Shedding of unproductive resources in family firms: Role of family structure and community culture

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Timely shedding of unproductive resources is essential for sustaining the competitive advantage of a family firm. However, a combination of past success, emotional attachment, and path dependencies can lead to extensive inertia towards resource shedding. Are all family firms equally reluctant to divest their unproductive resources such as ailing business units? Drawing on the literatures of family structures and national culture, we develop propositions on the varying levels of inertia to divestment in family firms depending on the values held by the owning family and the culture prevailing in their community. The article concludes with a discussion of the implications for research and practice.

Resource based view of the firm suggests that possession of unique, valuable, non-substitutable, and non-imitable resources is essential for the creation of competitive advantage of a firm (Barney, 1991; Penrose, 1959; Wernerfelt, 1984). The close interaction of family and business systems in family firms leads to the creation of resources that can act as a source of advantage or constraint in these firms. Habbershon, Williams, & MacMillan (forthcoming) refer to such resources as the 'familiness of the firm'. Recently, scholars have argued that possession of appropriate resources is only a start towards achieving the target of sustainable competitive advantage. Effective management (adding and shedding) of the resource inventory is essential to ensure that the competitive advantage achieved is sustained over a reasonable period of time (Sirmon and Hitt, forthcoming).

While efficient resource management is important at all times, it becomes critical during economic downturns as firms' ability to absorb unproductive resources is significantly reduced. Due to a combination of emotional and practical reasons, family firms have been noted to be notorious for their inability to shed unproductive resources in a timely manner, to an extent that these firms can become a 'sickness' (Kaye, 1996). Owners often fail to recognize 'when it's time to terminate their flight' (Kaye, 1998:

277). Calls have been made to study the role of social pressures involved in difficulties of divesting family firms or parts thereof (e.g., Kaye, 1998). In response to such calls, this article addresses the question: *Are all family firms equally reluctant to divest their unproductive resources such as ailing business units?*

Scholars favoring an evolutionary perspective suggest that firms are embedded in their environments and the networks of social relations surrounding a firm significantly influence decisions made (Aldrich & Zimmer, 1986; Parsons, 1956; Shane, forthcoming). As 'family' plays a critical role in family firms, the fundamental values guiding a family strongly influence the decisions made in these firms (c.f., Aldrich & Cliff, forthcoming). Moreover, as with all other firms, family firms are embedded in their social environments. Thus, the prevailing culture is also bound to influence the decisions made (Hofstede, 1980; 2001). In this article, we attempt to understand the interacting influence of different types of family structures and the prevailing culture on one type of resource shedding decision – divestment of ailing business units.

Anthropologist Todd (1985) has identified four types of basic family structures depending on the family's values on dimensions of equality-inequality and authority-liberty. These are authoritarian family, community family, absolute nuclear, and egalitarian nuclear family. Ling (2002) has effectively used these family types to understand the governance of family firms. Following her lead, we use these basic family structures to understand their role on decisions to divest ailing business units.

In his classic studies of culture across more than 50 countries, Geert Hofstede (1980, 2001) found significant differences on basic dimensions guiding a society's world-view related to the values and acceptable behavior. He identified and empirically verified five dimensions along which the culture of each nation could be distinguished. These dimensions are: power distance, uncertainty avoidance, masculinity versus femininity, long-term versus short-term orientation, and individualism versus collectivism. Although we acknowledge the importance of studying the role of each of these dimensions on divestment decisions of a family firm, in this article we focus only on one dimension that relates closest to the integration of individuals into primary groups such as families – individualism versus collectivism (Hofstede, 2001: 29).

With technological advancements leading to easy communications and travel in the world, significant intermingling of cultures is to be expected (e.g., McRae, 1994; Tapscott, Ticoll, & Lowy, 2000). As families migrate across nations, their behavior is guided by a combination of their family values and the surrounding cultures. Hofstede has encouraged social scientists to 'explore more than one level of social reality' to develop exciting and productive models of human behavior (Hofstede, 2001: 414). Taking cue from such encouragement, we develop propositions that simultaneously consider the role of family structure and prevailing community culture on the divestment decisions of family firms.

This study makes several contributions. To our knowledge, this is a first attempt to systematically understand the social forces directing the decision to sell unproductive or ailing parts of family firms. Although the role of family structures has received attention in the context of governance issues of family firms (Ling, 2002), this study brings forth the role of family structure on divestment decisions of such firms. We introduce the idea that culture surrounding a firm may or may not be similar to the dominant culture of the nation. However, the prevailing community culture would significantly influence the strategic decisions made by a firm. Finally, we develop propositions to understand the interactive role of the prevailing culture and family structure on decision of family firms to sell their unproductive business units.

The next section briefly shares the literatures on strategic management of resources, culture and its dimensions, and family structure, that we found helpful in building our model. The following section starts with the presentation of a broad model guiding our research. This is our attempt at clarifying the scope of our study. The remainder of this section presents the development of our propositions. The article concludes with a discussion of implications for research and practice.

