The Effect of Family Business Professionalization as a Multidimensional Construct on Firm Performance
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In family business literature, business professionalization is often simplified into a binary characteristic, that is, the presence of a nonfamily manager. We contend that other professionalization features, which may act simultaneously, can influence firm performance. This study addresses professionalization as a multidimensional construct, as intended by general management literature, and assesses the impact on business performance based on these underlying dimensions. Using a representative sample of 523 private Belgian family businesses, we identify five different dimensions of the professionalization construct by means of an exploratory factor analysis. Further regression results revealed significant positive effects of increasing nonfamily involvement, implementing human resource control systems, and/or decentralizing authority on firm performance. However, nonfamily involvement only seems to improve firm performance if there is sufficient decentralization of authority and an average or even low amount of formal financial control systems.

Introduction
In past research (e.g., Craig, Dibrell, and Davis 2008; Schulze and Gedajlovic 2010; Sharma 2004; Ward 2008), family businesses have rightfully been approached as a distinctive subset within the group of organizations due to the family involvement that is intertwined on all levels of the organization (Gersick et al. 1997). Yet, as any other type of firm, family businesses are submissive to general organizational development models, such as the life cycle model, which typically defines a set of predetermined stages or phases through which an organization evolves (e.g., Gabrielsson 2007; Gedajlovic, Lubatkin, and Schulze 2004; Hofer and Charan 1984; Masurel and van Montfort 2006). These transitions can be contingent on the time period (Steinmetz 1969), the size of the organization (Flamholtz and Randle 2007), or other organizational needs (Hofer and Charan 1984; Masurel and van Montfort 2006). This unique transition from an entrepreneurial family business, often owner-managed, to a...
more formalized, structured, and institutionalized corporation—generally depicted as the professionalization process—has become a major research concern in the entrepreneurship and governance literature (e.g., Chandler 1977; Chrisman, Chua, and Litz 2003; Daily and Dalton 1992; Gedajlovic, Lubatkin, and Schulze 2004; Zahra and Filatotchev 2004).

The professionalization process encompasses many different aspects that a firm must address, such as the development of a sound corporate governance structure including a board and possible other required governance bodies to supervise and control the company (Songini 2006). Other features that have been discussed in the related literature include a delegation of decision-making authority to subordinate managers, the implementation of formal control systems to assess organizational output and behavior, changes in the decision-making process, and/or possible modification of organizational structure (Flamholtz and Randle 2007; Hofer and Charan 1984). As such, general business literature portrays a multifaceted perception of the professionalization process.

Over time, the concept of professionalization has found its way in the family business research, giving the general approach on the subject an extra dimension, namely the family-dimension. The amount of family involvement in the top level of the family business and the choice between a family manager and an external nonfamily—often referred to as professional—manager becomes a unique aspect of professionalization in the context of private family firms. However, this causes most empirical studies on professionalization within the family business context to solely focus on this particular feature and neglecting other aspects (e.g., Bennedsen et al. 2007; Klein and Bell 2007; Lin and Hu 2007; Zhang and Ma 2009). Moreover, the sense of equating professional managers with external, nonfamily managers leads to the outdated assumption that family members are inherently nonprofessional managers that must be replaced so that the firm can grow (e.g., Bennedsen et al. 2007; Berenbeim 1990; Bloom and Van Reenen 2007; Levinson 1971; Schein [1983] 1995).

The tendency in the current family business literature to simplify the professionalization concept into something binary, that is the presence/absence of an external nonfamily manager, is at the least worrying. Further, the results of these empirical studies that assess the impact of the family business professionalization level on the firm’s performance are not consistent. Some posit that this effect is positive (e.g., Duréndez, Pérez de Lema, and Madrid Guijarro 2007; Lin and Hu 2007; Sciascia and Mazzola 2008), whereas others argue a negative effect (e.g., Anderson and Reeb 2003; McConaugby, Matthews, and Fialko 2001; Miller and Le Breton-Miller 2006) or no effect at all (e.g., Daily and Dalton 1992; Daily and Dollinger 1992). We reason that the inconsistency in these results might be due to the misconception or content reduction of the professionalization process. As these authors tend to treat professionalization as something unidimensional, or solely focus on the nonfamily manager attribute, they might overlook the possible linkage that this feature has with other dimensions of professionalization. For example, the simultaneous occurrence of other professionalization features that facilitate (impede) the effectiveness of the nonfamily manager may lie at the foundation of studies finding a positive (negative) effect of nonfamily managers on firm performance. In this respect, we can think about authority decentralization and delegating decision power as part of the professionalization concept, which might be necessary for a nonfamily manager to increase performance (Moores and Mula 2000). As these studies do not take into account other aspects of professionalization, Debicki et al. (2009) indicate that this concept is in need of some good empirical research as it has not been sufficiently examined up until now.

