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The Transitional Nature of the Multifamily Business

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Family firms are heterogeneous and often transitioning. To advance our understanding of how and why family firms change, we draw upon and extend the work of Pieper, Smith, Kudlats, and Astrachan by more closely considering the nature of the multifamily business, which is the focal type of organization in their study. Specifically, we explore how initial founding conditions and ongoing organizational and environmental factors may influence the formation, sustainability, and dissolution of the multifamily business, relative to single-family firms or other organizational forms. We argue that multifamily forms may be more common than generally believed, but tend to be a transitory organizational form.

Introduction

Within most family firms, there is usually a dominant family group that interacts with other social groups (e.g., nonfamily managers) within the organization (Arregle, Hitt, Sirmon, & Very, 2007). A primary contribution of the paper by Pieper, Smith, Kudlats, and Astrachan (2015) is the theoretical development and illustration of how simple decision rules and heuristics can lead to the persistence of multifamily businesses across generations. In their study, Pieper et al. focus on a seemingly rare type of family firm, the multifamily business, which they operationally define as “an organization that was founded by at least two *nonrelated* families who shared ownership and strategic control and self-identify as a multifamily business” (p. XX, emphasis in original).

The concept of the multifamily business really resonates with us as a unique and interesting organizational form because each of us had some experience with multiple families involved in a single business. In the first case, two equal partners had founded a business; it was not intended to be a family firm, but eventually involved two nonrelated families in the ownership and management of the business—a multifamily business. In the end, this business transitioned into a single-family firm when a second generation successor was identified and one of the partners was bought out. In the second case, a second-generation family firm did not have a successor, so a partnership was formed and resulted in a multifamily business. In this case, the business was dissolved when the potential successor of the incoming family decided against taking over the business

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operations due to concerns regarding the viability of the business. Together, these two cases suggest that: (1) the multifamily business may not be all that rare, and (2) the multifamily business may be an important organizational form that is overlooked in the family business literature due to its transitional nature.

Building on Pieper et al. (2015), along with numerous anecdotal cases such as those describe above, the purpose of this commentary is to further explore the multifamily business phenomenon. More specifically, we provide arguments in support of some basic propositions regarding key factors—initial founding and ongoing conditions—that may influence the formation and dissolution of the multifamily business structure, relative to single-family firms or other organizational forms (e.g., partnerships, corporations). We also highlight how a better understanding of the multifamily business can contribute to the family business and organizational studies literatures by discussing future research avenues. Overall, our intent is not to extensively develop a model of multifamily transitioning mechanisms, but to point toward some potential avenues for future research on this understudied, yet seemingly important, family business form.

Multifamily Businesses as a Transitory Form

In 2004, Chua, Chrisman, and Chang investigated the important question of whether family firms were born or made. Their study found that a majority of family firms possessed the requirements to be a family firm at their genesis, but that a significant number of firms evolved into family firms over time. This highlights the transitional nature of family firms and how they may move through several different configurations, including multifamily forms, over their life cycle (Gersick, Davis, Hampton, & Lansberg, 1997; Holland & Oliver, 1992; Le Breton-Miller & Miller, 2013). Indeed, the popular definition of a family business provided by Chua, Chrisman, and Sharma (1999) implies that multifamily businesses are a prevalent and important form of organizing; they define a family business as, “a business governed and/or managed with the intention to shape and pursue the vision of the business held by a dominant coalition controlled by members of the same family *or a small number of families* in a manner that is potentially sustainable across generations of the family or *families*” (p. 25, emphasis added).

Considering our implicit understanding that multifamily businesses can and do exist, there is little explicit acknowledgement of these forms in the extant literature. Even Pieper et al. (2015), who are among the first to study these forms, restrict their definition and sample to multigenerational family firms that were founded as multifamily firms. Hence, prior to extending our discussion to the factors that influence multifamily business transitions, we wish to modify the definition provided by Pieper et al. and propose that a multifamily business be more broadly defined as “a family business that is owned and/or managed by more than one non-blood related family with the intent of multigenerational involvement.” This broader definition would then likely include many basic business partnerships that rely on family members as employees, but may also include a wide variety of other ownership and management configurations, and not just those founded as a multifamily business as suggested by Pieper et al. Furthermore, while ownership and management may be sufficient conditions to be a family business and imply intent, it is intent to achieve family goals that really distinguishes family from nonfamily firms (Chua et al., 2004). So, while the intent to be a multifamily business may exist at founding, it may develop or wane over time. The fact that intent is malleable, being subject to ongoing changing conditions, leads to the transitional nature of multifamily businesses, which is clearly illustrated in our previous examples.

