientation as reflected in : a) a rigid approach to business issues; b) tight family control of management; c) extensive use of family labour; d) little discussion of contentious issues; e) the ready provision of jobs to family members; f) unclear roles; g) lack of professionalism in management; h) a strong commitment to the community; i) little succession planning.

The Sample and Questions

Since no sampling frame for family firms exists in this region, it was not possible to select a random sample. Therefore, the researchers used the databases held by the Highland Council and the Clydesdale Bank to select those firms in which ownership and managerial matters are firmly controlled by a single family. Postal questionnaires were distributed to 557 establishments in various locations and sectors, with a follow-up two weeks later. One hundred and sixty-two usable returns were obtained, giving a response rate of just over 29%. The total questionnaire comprised a number of fixed response questions on the issues mentioned in **Figure 1**.

Results

Demographic Information

Almost all of this sample are private businesses and they are relatively young with 62% having been trading for 25 years or less. Sixty per cent offer private services, 29% are in manufacturing or construction and 11% contribute to agriculture, forestry and fishing. Turning to the number of employees, more than two-thirds of this sample employ between one and 10 persons, 28% employ between

11 and 50, whilst merely 5% employ more than 50. Highlands and Islands firms are very small. Turnover is small also; indeed, 10% of the sample have turnovers of less than_£50,000 per annum, and a further 10% are in the £50–100,000 range. Forty five per cent of the firms generate annual revenues of between £100–500,000 and 15% are in the £500,000 to £1 million band. Merely 20% of the sample have turnovers in excess of £1m per annum. However, almost half of the sample feel that they will experience some growth in the near future and 22% expect significant growth. Although 40% are not satisfied with economic performance, 60% are. In summary, firms in this sample are very small, they are relatively young and are strongly represented in the service and agricultural sectors. Summary statistics are presented in **Table 1**.

TABLE 1: DEMOGRAPHIC DATA ON THE FAMILY FIRMS IN THIS STUDY

No. of years since the firm started trading	**< 5**	**6–10**	**11–25**	**26–50**
(%)	14	14	35	23
No. of full-time employees	**1–10**	**11–50**	**51–200**	**200+**
(%)	67	28	5	–
Turnover in £ millions	**<£¼m**	**£¼m–£½m**	**£½m–£1m**	**£1m +**
(%)	40	24	15	20
Business sector	**Service**	**Mf & Con**	**Agri**	
(%)	60	29	11	

Ownership and Senior Management Matters

In firms with a strong family involvement, the owning families hold almost all shares and this is the situation in this study. In 82% of cases all shares are owned exclusively by one family, in 89% of instances more than half of all shares are owned by one family, whilst in 92% of firms the extended family own more than three-quarters of all share. Single families are the dominant owners.

Turning to the actual number of shareholders, in 10% of cases there is only one shareholder, in 56% of cases there are two and in 15% of cases there are three. There are no formal systems in place for the redemption of shares in three-quarters of firms and, in 93% of instances, respondents want the dominant family to remain exclusively in control of the firms and for the owning family to continue to work in the business. These firms are keen to "perpetuate or increase the degree of family involvement" (Litz, 1997).

Respondents were also questioned about the amount of discussion that took place on ownership matters. Forty-two per cent of firms have reached agreement about the rules pertaining to family ownership of shares, approximately 40% have agreed on the disbursement of shares to non-family members and what to do with shareholdings in the event of the death or disability of current shareholders. There was less agreement on matters such as the tax implications of changes in share ownership, the content of shareholders' wills and what would happen in the event of divorce. Whilst many matters were discussed, few were documented. However, 28% of firms had documented procedures for dealing with shares in the event of the death of a shareholder. A summary of responses to these questions are presented in **Table 2**.

TABLE 2: DISCUSSION AND DOCUMENTATION OF MATTERS TO DO WITH THE FAMILY OWNERSHIP OF SHARES

Ownership of the business	Never discussed	Discussed/Not agreed	Agreed	Agreed and documented
	%	%	%	%
Rules concerning which family members can own shares	25	10	42	23
What will happen to shares in event of:				
• sudden death	20	10	42	28
• divorce	42	10	33	15
• disability	36	11	38	15
Restricting shares to bloodline	38	10	36	16
Content of CEO's will	40	8	32	20
Plans to minimize tax on transfer of shares	40	12	30	18

Formal Managerial Roles

In family firms in which the "family rules", the principal family dominates the Board and takes senior management roles and this is the situation with this sample. Ninety-nine per cent of chief executives are family members, 93% are men, 90% of firms have between one and four family members on their Boards and two-thirds have three family Board members. Most CEOs are male but, in more than 50% of instances, their wives also work in these firms, in 40% of cases sons are employed whilst small percentages of daughters, brothers, cousins, sisters and in-laws are also employed. The majority of firms have first and second generation family members working side-by-side (53% of the total) with most of the remainder comprising first generation only.