Accordingly, a key contribution that this study makes is the empirical examination and identification of a multifaceted professionalization construct within a family business setting. By measuring the concept in a multidimensional way, it is possible to make a more profound and justified link to the effect it has on firm performance. We first discuss current studies on professionalization within the family businesses arena. We contend that the inconsistency in these research findings might be attributed to the unidimensional approach of business professionalization. In this manner, we follow a recent flow of literature that acknowledges the multifaceted nature of professionalization within family businesses (Chua, Chrisman, and Bergiel 2009; Dyer 2006; Hall and Nordqvist 2008; Songini 2006; Yildirim-Öktem and Üsdikken 2010). The different dimensions are...
identified based on factor analysis. After ascertaining these individual dimensions, we will reevaluate the influence of the extent of family business professionalization on business performance using a regression analysis. Results of this study will provide more insights into the genuine effect of professionalization on family business performance. The analyses are based on a representative sample of 523 private Belgian family businesses. We conclude the paper with a discussion of our findings and offer suggestions for future research.

Current State of the Art

Regarding the studies on professionalization within the family businesses arena, there is a noticeable discrepancy between, on the one side, the research that has a theoretical or conceptual nature and, on the other side, the empirical studies. Most empirical studies tend to operationalize the concept in an oversimplified manner. That is to say, the mere presence of an external, nonfamily manager suffices in order for the entire company to be labeled as a professional family business, and thereby disregarding all other features (e.g., Bennedsen et al. 2007; Klein and Bell 2007; Lin and Hu 2007; Zhang and Ma 2009). By employing this simplified measure, various empirical studies have researched the effect of professionalization on firm performance. However, these studies do not provide consistent results.

A first group of studies posits that the effect of professionalization, through hiring an external nonfamily manager, has a negative influence on business performance (e.g., Anderson and Reeb 2003; McConaugby, Matthews, and Fialko 2001; Miller and Le Breton-Miller 2006). These results are in line with the opinion of traditional agency theorists. These scholars have long presumed that the overlap of family ownership and management minimizes agency costs due to shared interests (Fama and Jensen 1983). Hiring an external nonfamily manager would lead to conflicting interests. These managers (agents) will have a tendency to pursue their own goals that are often short-run and are divergent from the owners' (principals) interests. The financial costs that are associated with remedying agency problems, as well as the cost of managerial opportunistic behavior, have been labeled agency costs (Jensen and Meckling 1976). Regarding the owner–manager agency problems, strong involvement of family members in the family business potentially cushions the risk of opportunistic behaviors and favors the alignment of interests. From this viewpoint, family firms will have less urge to professionalize, as this supposedly entails agency costs and can be detrimental to firm performance (Dyer 2006).

A second group of studies indicates that professionally managed family businesses do have a higher performance level than their family managed counterparts (e.g., Barth, Gulbrandsen, and Schonea 2005; Duréndez, Pérez de Lema, and Madrid Guijarro 2007; Sciascia and Mazzola 2008). The results of these studies are in line with the more recent view that family firms managed by family managers do cope with agency costs (Schulze et al. 2001). Schulze et al. (2001) introduced the problems of altruism and self-control. They were able to demonstrate how family ownership and management can expose family firms to agency problems that were not anticipated in the standard agency theory framework of Jensen and Meckling (1976). Steier (2003) notes that family involvement should reduce agency costs, but because altruism is prevalent in family firms, a new level of complexity is introduced into the equation. When ownership and control are joined, family firms are exposed to an entrenchment problem, as these family owner–managers have the power to use the firm in the pursuit of their own interests (Bozec and Laurin 2008). The potential for entrenchment could lead to self-serving decision making, and results have indicated that this is detrimental to firm performance (Oswald, Muse, and Rutherford 2009). This implies that strong involvement of family in the organization would decrease firm performance. External nonfamily managers are said to bring in relevant expertise into the company and also counterpart some of the agency hazards due to familial altruism and self-control issues of family firm owners.