Initial Founding Conditions

Most family firms, whether born or made, can trace their roots to an entrepreneurial act where resources and relationships were combined to create an organization (Chua et al., 2004). Lumpkin, Steier, and Wright (2011) have proposed that the initial founding conditions of family firms may be unique and that they may have a strong influence on future development paths and outcomes. Pieper et al. (2015) extend this reasoning and highlight the role of founder imprinting on the likelihood of a multifamily business configuration surviving across multiple generations. Among other key research efforts taking both an external (e.g., Boeker, 1989; Stinchcombe, 1965) and internal perspective (e.g., Cooper, Gimeno-Gascon, & Woo, 1994; Shrader & Simon, 1997), such arguments follow those of Bamford, Dean, and McDougall (1999, p. 255) who state, “Decisions made and conditions existing at the formation stage of an organization imprint the firm, limit its strategic choice, and most importantly, has a continuing impact upon its performance.” Hence, we suggest here that initial founding conditions (e.g., structures, established goals, strategic domain, and resource deployment) not only affect the ability to sustain the multifamily form, but also influence the likelihood of being “born” as a multifamily business or subsequent transitions into and out of the multifamily form.

As a specific example, consider the influence of legal business structures (i.e., ownership structures) on multifamily business transitions. According to the U.S. Census Bureau (2012), the most popular legal structure in the United States is the sole proprietorship with over 22 million tax returns filed in 2008. Corporations are the second most prevalent with over 5 million returns, followed by partnerships with over 3 million returns. While the ownership structure of corporations may be somewhat difficult to determine, especially those that are privately held, it seems reasonable that a proprietorship would most often involve a single owner and a partnership would involve multiple owners, typically two. As such, it seems logical to assume that partnerships may have a greater chance of eventually involving multiple families in ownership and management. And while proportionately there are about seven times as many proprietorships as partnerships, the 3 million partnerships does represent a significant number of firms and indicates the potential prevalence of multifamily involvement. Furthermore, the transition among legal structures—including partnership to sole proprietorship, or vice versa—is rather common and may occur at multiple points along the life cycle of the firm. Changing legal forms could indicate that, in addition to addressing tax or liability concerns, the business has transitioned with regards to the intent of being a family business and multifamily involvement.

Building on such arguments, we generally suggest:

Proposition 1: Initial founding conditions influence the likelihood of transitioning to or away from a multifamily business form.

Ongoing Transitional Factors

While we propose that initial founding conditions likely influence transitions to and from the multifamily business form, a number of ongoing factors might also lead a business to maintain or transition to or away from a particular organizational form. Here, we highlight the three broad factors identified as key transitional drivers for single-family firms by Chua et al. (2004)—risk and uncertainty, availability of resources, and intention—and extend them to the study of multifamily firms. While these factors have been identified as influencing transitions in single-family businesses, we propose that they may also be particularly salient, even amplified, in the presence of multiple families.

Risk and Uncertainty

Perceptions of risk and uncertainty about the performance and survival of a business—derived from both internal and/or external factors—can influence strategic decisions, including the decision to transition into or out of a multifamily business form. Consider a case where there are two equal partners in a business. For such a partnership to transition into a multifamily business, both partners would have to perceive the situation as favorable over the long term to warrant inclusion of other family members in the business operations. However, it is also easy to envision that after a period of time, this multifamily arrangement could be disbanded due to differences in opinions regarding the future. Indeed, it seems that for this multifamily business to persist, the partners (presumably representing the interests of their respective families) would have to be in close alignment with respect to tolerance and perception of risk, the interpretation of environmental cues, and their intertemporal judgments regarding uncertain future outcomes (Lumpkin & Brigham, 2011).