Close family members dominate Boards and they are equally likely to occupy senior management positions. Seventy per cent of firms have between one and three family members in these positions and a further 20% employ family as middle managers. Chief executives are also likely to remain in control for a long time. More than 60% have been in post for more than 10 years, while 30% have been *in situ* for more than 20 years. Families currently dominate senior positions and 89% of this sample want to retain this level of management responsibility in the future.

Involving a family in a business can have major implications for those concerned and respondents were questioned about the extent to which the implications of running a family business had been discussed by family members. **Table 3** reveals that two-thirds of these firms have discussed and agreed upon what the family really wants from the family firm and whether they want to continue in business. They have also had considerable discussion about why they are in business as a family unit, but these discussions are rarely documented. However, there is much less discussion about the future of the business; indeed three-quarters of the firms indicated that there has been no significant discussion about this.

Family members are in control of shares and key managerial posts in these firms. It is likely that they will be highly visible to non-family employees and whilst they may not formally scrutinize decisions made by non-family personnel, the owning family are the major players in moulding these firms.

TABLE 3: DISCUSSION AND DOCUMENTATION OF MATTERS TO DO WITH THE FAMILY INVOLVEMENT IN THE FAMILY FIRM

Family in business issues	Never discussed	Discussed/ No agreement	Agreed	Agreed and documented
	%	%	%	%
What do we really want from the family business?	15	17	65	3
Whether we want to continue in business?	22	13	61	4
Why are we in business as a family?	30	10	56	4
What will we do in the future when the family need jobs?	34	22	42	2
How family issues will be managed by the next generation?	52	19	28	1

Approach to Growth

The family are the owners and the managers and this can sometimes place constraints on growth. It is interesting to note therefore that 30% of this sample expect no growth or a reduction in revenue in the near future, 48% expect some growth whilst only 22% expect that they will experience substantial growth. A further indication of their limited capacity and/or desire for growth emerges from an analysis of their markets. Sixty per cent of the sample feel that more than half of their turnover will emanate from the immediate locality, almost 40% feel that this proportion of revenue will come from the Highlands and Islands, whilst 15% feel that more than half of their sales revenue will come from Scotland. Not many firms envisage markets in the rest of the UK or abroad.

It is unlikely that local markets can offer the prospects of sustained growth for these ventures but it is interesting to note that 58% of the sample are satisfied with their current level of economic performance. This suggests that many are conservative rather than entrepreneurial firms (Covin and Slevin, 1988). Support for this contention is provided by an analysis of the growth strategies of the sample. Half of the firms do not want to grow and of those with growth strategies the favoured approach is to expand sales moderately – 89% agree or agree strongly with this mode – whilst expanding sales significantly and developing new products are the next most popular strategies. Less than half of the growth-oriented businesses are keen on expanding their markets geographically and expansion by means of alliances or acquisitions are not favoured strategies.

Issues in Connection with the Employment of Family Members

Results to date indicate that family members are heavily involved in these firms but the use of family as Board members, managers and employees can prove to be problematic. For example, some family members receive more favourable treatment than non-family personnel whilst others are exploited. In this study, results suggest that 94% of family members are happy that there is a business in the family and 68% feel that some preferential treatment is afforded to them. Furthermore 75% consider that there is an attempt to reward family members equally even though they make different levels of contribution to their firms. In other words the needs of family members are catered for but issues of equity are not ignored. For example, 43% of this sample report that promotion is always based on merit. It is worth noting however that only 40% of respondents feel that formal appraisal systems are regularly used in these firms.

Fifty-six per cent of respondents claim that staff always clearly understand their roles and responsibilities whilst a further 32% feel that they frequently do so. It is often argued that there are disagreements amongst family members about who does what in the family business but 58% of this sample report that this never happens whilst 36% report that this happens sometimes. In contrast with the claims in the literature, roles are generally allocated clearly to family and non-family personnel

Some preferential treatment is given to family members but this does not apply to monetary rewards. Eighty-seven per cent of respondents agree or agree strongly that family members forego rewards for the sake of the business whilst 56% do not agree that family members receive the typical market rate for the job. However, whilst there is some concern amongst 40% of respondents about the ability of the business to support the family in the future, only 18% feel that family members are trapped in the business and would work elsewhere if they could. It might well be that rewards are sacrificed in the short term but will be recouped in the future. In general, more than two-thirds of respondents feel that family members are afforded some preferential treatment and this suggests that there is quite a strong family focus amongst this sample.