Finally, a third group of studies finds no significant difference between the family managed and the professionally managed family businesses (e.g., Daily and Dalton 1992; Daily and Dollinger 1992; Lin and Hu 2007).

Based on the current empirical literature, we can conclude that the existing evidence about the relationship between professionalization and family business’ performance is inconsistent. We argue that this inconsistency in results might be caused by the simplified measure, namely the presence of an external nonfamily manager, that is applied to assess
professionalization. We contend that the inferences about family firm activity and performance are limited when the entire process of professionalization is reduced to a binary variable, namely as something that can “happen overnight” within the firm.

So, a broader, multidimensional perspective is required to fully grasp the content of the professionalization issue. As such, there are several theoretical articles that have tried to contribute in defining and clarifying the concept of professionalization or in specifying general characteristics when it is applied within a family business context (e.g., Chua, Chrisman, and Bergiel 2009; Hall and Nordqvist 2008; Stewart and Hitt 2012; Tsui-Auch 2004). They attempt to elaborate and refine the narrow definition of professionalization. Inherent in the traditional understanding of the concept is to change the informal atmosphere of the organization. This is done by introducing more formalized systems, such as performance evaluation and incentive compensation systems (Chua, Chrisman, and Bergiel 2009), financial control systems (Gedajlovic, Lubatkin, and Schulze 2004), and/or a formalized manner for recruiting (Dyer 2006). The theoretical notion of professionalization has been further broadened by the adoption and diffusion of formal governance mechanisms such as a board of directors (Songini 2006; Stewart and Hitt 2012; Yildirim-Öktem and Üsdiken 2010; Zhang and Ma 2009). Also, delegation of control and decentralization of authority have been identified as being part of business professionalization (Chua, Chrisman, and Bergiel 2009; Flamholtz and Randle 2007; Stewart and Hitt 2012). Yet, Stewart and Hitt (2012) recently argued that the professionalization concept still lacks a singular meaning in popular or scholarly discourse.

Based on these insights, we argue that the inconsistencies in previous research on the relationship between professionalization (measured by nonfamily management) and firm performance are originated in the lack to take into account other professionalization aspects. Whether a nonfamily manager is able to positively affect firm performance can depend on the extent to which a firm has gone through the professionalization process by professionalizing on the other previously mentioned dimensions. Also, from the more recent agency theoretical perspective (Schulze et al. 2001), agency costs arising in family firms can be mitigated by introducing the multidimensional concept of professionalization in the family firm and thereby increasing performance. The altruistic tendencies among family members can be counteracted by introducing objective monitoring and performance evaluation systems (Flamholtz and Randle 2007). Also other agency costs such as free riding, ineffective managers, nonalignment of interest among family members, nepotism, and distributive injustice that gives family agents the incentive to engage in shirking can be mitigated by the several dimensions of firm professionalization (Gomez-Mejia, Nuñez-Nickel, and Gutierrez 2001; Lubatkin et al. 2005; Schulze, Lubatkin, and Dino 2003b; Songini and Gnan 2009; Van den Berghe and Carchon 2003).

Therefore, in line with these theoretical contributions urging for a view on professionalization as a multidimensional construct, we will disentangle the multidimensional professionalization construct by conducting a factor analysis. By measuring professionalization in a multidimensional way, it is possible to make a more profound and justified link between each dimension of professionalization and firm performance by conducting regression analysis.

**Factor Analysis**

**Professionalization Measure**

The first concern in this research is to identify professionalization as a multidimensional construct. This opposes the unidimensional approach as it has been applied in research up to now. As there are no existing scales related to family business professionalization, the variables have their underpinnings in theory. To explore possible features relating to family business professionalization, an extensive literature review is conducted.¹ Specific survey questions are developed to assess different facets of professionalization. They are based on multiple features that repeatedly return in the professionalization descriptions of the present relevant literature (e.g., Chua, Chrisman, and Bergiel 2009; Dyer 2006; Flamholtz and Randle 2007; Hall and Nordqvist 2008; Songini 2006; Yildirim-Öktem and Üsdiken 2010).