From an agency theory perspective, family firms are commonly viewed positively because of the close alignment of objectives between owners and managers (Schulze, Lubatkin, & Dino, 2003). Close alignment tends to ensure effective decision making and good stewardship with regard to resource deployment (Steier, 2003; Zahra, 2005). However, for multifamily businesses, which are comparatively more complex than single-family businesses (Pieper et al., 2015), close alignment is more difficult to achieve and maintain over time. Thus, the influence of risk and uncertainty as a transitional driver may be exacerbated in the multifamily firm as compared to a single-family firm. It is easy to envision a situation where one family has a different risk profile and perceptions of the future than the other; extreme differences would lead to either the exit of one family (i.e., becoming a single-family business), reduced involvement (i.e., partial exit), or the dissolution of the business altogether (i.e., divestiture to third party or liquidation). Overall, we argue that similarities/differences in perceptions and tolerances for risk and uncertainty can influence the transition to and from a multifamily business structure. Hence, we offer the following proposition:

Proposition 2: Perceptions of risk and uncertainty influence the likelihood of transitioning to or away from a multifamily business form.

Resources and Capabilities

In the family business literature, there is extensive discussion regarding the important role of “familiness” or family capital (human, social, and financial) in the strategic decisions of a family business (e.g., Danes, Stafford, Haynes, & Amarapurkar, 2009; Habbershon & Williams, 1999). Central to this discussion is the availability and management of key family-based resources and capabilities that allow the business to gain and sustain a competitive advantage (Sirmon & Hitt, 2003). In other words, it is the integration of the family and business that provide the unique characteristics that commonly serve as key sources of business competitive advantage. While the multifamily business may have more family capital to draw upon than a single-family business, there would also be more complexity with respect to integration.

Building on such resource-based perspectives, it seems plausible that the involvement of multiple families may be brought about by specific resource or capability needs. It also seems plausible that resource-based decisions could lead to the dissolution of a multifamily arrangement as well. Indeed, viewing the formation and dissolution of multifamily

businesses from a resource-based perspective may help us understand ownership decisions made at both the founding of the business (i.e., establishing a partnership) or later in the life cycle of the organization. For instance, certain resources and capabilities may diminish in importance over time (Amit & Schoemaker, 1993) leading to a shift from a multifamily structure to a single-family business as the resources and capabilities provided by one family become relatively less valuable. Conversely, the need for additional resources and capabilities may lead to the adoption of the multifamily structure. Chirico, Ireland, and Sirmon (2011) propose that an appreciation of “familiness” will lead family firms to seek out partner firms that are also family firms. This mutual selection preference provides complementary resources with a shared approach to firm governance and may lead to competitive advantage. Building on these basic arguments, we suggest:

Proposition 3: The availability and need for certain resources and capabilities influence the likelihood of a business transitioning to or away from a multifamily business form.

Intention

A family business is often differentiated from a nonfamily business by the degree to which noneconomic family goals are given priority over economic goals (Chrisman & Patel, 2012; McKenny, Short, Zachary, & Payne, 2012). Noneconomic goals, utilized for the creation of socioemotional wealth (Gómez-Mejía, Haynes, Núñez-Nickel, Jacobson, & Moyano-Fuentes, 2007), are generally established based on the intentions of the family, as the dominant coalition, and its desire to maintain family control across generations (Chua et al., 1999). However, the establishment of agreed-upon intentions, expressed through the adoption of goals, is a complex and ongoing process that is contingent on numerous factors (e.g., perceived risk and uncertainty, availability of resources). Indeed, recent research suggests that managing goal diversity is particularly challenging for family firms due to the “unique systematic interactions among the family, the ownership, and business systems” (Kotlar & DeMassis, 2013, p. 1282).

In the case of multiple families being involved, it is possible that intentions for the business can be aligned and that the recognition of common goals, or adversities, may stimulate the formation of the multifamily business initially. However, the probability of maintaining that shared intention, consistently committing to common goals, and possessing prospective successors is low, particularly with each generation. In other words, the probability of preserving the multifamily form would become exponentially less likely with each new generation. Overall, we argue that as intentions wax and wane both between and among the involved families, the likelihood of transition to or from a multifamily business form will increase. Hence, we suggest:

Proposition 4: Changes in intent from one or both families influences the likelihood of transitioning to or away from a multifamily business form.