In family firms, tensions arise when attempts are made to meet the needs of the family, the owners and the business and conflicts need to be resolved through discussion. In this study, respondents were asked about the level of discussion on matters such as the employment of family members, about dealing with incompetent family members and about the means of rewarding them. For more than half of respondents, the issue of the requisite working experience of family members prior to entering the family business is never discussed whilst one-third do discuss this matter and come to an agreement with the family. In terms of dealing with incompetent or unhappy family members, about 42% of the firms have discussed and agreed on procedures whilst these matters are never aired in a further 40% of cases. There is more discussion in connection with salary. Approaching 60% of the firms have agreed procedures on the system of rewards for family members whilst approximately one-fifth have had no discussion on this matter. A summary of the extent of discussion on these matters is presented in **Table 4**. In general, there are attractions and problems for family members in working for one's family firm and whilst there is some discussion on the tensions facing family personnel it is by no means all embracing.

TABLE 4: DISCUSSION AND AGREEMENT ON ISSUES CONNECTED WITH THE EMPLOYMENT OF FAMILY

Issue	Never discussed	Discussed/ Not agreed	Agreed	Agreed and documented
	%	%	%	%
The level of outside experience family need prior to employment	54	11	32	3
What to do if family are unsuitable for jobs	42	13	40	5
How to reward family members in terms of salary	19	9	60	12

Before turning to the matter of succession planning, one more issue is considered. It is suggested in the literature that family firms in peripheral locations have a strong commitment to the community and this is confirmed in this study. In response to a direct question on commitment to the local community, 27% of the firms agree strongly that they are so committed whilst 70% agree and only 3% disagree. There is further evidence of commitment. Respondents were invited to address some general issues at the end of the interview schedule and several stated clearly that they provided a community service.

Succession

Managerial succession, especially the replacement of the CEO, is problematic in family firms and there is evidence that this matter has not been adequately dealt with by the sample. Almost two-thirds of the firms have had their CEO in post for 11 years or more, 86% of these individuals are 41 years old or more and 44% of the sample say that the chief executive will retire in 10 years or less yet only one-third of the families have identified and agreed upon the next CEO. Fifty-seven per cent of respondents feel that the next CEO will be a male family member, 21% a female family member, 9% a non-family person from within the current firm and 13% a non-family outsider.

Replacing the CEO is a major business decision but a general succession plan is equally important. This sample were asked about their level of agreement or disagreement on the importance of having succession plans and 57% of the sample agreed strongly and 43% agreed that plans are important. Furthermore, 43% of the firms have a succession plan, of these 27% are committed to writing; this is rather higher than results from other studies of family firms. Where plans exist, they have been developed with the approval of all relevant family members in 71% of cases and few people, outside the family circle, are aware of their contents. Succession planning can be a complex affair and professionals can advise on this matter. The sample were asked whether advice was sought and 34% said yes. However 30% did not reply to this question and it is more likely that about a quarter of them actually sought professional advice.

Discussion

It is recognized that people in family firms experience tensions in trying to meet the demands of owners, managers and family members and that the pressures are often resolved to the satisfaction of either the family or the business. More rarely the interests of all three parties are met (Dunn, 1995). If conflicts are resolved in an asymmetrical manner, then a family or a business orientation will obtain (Dunn, 1995; Ward, 1987a) and it is suggested that service firms (Ward, 1987a), firms struggling to overcome the disadvantages of small size (Baines and Wheelock, 1998), farms (Hutson, 1985) and firms in peripheral regions (Dunn, 1995) are likely to focus on family issues. Results from this study indicate that many of the 162 family firms in the Highlands and Islands of Scotland have a family focus although they must also make adjustments between family and business domains.

This family orientation is manifest in a very strong desire to maintain and increase the involvement of family members as share owners, Board members and senior managers. This commitment is strong in many family firms but there is a more marked reluctance by this sample to sell shares, or even discuss selling shares, to outsiders for any purpose and a very strong desire to continue with the family domination of management. There is also evidence that many of the family members in these firms are immediate family — wives, sons and daughters in most instances — and that this tends to increase family orientation. Ward (1987a) argues that when many extended members of the family have an involvement in the firm, they tend to treat it as an inanimate source of income.