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¹For further elucidation, we refer the reader to the work of Dekker et al. (2013).
As nonfamily involvement is so deeply rooted in the professionalization discussion within a family business context, we decided to include variables relating to this matter. Based on the work of Astrachan, Klein, and Smyrnios (2002), survey questions were developed that assess the amount of nonfamily involvement within the management team, which relates to professionalization of the management team (Chittoor and Das 2007; Sonfield and Lussier 2009). Also, board professionalization is assessed through the amount of nonfamily involvement in the board of directors and through the amount of external board members (Lane et al. 2006; Songini 2006; Whisler 1988; Yildirim-Öktem and Üsdiken 2010). The activeness of both the board of directors as well as the management team is assessed based on the work of Jackling and Johl (2009), that is, by inquiring the frequency of official meetings each year.

Furthermore, authors such as Hofer and Charan (1984), Chua, Chrisman, and Bergiel (2009) and, more recently, Stewart and Hitt (2012) have indicated the importance of delegation and decentralization of managerial authority in the professionalization context. As such, questions were included to evaluate delegation of control and decentralization of authority around the (family) owner. Based on the work of Cromie, Stephenson, and Monteith (1995), we inquired if the decision making is centered around the CEO and also whether employees directly reported to the CEO within the company.

A final repetitive facet of business professionalization is the diffusion of formal controlling systems throughout the company (e.g., Flamholtz and Randle 2007; Songini 2006; Stewart and Hitt 2012). Therefore, questions are integrated based on the work of Daily and Dollinger (1993), Pérez de Lema and Duréndez (2007), and Songini (2006) to assess the usage of several financial control systems such as budget systems, planning systems, and performance evaluation systems. Yet, according to some recent work of de Kok, Uhlancer, and Thurik (2006) and Kötay and Folkker (2007), the attention directed toward formal control systems should not be exclusively devoted to financial controls. The use of formal personnel control systems can have similar importance. The implementation of this type of controls relating to personnel evaluation or formal recruiting can counteract some of the common problems relating to familial altruism or nepotism that are not uncommon in a family business context (Kellermanns and Eddleston 2004; Schulze et al. 2001). Furthermore, by providing formal training programs as part of these personnel controls (de Kok, Uhlancer, and Thurik 2006), the family business can increase professionalization through the development of their own (family) managers and other employees (Dyer 1989). Therefore, we also included questions to assess the use of control systems related to personnel. Through the literature, we are able to identify several components related to personnel control systems, such as the use of formal recruitment (Flamholtz and Randle 2007), formal training programs (de Kok, Uhlancer, and Thurik 2006; Dyer 1989), formal evaluation systems (Schulze et al. 2001), and the use of incentive systems (Cromie, Stephenson, and Monteith 1995; Koprica and Bernik 2009).

An overview of these different items is presented in Table 1. The variables are measured on either the presence or absence of a certain feature (e.g., presence of incentive payment system) or on an interval level (e.g., number of family members on the board of directors). As there are no prior existing scales or measurement items for family business professionalization, the final survey instrument was reviewed by multiple academic experts and pilot tested on several family business CEOs before it was sent out.

**Sample**

For this study, we identified a population that contained all nonlisted Small and Medium-Sized Enterprises (SMEs)\(^2\) in compliance with the official European definition of Small and Medium-Sized Enterprises.\(^3\) Furthermore, the businesses have to be located in the Flemish Region of Belgium and must have a minimum of 10 employees in order to exclude the micro

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\( ^2\)With the exclusion of all nonprofit associations, public institutions, educational institutions, and the financial sector (i.e., financial services, banks and insurance companies).

\( ^3\)Firms with 250 employees or less, and a maximum turnover of €50 million or a maximum balance sheet total of € 43 million.
organizations. These criteria resulted in a selection frame of 6,556 SMEs, which is drawn from the Bel-First database of Bureau Van Dijk. This database contains a complete list of nonlisted companies in Belgium together with detailed financial information on each firm. A structured questionnaire was mailed to the chief executives of all these firms in the beginning of 2010. Due to the ability of identifying and contacting the entire population that met our criteria, no further sampling was necessary. Based on a total response of 890 SMEs, which corresponds to a response rate of 13.58 percent, we selected all 523 family businesses. The applied family firm definition regards a firm as being a family firm if more than 50 percent of ordinary voting shares are owned by members of the largest single family group related by blood or marriage (Chrisman, Chua, and Litz 2004; Chua, Chrisman, and Sharma 1999; Westhead and Howorth 2007). Based on the t-tests, we found no significant differences between the early and late respondents⁴ nor between the three different waves of reminders that were sent out. This suggests that the chance for a response bias in the results is very small (Kanuk and Berenson 1975). Furthermore, the F-value of Levene’s test for equality of variances indicates equal variance in the groups of early and late respondents. To further avoid bias in