Areas for Future Research

While the family business field of study continues to expand on a global basis, there is still much we do not fully understand. In agreement with Chua et al. (2004), and as highlighted in our arguments about the transitional nature of multifamily businesses, we suggest

that understanding the mechanisms of family business formation, sustainability, and transition is an important area for further research. Indeed, it seems that understanding such fundamentals is a crucial step to developing an overarching theory of the family firm.

Building on the propositions presented above, we see numerous areas for future research. First and foremost, there is a need for further exploration into the multifamily business organizational form. Currently, we are only just recognizing the existence of this form and speculating as to its prevalence and transitional nature. As such, there needs to be a more systematic and wide-scale exploration to determine when, why, and how a multifamily business configuration initially forms or disbands. We expect that research on governance, particularly that focusing on alliance forms of governance (cf. Carney, 2005), may be useful in helping to understand how multifamily businesses are initially formed and how managers can navigate the challenges of competing goals, logics, and cultures that accompany a multifamily business. Also, an implicit assumption in the Pieper et al. (2015) article is that the various families involved in the business have equal involvement (i.e., ownership and control); this is not always, or even probably, the case. Therefore, understanding the nuances of governance in inequitable positions is an important topic for future consideration.

There is also a natural appeal to research that compares multifamily forms to single-family forms with regard to goals, processes, and behaviors. Our presumption is that differences will exist and that these differences can have meaning, particularly with regard to both economic and noneconomic outcomes. As such, there appears to be innumerable opportunities to study the possible reasons and implications for maintaining or transitioning between forms. For example, the utilization of social capital in and among associated families may be a particularly relevant area for research, especially as it involves the nested levels of analysis that exist in family-controlled businesses (e.g., Payne, Moore, Griffis, & Autry, 2011; Gedajlovic, Honig, Moore, Payne, & Wright, 2013). Furthermore, there are presumably many situations where the ownership structure may take on a hybrid form—somewhere between single-family involvement and equal involvement of multiple families—through the partial buying or selling of shares. Research on venture capitalism and associated control mechanisms (e.g., Drover, Wood, & Payne, 2014), as well as on exit strategies (e.g., DeTienne & Chirico, 2013), may be beneficial in better understanding this phenomenon. Furthermore, the multifamily form may actually encourage the exit of one family as there is a potential market or buyer for their ownership interest (i.e., the other family) that is not available in a more traditional single-family firm arrangement.

While there is much left to understand about the multifamily business form, with further study, the multifamily phenomenon may also offer important insights to related research areas, both family business specific and in the general business literature. We suggest that examining the multifamily phenomenon may be particularly helpful in understanding how groups, including unrelated and even distantly related families (i.e., the cousin consortia) within the organization, develop and maintain relationships. Indeed, there is increased consideration being given to how firms, often with competing identities, can successfully navigate the ever-turbulent competitive environment (e.g., Moss, Short, Payne, & Lumpkin, 2011). We also see much potential in analyzing transitional forms, explicitly accounting for the temporal nature of organizations. Recent research in the family business field has identified temporal issues as a key area of concern (Brigham, Lumpkin, Payne & Zachary, 2014; Sharma, Salvato, & Reay, 2014). The temporal perceptions among key groups in the family firm may explain transitions or stability in organizational forms. Temporal congruence among controlling families may serve to lessen the effects of the key transitional drivers whereas temporal incongruence may strengthen their

influence. Specifically, we see the work on long-term orientation (Lumpkin & Brigham, 2011) and ambidexterity (Moss, Payne, & Moore, 2014) to be particularly promising. For instance, the multifamily arrangement may allow for organizations to act ambidextrously—balancing exploration and exploitation—by facilitating the reconciliation of internal tensions and conflicting environmental demands.

Conclusion

Family business research continues to explore ways that not only differentiate family businesses from nonfamily business but also how family businesses differ from one another. In this essay, we have expanded upon Pieper et al.'s (2015) discussion of the multifamily business by emphasizing its transitional nature and the various factors that may influence those transitions. As such, we suggest that the multifamily configuration is more common than generally believed, but is difficult to sustain. Overall, we call for more research efforts on this understudied form, but also, hope to stimulate research that explores how and why all types of family businesses transition over time.

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