The building blocks

Strategic Management of Resources

Strategy scholars with a background in economics have viewed strategy as the choice of a firm's purpose and direction, that is, the businesses it chooses to compete in and the mode of competing it adopts (e.g., Andrews, 1971; Collins and Porras, 1994; Porter, 1980, 1996). In the resource based view (RBV), strategy is the pattern of acquisition, retention and generation of resources by a firm that is sustainable and non replicable by its competitors (Barney, 1991; Penrose, 1959; Wernerfelt, 1984). Thus, strategy involves the concept of a fit between an organization and its environment as the key to performance. Hence changes in environment requires strategic responses on the part of a firm — such as readjustment of the business portfolio, changing the basis on which it competes, and, in some cases, a redefinition of the direction of the organization itself.

During times of economic boom, the environment presents numerous opportunities for growth. Cash-rich firms with limited opportunities for growth in their core businesses have been found to aggressively diversify into activities unrelated to their existing businesses, in order to exploit new opportunities (Jensen, 1986; Mueller, 1969). A great deal of optimism, at times bordering on euphoria exists, and the risks involved are underplayed, as witnessed in the IT boom of the late nineties. Management preferences dominate the decisions made. Evidence of misused cash flow and over-diversified firms, especially those with weak corporate governance structures, such as in privately held family firms, has been found (Markides, 1995; Morck, Shleifer, Vishny, 1990).

However, during economic downturns, as witnessed in the last few years, the business environment becomes somber. The mantras of 'corporate refocusing', 'sticking to the knitting', 'returning to core competencies', are prescribed as pathways to success of firms (e.g., Prahalad & Hamel, 1990; Peters & Waterman, 1982). While the voluntary divestment of business units by firms remains an under-researched topic[1], recently conducted well-designed studies indicate a significant positive impact of divestment decisions on performance of publicly traded firms (e.g., Hayes, Thompson, & Wright, 2002; John & Ofek, 1995). Theorists argue in favor of effective management of resources, including timely adding and shedding of resources, to sustain competitive advantage of firms (Sirmon & Hitt, forthcoming).

Although divesting of unprofitable business units makes rational sense, especially during economic downturns, researchers have noted the prevalence of significant exit barriers that inhibit firms from divesting their unproductive resources (Burgelman, 2002; Porter, 1980). In addition to practically oriented barriers such as inventory of specialized assets, fixed costs of exit, inter-relatedness of business units, government regulations;

[1] Please see Johnson (1996) for a review of the related literature.

social and psychological barriers such as emotional attachments of top managers, have been observed to impede divestment decisions (Burgelman, 2002; Porter, 1980).

While most of the above mentioned research is conducted in the context of publicly traded firms, the exit barriers in closely held family firms may be even more pronounced as significant emotional attachments spanning across generations and social constraints prevail. Emotional bonding between family members, nostalgia and escalation of commitment to resources, especially human capital can impede the divestment decisions (Ross & Staw, 1993). Keeping the business in the family, regardless of its economic value, may be the sought after objective, even though this may not be the best decision either for the business or the involved family members (Kaye, 1996; 1998). Sirmon and Hitt (forthcoming) note that even though divestment is warranted by objective information, this may not happen. Scholars call for ‘happy landings’ or sale of non-productive units of a business (Kaye, 1998), thereby encouraging timely resource shedding. Ironically the strengths of family firms such as an intimate knowledge of the firm’s resource stocks and special incentives to effectively manage the firm’s financial capital can impede the shedding of resources.

In short, our review of related literature reveals the well-accepted importance of efficient resource management for development and maintenance of sustainable competitive advantage of firms. In addition to the timely and opportune investment in resources, effective resource management requires timely shedding of unproductive resources. Different types of barriers to divestments have been noted. Our focus is on the role of social pressures on decision to sell a business unit. A starting point to understanding the role of social structure on a firm is through the literature focused on culture. This literature is examined next.

Culture and its dimensions

Culture is defined as ‘the collective programming of the mind that distinguishes the members of one group or category of people from another’ (Hofstede, 2001: 9). Organizations have been described as ‘goal directed, boundary-maintaining, and socially constructed systems of human activity’ (Aldrich, 2000: p2), that function according to culturally determined implicit models in the minds of their members (Hofstede, 2001). The cultural patterns at work reflect the cultural patterns in the wider society. Trying to study managerial decisions and processes without insight into societal culture has been described as ‘a trivial pursuit’ (Hofstede, 2001: 240).