<table>
<thead>
<tr>
<th>Professionalization Items</th>
<th>Factor Results of the Varimax Rotated Factor Model</th>
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<tbody>
<tr>
<td></td>
<td>F1</td>
</tr>
<tr>
<td>Use of budgets</td>
<td>0.870</td>
</tr>
<tr>
<td>Budget evaluation system</td>
<td>0.842</td>
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<tr>
<td>Formalized financial goals and objectives</td>
<td>0.642</td>
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<tr>
<td>Firm performance evaluation system</td>
<td>0.553</td>
</tr>
<tr>
<td>Family involvement in board of directors (reversed)</td>
<td>0.040</td>
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<tr>
<td>External board directors</td>
<td>0.041</td>
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<tr>
<td>Family involvement in management team (reversed)</td>
<td>0.319</td>
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<tr>
<td>Nonfamily CEO</td>
<td>0.238</td>
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<tr>
<td>Formal recruitment system</td>
<td>0.109</td>
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<tr>
<td>Formal training system</td>
<td>0.046</td>
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<tr>
<td>Incentive payment system</td>
<td>0.051</td>
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<tr>
<td>Personnel performance evaluation system</td>
<td>0.355</td>
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<tr>
<td>Formal scheduled staff meetings</td>
<td>0.416</td>
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<tr>
<td>Delegation of control</td>
<td>0.104</td>
</tr>
<tr>
<td>Centralized individual decision making (reversed)</td>
<td>0.167</td>
</tr>
<tr>
<td>Centralization of authority (reversed)</td>
<td>−0.018</td>
</tr>
<tr>
<td>Board activeness</td>
<td>0.063</td>
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<tr>
<td>Management activeness</td>
<td>0.250</td>
</tr>
<tr>
<td>Cronbach’s alpha</td>
<td>0.780</td>
</tr>
<tr>
<td>Accumulated percentage of variance explained</td>
<td>25.00</td>
</tr>
<tr>
<td>KMO Index</td>
<td>0.805</td>
</tr>
<tr>
<td>Bartlett’s significance test of sphericity</td>
<td>0.000</td>
</tr>
</tbody>
</table>

Note: Bold indicates which factor loadings are significant (above the threshold value of 0.45).

⁴The t-tests with cut-off points at 10 percent, 20 percent, and 30 percent yield similar results.
the response, a single respondent is targeted, namely the CEO of the company.

Results

A first step is to identify the different dimensions of professionalization within a family business context. To this end, the multi-item questionnaire measuring the different dimensions of professionalization was subjected to an exploratory factor analysis, more specifically principal component analysis (PCA). The degree of interrelatedness was first assessed in order to evaluate the quality and appropriateness of the data set for conducting factor analysis (Hair et al. 2006). Based on the Bartlett test of sphericity ($\chi^2 = 2842.643$; significance level = 0.000) and the Kaiser-Meyer-Olkin measure of sampling adequacy (0.805), the application of a PCA is justified as the data matrix has sufficient correlations (Field 2009).

The latent root criterion was applied to determine the optimal number of factors to be retained by the model. Thus, by considering eigenvalues greater than 1 as significant, the factor results generated a five-factor model, which accounted for 56 percent of the total variance. To determine the significant factor loadings on a specific factor, the threshold value of 0.45 was used5 (Hair et al. 2006). The orthogonal factor rotation (varimax) rendered a factor solution in which each factor is independent of all other factors and, therefore, the correlation between the factors is determined to be 0. The factor results are shown in Table 1.