A further indication of the importance placed on family matters is the approach to business expansion. Many firms are content with the *status quo* and are not striving to expand. Chell, Haworth and Brearley (1991) consider that entrepreneurial business owners are opportunistic, innovative, proactive, restless, adventurous and agents of change. In addition, they claim that entrepreneurial firms are growth-oriented. It would seem that many firms in this sample are conservative rather than entrepreneurial and they may be prepared to sacrifice economic gain for the needs of the family.

In firms with a family focus, there is a commitment to the family and this often leads to a situation where family members who work for the firm are treated as a valued human resource and not as an expendable factor of production. As mentioned, this can lead to an inefficient utilisation of human resources with economic consequences. There is some evidence that a family oriented approach is common amongst this sample and is manifested in some preferential treatment for family employees. However, this does not extend to the payment of salaries. There will always be conflicts between the pursuit of business goals and family goals in family firms and it is best if these matters are discussed. Evidence from this study suggests that there is some discussion about issues surrounding the employment of family members although many firms appear to avoid these debates. More generally, more than half of the sample have regular informal meetings to sort things out.

Family firms provide resources for their families but these firms are also a source of employment and providers of services to the local community. This contribution to the community is particularly important in remote geographical locations and it is interesting to note that many firms in this survey do have a commitment to their local communities.

Most studies of family firms show that they do not handle managerial succession professionally and this study is no exception. Many chief executives have been in post for some time and most are middle-aged yet the next CEO has only been identified by one-third of the sample. Interestingly, it seems that women are increasingly being chosen for the post of CEO and this could offer support for Frishkoff and Brown (1993) when they claim that women are on the move in family firms. On the broader issue of succession plans, whilst the sample considered that they are a good thing, it is estimated that only about a quarter of them have such a plan and that only 17% of these are written down.

It is widely recognized that family firms account for the large majority of business enterprises worldwide and that tensions arise in them between the pursuit of economic efficiency and familial well-being. It is also suggested that this tension invariably produces less than professional business organisations (Donnelly, 1964) and there is some evidence in this study of a lack of managerial professionalism. However, several authors point out that the criteria by which family firms measure success can be different from those in operation in non-family firms (Birley *et al*, 1999). These differences are even greater when it is recognized that, for many family firms, when there is a conflict between business efficiency and familial health, the latter will take precedent. Dunn (1995) reports that many of the family firms she investigated felt a strong responsibility for their own family, the families of their employees and the community. There is evidence that many of the firms in this study share similar concerns and that they make a small, but invaluable contribution, to the economic success of the Highlands and Islands region.

In view of the importance of family firms for Scotland, Dunn (1995) argues strongly in favour of interventions by the government to support family firms and this exhortation applies even more strongly in the case of the Highlands and Islands. Some writers feel that many interventions in support of small firms are unwarranted in that there is no general market failure in the "Enterprise [support] Industry" (Bennett, 1996; Storey, 1994) whilst others feel that high growth companies deserve most support (Manuckiewicz, Williams and Keogh, 1999). In addition, some people might feel that there can be no justification for supporting firms whose principal purpose is to meet the needs of the owning family. However, Reid *et al* (1999) argue that many lifestyle family firms still make an invaluable contribution to the local community and the economy at large and that special support programmes, which take the family element in these firms fully into account, should be supported by the state. Programmes such as these should prove invaluable for firms in peripheral regions in Britain and Ireland.

Conclusions

The importance of family firms is now well recognized as are their special features and problems. Families that own these firms want to retain strong control of the ownership and management functions and many do not measure success by the strict criteria advocated by economists. To outsiders, they often appear to be inflexible, conflict-ridden, nepotistic and inefficient. However, outsiders are rarely the best people to make judgments on the social realities of organisational life (Perrow, 1971; Birley *et al*, 1999) and it is felt that family firms, even firms with a strong family focus, deserve state support. However, support must be tailored to the specific structures and needs of these firms and this is why studies like this one, which explore the realities of behaviour in family firms, are important for policy-makers. Offering a generic business support package to family-first firms is unlikely to prove fruitful. Those who aim to advise family firms must be aware that there are different perspectives amongst family firms "as to the most appropriate role for the family in the business" (Birley *et al*, 1999, p.606) and future research must recognise the heterogeneous nature of family businesses.

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