Based on attitude surveys of IBM employees in more than 50 countries, Hofstede and his colleagues[2] (1980, 1984, 1988, 2001) have identified five dimensions along which the workplace related attitudes of these employees differed in various nations, even though they all worked for IBM. These dimensions and their brief explanations are as follows:

> *Power distance* is related to different solutions to the basic problems of human inequality. It is the extent to which the less powerful members of organizations and institutions accept and expect that power to be distributed unequally.
>
> *Uncertainty avoidance* is related to the level of stress in a society in the face of an unknown future. It is the extent to which a culture programs its members to feel either comfortable or uncomfortable in unstructured situations. Attempts to avoid uncertainty in cultures are manifested through devising of rules, procedures and codes of behavior, and through institutionalizing these codes.

[2] While some other attempts have been made to identify dimensions of culture, notably by Triandis (1995) and Trompenaars (1993; 2001), Hofstede’s dimensions have been found to best encapsulate these dimensions (Hofstede, 1996). Thus, we decided to focus on Hofstede’s dimensions.

> *Individualism vs. collectivism* is related to the integration of individuals into primary groups. It is the degree to which individuals are supposed to look after themselves or remain integrated into groups, usually around the family. These groups protect them in times of adversity in exchange for unquestioning loyalty to the group.
>
> *Masculinity vs. femininity* is related to the division of emotional roles between men and women. It refers to the distribution of roles between genders and manifested by the values highly regarded: such as aggressiveness, competitiveness, seeking after material success and power vs. tenderness, cooperation and seeking softer values in life.
>
> *Long- vs. short-term orientation* is related to the choice of focus of people's efforts: the future or the present. It is the extent to which a culture programs its members to accept delayed gratification of their material, social and emotional needs. (Hofstede, 2001: xix, 29)

All five dimensions have implications for organizations and management processes, as they provide 'collective mental programs' that legitimate acceptable values and behavior. As our understanding of the divestment decision making processes in family firms develops, it would be useful to understand the role of all these dimensions on such decisions. However, as noted earlier, in this article, we focus on one dimension of culture that is most intricately linked with relationships within a family, that is, the dimension of individualism versus collectivism.

Studies have revealed that differences in childhood socialization between individualistic and collectivist societies lead to differences in modal personality characteristics and in behavior patterns amongst family members (Hofstede, 2001). Those who grow up in collectivistic societies learn to intuitively think of themselves as part of a group focusing on 'we'. In contrast, those who grow up in individualistic societies learn to think of themselves as an individual with a focus on 'I' (Hofstede, 2001).

While Hofstede distinguished the five dimensions of culture at the national level, he stressed the prevailing differences in cultures at the community levels. Our world is now characterized by easy communications and travel, promoting significant intermingling of cultures (e.g., McRae, 1994; Tapscott, Ticoll, & Lowy, 2000). Migration of individuals and families further promotes mixing of cultural values. For example when individuals who grew up in collectivistic cultures migrate to lands dominated by individualistic cultures, their behavior is guided by a combination of their family values and the culture in their surrounding community.

Hofstede (2001) encouraged researchers to transcend across levels of social reality to develop an exciting and productive understanding of the prevailing influences on the mental software of human beings that influences decision-making in firms (p. 414). In this study, we use the cultural dimension of individualism and collectivism largely developed at the national level to the community level. Moreover, we use the family structures literature to understand the culture prevailing within a family business and its influence on divestment decisions. This literature is reviewed next.

Family Structures

Family is the first group in our lives that has a significant affect on our values, attitudes, beliefs, and behaviors (Giddens, 1984). It is now commonly accepted among anthropologists that families can vary in fundamental ways based on the values they regard as sanctimonious. The following statements by Todd (1985: 12) are representative of the prevailing beliefs related to the role of family in lives of individual members:

> The family by definition reproduces people and values. Unconsciously but inevitably, each generation absorbs parental values which define elementary human relationships: between parents and children, between siblings, between husband and wife. The power of the reproductive mechanism springs from the fact that it does not need to be conscious or expressed: it is automatic and has its own internal logic.

Todd (1985) built on the work of sociologist Frédérik Le Play (1875), to develop a highly regarded typology of families that has been found useful in research on family firms (Ling, 2002). It is built on the underlying idea that the relationships between father and son determine people's concept of liberty or authority; and the mechanism of inheritance of parental property between brothers creates the concept of equality or inequality (Todd, 1985).

Authority is manifested through co-habitation of generations after the marriage of the younger generation, thereby forming strong vertical linkages in an extended family group. Liberty, on the other hand, is displayed when a child leaves his parents home to establish an independent household through marriage. The liberal model emphasizes individual independence. If parental property is divided equally amongst all brothers, an egalitarian relationship is expressed. If, on the other hand, the inheritance system is based on the indivisibility of the property with one child favored over all others, the idea of inequality is expressed.