Based on these findings, five noncorrelating factors were obtained with regard to the professionalization concept. The internal consistency of each factor can be assessed based on the Cronbach’s alpha coefficient. For exploratory factor analysis, the general threshold value is 0.6 (Hair et al. 2006), although a value of 0.5 can be acceptable for social science data (Kline 1999). For the labeling of each factor, its specific content was reviewed. The following labels were assigned: Financial Control Systems (F1); Nonfamily Involvement in Governance Systems (F2); Human Resource Control Systems (F3); Decentralization of Authority (F4); and Top Level Activeness (F5).

For the validation of the factor solution, we assessed the robustness of the solution through a split sample analysis. The sample was randomly split into two subsets, and the factor model was then estimated for each subset to test for comparability (Field 2009; Hair et al. 2006). The varimax rotation solutions for the split samples are highly comparable both in terms of factors retained and the allocation of variables to the factors.

By means of the factor analysis, we are able to identify five different dimensions of the professionalization construct. This is a first indication that the focus of previous research might have been too narrow. The results of this study show that the presence of nonfamily managers is indeed a notable feature of professionalization (retained in F2), yet it is not an equivalent of the concept. There are other dimensions through which family businesses can increase their professionalization level—such as the implementation of control systems or decentralizing authority around the owning family—which is more in line with the general understanding of the concept within management literature (e.g., Flamholtz and Randle 2007). Therefore, in the next section, we will empirically reevaluate the relation between professionalization and firm performance while using the new multidimensional approach of the professionalization construct.

Regression Analysis

Research Hypotheses

The use of financial control systems as part of family business professionalization is incorporated in the first factor (F1). Literature has shown that family firms tend to rely less on these types of control systems compared with their nonfamily counterparts (Cromie, Stephenson, and Monteith 1995; Daily and Dollinger 1992; Jorissen et al. 2005). Even though all firms of a moderate size have some minimal level of accounting controls (Willingham and Wright 1985), it is argued that the main purpose for family firms to adopt accounting policies is for tax minimization instead of for strategic and performance decisions (Trostel and Nichols 1982). Yet, when looking at the possible effect that the use of financial control systems can have on business performance, general management literature have proven the significant positive impact on

5Six variables were excluded from further analysis due to a factor loading beneath the threshold value of 0.45.
business performance (Bisbe and Otley 2004; Chenhall 2003; Kotey 2005; Langfield-Smith 1997; Otley 2003). These financial control systems, such as budget systems and performance evaluation systems, provide a useful and objective information resource for decision support and for financial planning within the business (Pérez de Lema and Duréndez 2007). As such, this information is needed to control costs but also to create results (Drucker 1995). Also from an agency perspective, arguments have been made that family firms will gain performance benefits from the use of control mechanisms to minimize agency costs (Chrisman, Chua, and Litz 2004; Chua, Chrisman, and Bergiel 2009). This leads us to hypothesize that:

**H1: Family business professionalization through increasing Financial Control Systems (F1) will positively affect firm performance.**

From a theoretical perspective, it is difficult to derive a conclusive effect of nonfamily involvement, captured by the second factor (F2), on firm performance. As discussed previously, from a traditional agency theoretical point of view, nonfamily involvement would have a negative effect on performance. However, the recent view of Schulze et al. (2001), introducing the problems of self-control and altruism, lead us to assume that nonfamily involvement will positively affect business performance. Empirically, as indicated earlier, past research that relates nonfamily management to firm performance did not always render similar findings (Allouche et al. 2008; Barontini and Caprio 2006; Oswald, Muse, and Rutherford 2009). However, a review article on the subject by Mazzi (2011) has revealed that family involvement generally appears to have a negative effect on firm performance. Therefore, we hypothesize that:

**H2: Family business professionalization through increasing Nonfamily Involvement in Governance Systems (F2) will positively affect firm performance.**

Besides the financial control systems, the control of human resources (F3) is also a critical element for business management. Human resource practices such as selectivity in recruiting, incentive pay, training, and skill development are just a few of the practices acknowledged as having great value to the organization (Pfeffer 1994). Yet, few studies identify human resource practices in SMEs and even fewer focus on the relationship between human resource practices and performance. When this relationship is studied in large firms, results suggest a positive relation between human resource practices and performance (Huselid 1995). Within a family business context, results conclusively indicate a significant positive relation between different human resource control systems and family business performance (Carlson, Upton, and Seaman 2006; Kotey and Folker 2007; Litz and Stewart 2000). Through an agency perspective, these findings may not seem surprising as these formal human resource controls provide counterbalance for possible agency problems in a family business. Formal recruiting systems can impede adverse selection and the hiring of family members merely based on kin, also known as the nepotism issue (Dyer 2006; Kellermanns and Eddleston 2004). Also, formal performance evaluation systems can counteract the effects of colored performance evaluation due to parental altruism, which can lead to exorbitant compensation for family members (Schulze et al. 2001). Based on these insights, we hypothesize that:

**H3: Family business professionalization through increasing Human Resource Control Systems (F3) will positively affect firm performance.**

The fourth dimension of professionalization identified in this research is the decentralization of authority (F4). The locus of authority is usually represented as a continuum, anchored on one end by completely autocratic decision making, and on the other end by processes that permit maximum influence by subordinates (Leana 1986). Bakalis, Joiner, and Zhou (2007) argue that decentralizing authority and delegating decision making is an important management process contributing to organizational effectiveness. According to their findings, delegation is positively associated with firm performance and job satisfaction. Similarly, Blanes i Vidal (2007) posits that as interests become more aligned, delegation of decision-making rights motivates employees without causing severe disruption to the decision-making process. Within the family business literature,
the decentralization of authority is often mentioned as part of the process of professionalizing the business (Dyer 1988; Flamholtz and Randle 2007; Stewart and Hitt 2012; Whisler 1988). However, concrete studies on the effect of this decentralization on business performance are scarce. Daily and Dalton (1992) contend that if the entrepreneur fails to successfully share and delegate power, the firm is likely to falter, and it may even lead to the firm’s demise. Therefore, we hypothesize that:

**H4:** Family business professionalization through increasing Decentralization of Authority (F4) will positively affect firm performance.

Finally, when scrutinizing the literature regarding the top level activeness (F5) within a family business, authors have indicated that the presence of an active board influences the quality of decision making in family firms (Gersick et al. 1997; Ward 1991). Lipton and Lorsch (1992) suggest that the higher frequency of meetings is likely to result in superior performance. This intensity of board activeness—assessed through the amount of board meetings—is an important indicator (Jackling and Johl 2009; Sharma and Nordqvist 2008). When a board is only present in the company to meet legal requirements, in the literature referred to as rubber stamp boards, it will not lead to much actual board involvement (Pieper, Klein, and Jaskiewicz 2008). Jackling and Johl (2009) state that generally there is reason to believe board meetings may be an important resource and therefore frequency of board meetings may influence the business performance. A similar reasoning is applied for the activeness of the management team. In order to effectively formulate and implement strategy, managers need to interact with each other (Raes et al. 2011). Studies have shown that high management team communication is related to higher team and subsequent firm performance (Barrick et al. 2007; Campion, Medsker, and Higgs 1993; Hyatt and Ruddy 1997). Flamholtz and Randle (2007) posit that regular scheduled meetings will increase internal management communication. As such, management team activeness and communication can be an important antecedent to team performance (Hyatt and Ruddy 1997). Based on these insights regarding board and management team activeness, we hypothesize that:

**H5:** Family business professionalization through increasing Top Level Activeness (F5) will positively affect firm performance.

Regarding prior studies that have explained the effect of professionalization on family business performance through the proxy of nonfamily involvement, it is stated earlier that these results are mixed. Empirical evidence has been found for a positive effect on firm performance (e.g., Allouche et al. 2008; Anderson and Reeb 2003; Cronqvist and Nilsson 2003; Sraer and Thesmar 2007), as well as for a negative effect on firm performance (e.g., Barontini and Caprio 2006; Cucculelli and Micucci 2008; Oswald, Muse, and Rutherford 2009; Sciascia and Mazzola 2008; Villalonga and Amit 2006). This might be caused by the unidimensional matter in which professionalization is assessed. We argue that the effect of nonfamily involvement—as part of business professionalization—on performance could be moderated by one of the other professionalization dimensions. Based on the aforementioned insights, it can be argued that the positive effect of nonfamily involvement (F2) on business operations can be strengthened if there are also high levels of: financial control systems (F1), human resource control systems (F3), decentralization of authority (F4), and top level activeness (F5). More precisely, we hypothesize that:

**H6:** The relationship between nonfamily involvement (F2) and firm performance will be moderated by the other professionalization dimensions, in such a way that nonfamily involvement has a more positive effect on firm performance at higher levels of the other professionalization dimensions.