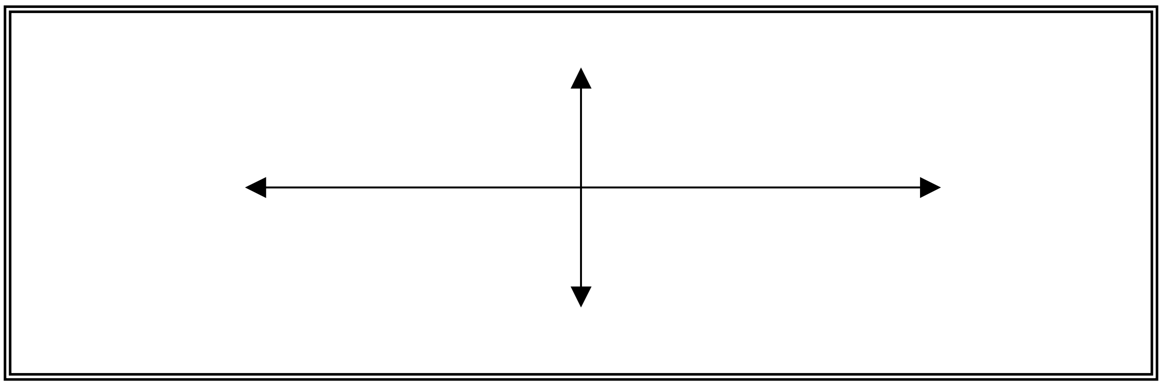
Todd (1985) identified four family types based on whether families are conceptualized in terms of children living in the same household as parents after marriage or not, and whether parental property is divided equally or not. These family types are depicted in Figure 1 and described below:

> *The absolute nuclear family* is liberal and inegalitarian. The children are expected to form their own households and the parental property is divided without any precise conventions of inheritance. Such families socialize their children to be independent and achievement oriented.
>
> *The egalitarian nuclear family* is characterized by the concepts of liberty and equality. While separation of households is expected, the property is divided equally among all sons. Children are socialized to be somewhat independent and achievement oriented.

The authoritarian family displays the values of inequality and authority. While the ultimate authority resides with the father, one of the sons is an anointed heir, who is treated more equal than others. The association between the father and this son is close, while others must leave the stem family.

The community family is characterized by the values of equality and authority. Children live with their parents in extended families and all brothers are treated equally in terms of inheritance rights. The patriarch has the ultimate authority in such families.

Figure 1: Todd's (1985) typology of family structures



With a focus on co-habitation of generations and the authority residing with the senior generation, community and authoritarian families are more likely to be found in collectivistic cultures. On the other hand, the dimension of liberty in nuclear families would be more conducive to the fundamentals governing individualistic cultures. However, with increased convergence of cultures and intermingling among people from different parts of the world, substantial exceptions are likely to prevail (Ohmae, 1990). This suggests a need for understanding family structure as a variable in its own right rather than as a mere subset of culture.

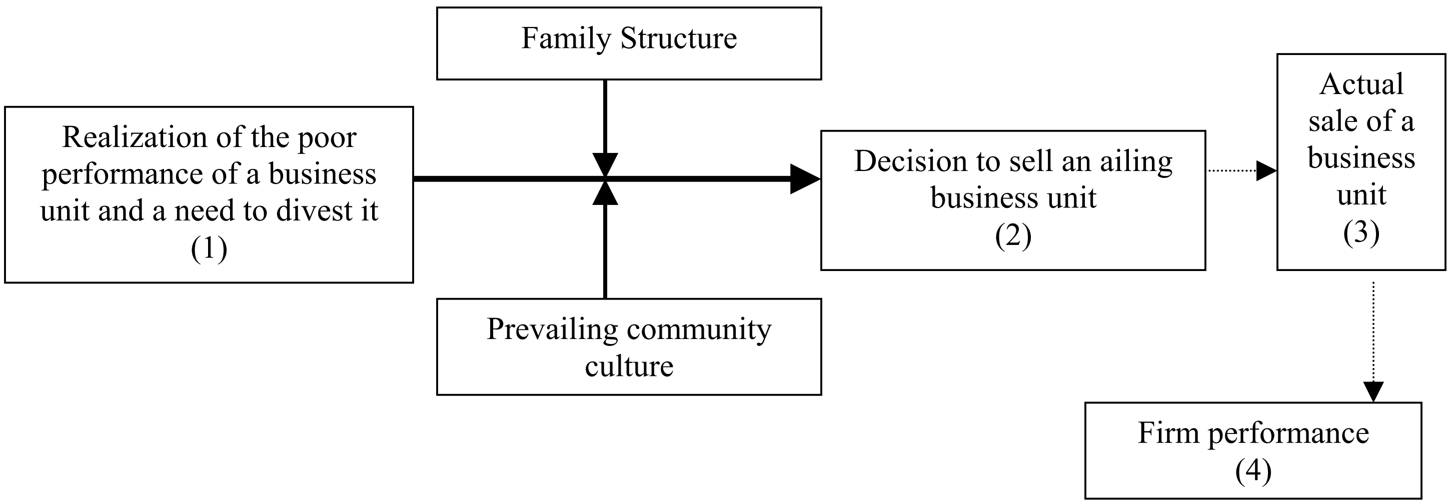
Impact of Culture and Family Structure on divestment decision of family firms

Before delving into the development of specific hypotheses, it is important to clarify the scope of our study. Figure 2 is a simple depiction of the sequence of events from the time a family business leader realizes a need to divest a business unit, to its ultimate sale and performance thereafter. These are: (1) a leader's realization that s/he has an under-performing unit that must be sold to cut down on losses, (2) his/her decision to sell the unit, (3) the actual sale, and (4) the performance after.

Various factors can influence all stages of this process. For example, leader's perception of the economy, past experiences, education and training level, emotional attachment to the business, age and health of the leader, future plans related to the business etc. would have an influence on when an individual comes to a realization that it is time to divest a business unit and cut down on his/her losses (stage 1). Similarly, the economic and political environment, stage of growth of an industry, extent of competition, location, nature of the product or services etc. will significantly influence whether the business unit actually gets sold or not (stage 3). The prevailing literature in business strategy discussed earlier is largely focused on the linkage between stages 3 and 4. It suggests that over-diversified firms will perform better after a divestment as such a move would enable concentration of managerial and other resources to fewer operations (John & Ofek, 1995; Markides, 1995). The structure of the relationship between the acquirer and vendor (Kaplan, 1989), and the governance structures of the vendor have also been found to influence the performance of a firm after divestiture (Morck et al, 1990).

This study is focused on the transition from stages 1 to 2. Our premise is that the family structure and prevailing culture will significantly influence the time lag between stages 1 and 2, that is, from the time the leader realizes a need to sell an ailing business unit, to the actual decision to sell it.

Figure 2: Process underlying divestment decisions



Next, we present our hypotheses, starting with those related to the prevailing community culture followed by family structure related and interactive hypotheses. Figure 3 shows how the different hypotheses developed fit in with the overall framework of cultures and family structures. Table 1 shows the hypotheses developed at a glance.

Collectivistic vs. Individualistic Culture

Personal values, influenced by the prevailing culture, affect the strategic decisions made by a firm (c.f. Andrews, 1971). In a collectivistic society, loyalty to one's clan or family is considered very important. The environment is powerful and socially dense with strict norms and rules of behavior (Krackhardt, 1995). People's identity is based on their group rather than their individuality (Hofstede, 1980). Relationships are deemed more important than individuals or tasks, and a mutual support system exists both in good and bad times. Dependence on other family members for support is acceptable and considered an honor by those in better off positions. Hence, in comparison to firm leaders in individualistic societies, family members leading firms in collectivistic societies are more likely to feel the pressure of a need to act in concert with other family members, rather than making decisions on their own.

Although different branches of a family may manage different business units, they have been observed to be part of a family group such as the 'grupos' in Latin America (Poza, 1995). Firms are linked through complex cross holdings, often deliberately designed to keep the family together (Morck & Yeung, forthcoming). Irrespective of share holdings, major decisions are likely to be formed through consensus among family members rather than formal mechanisms such as voting in a board meeting.

However, building of consensus takes time, as has been noted in the literature on the Japanese system of *ringi* (Ouchi, 1981). Family members' perceptions related to the environment, the need for change, extent of individual identity tied to a business unit, and the implications of any response may vary significantly. Some may view divestment akin to bankruptcy and a family's failure, leading to a loss of face in the community. Although family meetings may be used to develop shared perceptions as suggested by Habbershon and Astrachan (1997), such meetings consume time and delay the important strategic decisions such as those related to divesting a business unit.

The interests of different family members in a given business may be quite different. The affect of an action such as divestment of a business unit may vary across family members. For example, in collectivistic societies, new businesses may have been created not so much for their economic viability but to provide an independent operation to be managed by a family member (Taguiri & Davis, 1992). If such a business unit is ailing, its retention may be preferred to its sale, in order to promote family harmony (c.f. Malone, 1989). Such luxuries of retaining organizational slack may be acceptable in boom times, but become difficult during economic downturns. While some family members may see the wisdom of selling such business units and putting these resources to more effective usage elsewhere, as suggested by Sirmon and Hitt (forthcoming), those responsible for managing these businesses may see themselves as standing to lose by such divestments. These members are likely to engage in 'selective perception' while interpreting the environment as being favorable to their unit (c.f., Saal & Moore, 1993), and use different 'pathways of influence' to delay related decisions and maintain their job (c.f., Frooman, 1999). Consensus will be slow to emerge.

There is another way divestment decisions could get delayed in collectivistic cultures. Such cultures engender a notion of a 'common family pool' of resources. A sense of family obligation prevails that encourages the direction of resources from business units doing well to those needing support (Khanna & Paleppu, 1997). Due to an inherent long term orientation of family firms and a desire to maintain family harmony by keeping afloat businesses run by other family members, losses may be seen as temporary, with a hope that the business is question will show improvement (Chew-Lim, 1997).

The collectivism in the culture extends not merely to family members but also further down the organization. Long serving senior managers become part of the 'upper echelons' of the business and have a significant influence on the leaders (Hambrick & Mason, 1984). Lansberg (1988) has observed a significant influence of these members on decisions related to leadership succession. They were found to resist changes to the organization for the fear of modification in their roles and/or their job security. We expect these managers to influence the decision making process related to divestment decisions, thereby providing another stakeholder group that needs to be satisfied before such decisions can be made. This may cause further delays in making divestment related decisions.

Junior employees in family firms are often seen as 'part of the family' and the owning family often prides itself in taking good care of its employees. Such feelings are more likely in collectivistic cultures as it promotes a sense of obligation on the part of top management to watch over those dependent on them. Decisions to close down or sell a business usually involve consequences that are none too pleasant for the involved staff, making leaders in collectivistic cultures reluctant to take such decisions. All these factors are likely to delay, or even make it impossible to make divestment decisions.

The dynamics described above are less likely to prevail in individualistic cultures, since each person is expected to fend for him/herself. The sense of family obligation is not as dominant as in collectivistic cultures. Relationships with employees are more contractual in nature and not governed by obligations as in collectivistic cultures. Thus, we hypothesize that:

> *Hypothesis 1: In collectivistic societies, divestment decisions of unprofitable or marginally profitable businesses are less likely to be taken as compared to in individualistic societies.*
>
> *Hypothesis 1a: Even when divestment decisions are made, they are likely to be delayed, i.e., the number of years for which an ailing business is allowed to bleed before it is sold will be higher in collectivistic societies.*

Absolute Nuclear Family

Within a given culture, the family structure of a business is likely to further influence strategic decisions such as divestment of a business unit. Absolute nuclear families are characterized by liberty and 'indifference to the principles of equality and inequality in family relations' (Todd, 1985: 130). Children are not expected to live in the same household as parents and as adults are treated more as equals by their parents. They are expected to fend for themselves. There are no precise inheritance rules and parents have a free reign on how they decide to distribute their property or estate (Todd, 1985). Altruism among siblings is expected to be least in this type of family structure (Ling, 2002).

Thus, the leader can make prompt decisions in such families, as not much consultation is expected with other family members. Moreover, s/he does not have to worry about ensuring equality among children as each child is expected to take care of her/himself. Given these characteristics, we expect least amount of resistance to the divestment decisions of a leader in absolute nuclear families.

When such families reside in individualistic cultures, the external environment and the prevailing family values reinforce each other enabling faster decisions by the leader. However, when residing in collectivistic societies, the external and internal cultures are somewhat at odds. Being closest to the decision maker, the internal culture is likely to have a greater influence although it is likely to be moderated by the collectivistic external environment. Thus, we hypothesize that:

Hypothesis 2: Firms controlled by families with an absolute nuclear structure will tend to make divestment decisions quicker than firms controlled by families with other structures.

Hypothesis 2a: Firms controlled by families with an absolute nuclear structure residing in individualistic cultures will tend to make divestment decisions quicker than such firms residing in collectivistic cultures.

Egalitarian Nuclear Family

Similar to the absolute nuclear family, no cohabitation of married children with their parents is expected in the egalitarian nuclear families. However, the inheritance rules are based on equality as each child is regarded as a legitimate heir with an equal right to parental property (Todd, 1985). Parents are expected to give due consideration to the needs of each child. ‘Fairness’ becomes the guiding principle in these families.

As each child is expected to lead a life independent from parents, s/he does not really have an active ‘voice’ in the decisions related to the family business. However, the basic orientation of these firms is likely to delay the process of divestment of under-performing business units, as the leader has to sort through the issue of ‘fairness’ for each child. The delay in related decision making may not be as severe as in the case of community families, where each child has a great deal of ‘voice’ and consensus needs to evolve. However, the decisions in egalitarian nuclear firms will be slower than in case of the absolute nuclear families. Thus, we hypothesize that:

> *Hypothesis 3: Firms controlled by families with an egalitarian nuclear family structure will make divestment decisions slower than such decisions made by firms controlled by absolute nuclear families but faster than those controlled by community families.*

The external environment and the egalitarian nuclear family structure is somewhat at odds both in individualistic and collectivistic cultures. In individualistic culture, the clash is along the equality dimension, whereas in collectivistic culture it is along the liberty dimension. However, from the point of view of a family leader who wants to divest the non-performing business unit, the decision will be faster in individualistic cultures than in collectivistic cultures. Hence:

> *Hypothesis 3a: Family firms controlled by families with an egalitarian nuclear family structure residing in individualistic cultures are likely to expedite their divestment decisions in comparison to such families residing in collectivistic cultures.*

Authoritarian Family

Characterized by inheritance rules that transfer unbroken patrimony to one of the sons, each member in an authoritarian family has a clear understanding of where s/he stands in terms of inheritance (Todd, 1985: 55). While the chosen married heir is expected to cohabitate with parents, other children must leave the stem family after marriage. Generational succession runs from one controlling owner to another (Lansberg, 1999). Unless he falls out of favor with the patriarch, it is usually the eldest son who is the chosen heir. Even in the less prevalent cases where a younger sibling is chosen as the next leader, the inheritance rules are clearly understood. While the parents make an effort to develop the capabilities of each child, the relationship between generations is weak with all other children except the chosen heir. The relationship amongst siblings may range from being indifferent to hostile (Ling, 2002).

The patriarch and the chosen heir play a crucial role in strategic decisions of the firm. While other family members may be involved in the discussions and attempts to forge a consensus may be made, the real decision centers are the patriarch and the chosen heir. In case of a disagreement, the patriarch's word is ultimate.

Thus, we expect to find the decision making process in authoritarian families to be fairly easy as compared to community families which seek consensus among all family members. However, in comparison to nuclear families it should be somewhat more difficult due to the additional role played by the heir.

> *Hypothesis 4: Firms controlled by families with an authoritarian family structure will make divestment decisions slower than firms controlled by absolute and egalitarian nuclear families but faster than those controlled by community families.*

For authoritarian families residing in collectivistic cultures, the external and internal cultures are at odds. While the authoritarian approach precludes major attempts at consensus, the collectivism in the culture demands it. On the other hand, a minimal clash of cultures exists for such families in individualistic cultures. Hence a process of decision-making based on authority is likely to encounter less resistance in individualistic cultures than in collectivistic cultures. Based on this argument, we hypothesize that:

> *Hypothesis 4a: Firms controlled by families with an authoritarian family structure residing in individualistic cultures are likely to make divestment decisions faster than such families residing in collectivistic cultures.*

Community Families

Characterized by equality between brothers by the rules of inheritance and expected cohabitation of married children with their parents (Todd, 1985: 33), community families should prove the hardest environment for making strategic decisions as consensus needs to emerge among many stakeholders. Management of business in such families is likely to resemble the clan control mechanism described by Ouchi (1980).

Each child is expected to work in the business and efforts are made to carve up relatively independent territories for each. Setting up of business units may be a mechanism used to provide employment to family members rather than for generation of revenues (Taguiri and Davis, 1992). As children are expected to live with parents after marriage, family harmony is likely to be an important goal (Malone, 1989).

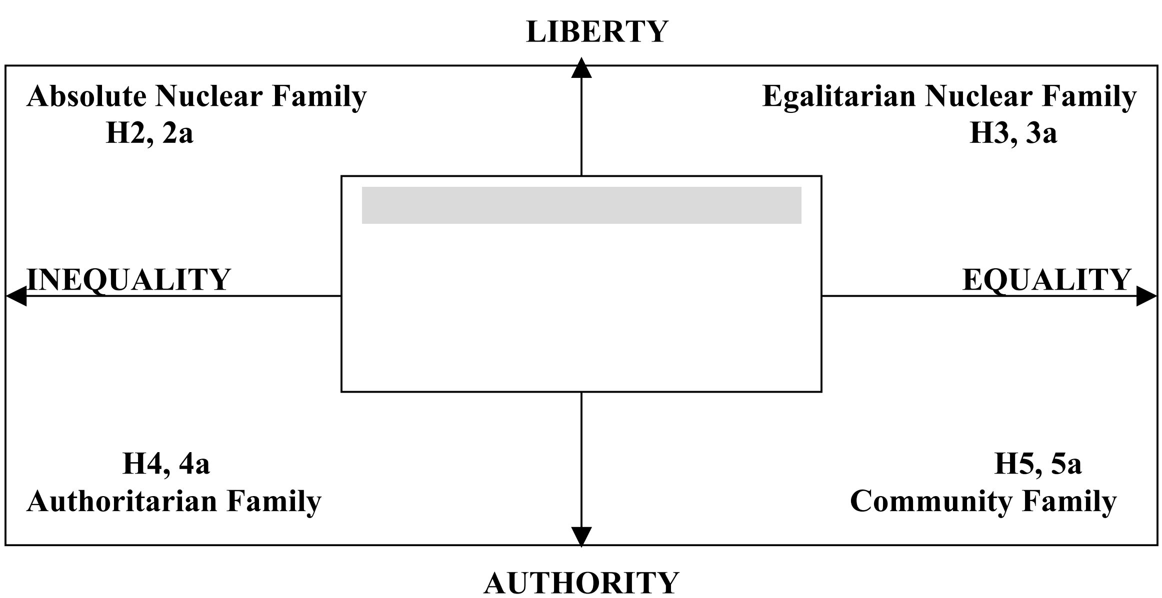
Although, from time to time, there may be fierce struggles among family members to back some businesses in preference to others and resist divestment, the utmost objective pursued would be to generate and maintain a smooth and agreeable consensus among family members. Thus, the patriarch is likely to spend a great deal of time and energy in trying to balance the needs of many stakeholders, thereby slowing down the decision making process. Thus:

> *Hypothesis 5: Firms controlled by families with a community structure will make divestment decisions at a slow pace, as compared to firms controlled by families with other structures.*

Clearly, the impact of a collectivistic culture is to slow down the decision making process in community families even further. However, in individualistic cultures, the external environment would reduce the impact of family structure favoring consensus building and slow decision-making. This should allow for somewhat faster divestment decisions. Hence:

> *Hypothesis 5a: Firms controlled by families with a community structure residing in collectivistic cultures will experience slowest pace of divestment decisions.*

Figure 3: Influence of family structure on family firm divestment decisions in Individualistic and Collectivistic cultures



Conclusion

Our objective in this article was to understand whether all family firms would be equally reluctant to divest their poorly performing business units or not. An exploration through the literatures of anthropology related to family structures and sociology related to cultures suggests that there should be a significant variation among family firms in terms of their resistance to divestment decisions.

Firms controlled by community families that value authority of the senior generation and equality among brothers in terms of inheritance rules are likely to be the slow in their ability to make divestment decisions. Further, when such families reside in communities with collectivistic cultures, the decision-making is likely to be delayed even further. On the other hand, firms controlled by absolute nuclear families that are based on the values of liberty and indifference to equality residing in individualistic cultures will be most efficient in making divestment decisions.

Although this paper makes a start to understanding the social factors influencing and inhibiting resource shedding decisions in family firms, it prompts a need for significant further research on this topic and has some implications for practice.

Research implications: Developing theoretical models based on well-established literatures of sociology and anthropology is an important first step to understanding the decision processes of family firms. The next task is to validate these ideas through empirical research. This paper presents a number of hypotheses that are amenable for testing through empirical research. Given the unexplored nature of the topic and family firms propensity towards secrecy, we may need to start with a number of case studies to test our model and refine it. There will be a need to locate cases of all four family structures in both collectivistic and individualistic cultures. After such initial validation, large sample multi-national studies need to be conducted for testing the validity and generalizability of the ideas presented here. The lessons learnt through the few empirical studies conducted in the divestment literature could be used to design such studies.

This study focuses on only one dimension of culture – individualism vs. collectivism. An argument can be made for the inclusion of the power distance dimension of culture as well as it relates to relationships between less and more powerful members of an organization. Hofstede (1984) has developed a matrix using the dimensions of power distance and individualism-collectivism simultaneously. Future efforts can be directed towards understanding an interactive role of these two dimensions with the four types of family structures on key strategic decisions of family firms.

It is out hope that this article will stimulate thinking and research on the role of family structure and community culture not only on divestment, but other types of strategic responses as well. We have also pointed out the difference in strategic responses of firms during times of economic boom and downturns. This is another under-researched area both in strategic management and family business literatures. Finally, as organizations operate across multiple nations and cultural milieus, an understanding of how culture affects strategic decisions may be a useful addition to the literature on international family business management.

Implications for practice: Ideas presented in this article and the related literature reviews conducted provide some suggestions for family business managers and advisors. First, it is important to understand that effective resource management is essential for sustaining competitive advantage of family firms. This may involve having to make difficult decisions of shedding of unproductive resources to ensure timely regeneration of the business. Family firms leaders would benefit by viewing such decisions as normal and necessary steps in the development of their business.

Second, all families can benefit from developing an understanding of the fundamental values guiding their behavior, their family structures, and culture prevailing in their community. This becomes especially important for families transiting across nations and establishing firms, as the dominant culture in which their children grow up may be different from the one that they are more familiar with. This may lead to different basic values and expectations across generations and points towards a need for proactive management and understanding of such fundamental differences.

Last, decision to divest a business unit may be more or less difficult for family firms depending on the underlying family structure and community culture surrounding a business. Such an understanding can go a long way in the eventual success of making such strategic decisions that are prompted by the needs of a business, as well as, maintaining healthy family relationships.

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Table 1: Summary of Features of Different Family Structures and Proposed Hypotheses

Family structure	Key Features	Relationship between generations	Number of heirs	Pace of divestment decisions	Individualistic cultures (Fast decisions)	Collectivistic cultures (Slow decisions)
1. Absolute nuclear	* Liberty, Inequality * Separation of generations * No precise conventions of inheritance	Weak	Nil	Strong positive	Strongest positive	Positive
2. Egalitarian nuclear	* Liberty, Equality * Separation of generations * Inheritance equal to all children	Weak	All	Positive But slower than in type1 as all children are to be treated equal	Strong positive	Positive
3. Authoritarian family	* Authority, Inequality * Strong generational ties with chosen heir	Weak with all but the chosen one	One	Positive	Strong positive	Moderately positive
4. Community family	* Authority, Equality * Strong generational ties with all children	Strong	All	Negative	Negative	Strong negative