The relations between the different dimensions of professionalization and business performance are visualized in Figure 1. To test the proposed hypotheses, we will perform an ordinary least squares (OLS) regression.

**Measures**

**Firm Performance.** The dependent variable in the regression analysis is firm performance. In line with numerous previous studies (e.g., Anderson and Reeb 2003; Cucculelli and Micucci 2008; Sraer and Thesmar 2007), we measure firm performance as the annual return
on assets (ROA). This is the most used accounting variable for business performance in private firms (Mazzi 2011). This performance measure has some advantages over other measures like return on sales (ROS) or return on equity (ROE). Harris and Helfat (1997) argue that using ROS has the disadvantage that if sales decrease by the same percentage of the profit, ROS would stay equal. Regarding the ROE, the authors indicate that this is also less appropriate since firms have different degrees of total assets financed by equity. The data were collected through the Bel-First database of Bureau Van Dijk, which contains detailed financial information on all Belgian firms and matched to the 523 family businesses in the data set.

**Professionalization.** The independent variables used in the regression to explain firm performance are the different dimensions of professionalization that are extracted from the factor analysis, based on survey data: Financial Control Systems (F1); Nonfamily Involvement in Governance Systems (F2); Human Resource Control Systems (F3); Decentralization of Authority (F4); and Top Level Activeness (F5). They are included in the OLS regression based on the derived factor scores, which represent the degree to which each company scores on the group of items with high loadings on a factor.

**Control Variables.** Previous research has shown that size, age, and industry affect firm’s financial performance (Chrisman, Chua, and Kellermanns 2009; Minichilli, Corbetta, and MacMillan 2010; Oswald, Muse, and Rutherford 2009; Sraer and Thesmar 2007). In this study, firm size was measured in terms of full-time employees. We used the natural logarithm of employees to minimize skewness. We controlled for firm age, measured as the natural logarithm of the number of years the firm had been in business. Finally, firm industry was measured through three dummy variables that allowed us to differentiate four industry types: retail & wholesale, construction, and manufacturing and services. Similarly to the performance measure (ROA), the data of the control variables are gathered by means of the Bel-First database.
Results

The descriptive statistics and correlations for all variables are reported in Table 2. The mean and standard deviation are not reported for the five factors as they are standard scores (with mean = 0 and SD = 1). In the regression analyses, we use the natural log of both firm size and firm age, yet, for ease of interpretation, the raw values of both variables are presented in Table 2. The correlation between the independent variables is low, ranging from 0.01 to 0.37 (in absolute value). Also, the variance inflation factor (VIF) values indicate no multicollinearity problems (largest VIF = 1.24). Furthermore, both the dependent and the control variables are gathered by means of another instrument than the independent variables (secondary data set versus survey data), which minimizes the problem of possible common method bias.

In Table 3, the results of our regressions are presented. All regression models are estimated with OLS. Following the recommendations for causal analysis in Antonakis et al. (2010), robust variance estimators were used to ensure consistency of inference. More specifically, a heteroscedasticity consistent covariance matrix, denoted as HC3 and introduced by Long and Ervin (2000), was used to calculate heteroscedasticity robust standard errors. According to the results of Long and Ervin (2000), HC3 appears to be superior to other approaches among which the commonly used Huber–White standard errors. The results of the hierarchical regression models are presented in Table 3.

Main Effects. In the base model (Model 1), we assessed the direct effect of the different professionalization dimensions on the dependent variable, being firm performance, while controlling for company size, age, and industry. Review of the beta coefficients of Model 1 reveals that not all dimensions of professionalization are significant. Related to our first hypothesis (H1), the regression output indicates that the presence of financial control systems (F1) seems to have no significant effect on family firm performance. As such, H1 is not confirmed. Furthermore, nonfamily involvement in governance systems (F2) has a significant positive effect on family firm performance ($\beta = 1.31, p < .01$). This is in line with H2. Results seem to confirm that, as family involvement within the business decreases, and more nonfamily members enter the firm, this is positively related to firm performance. Results also provide support for H3. Increasing human resource control systems (F3) within the family business is significantly positively related with firm performance ($\beta = 0.80, p < .05$). Regarding the decentralization of authority (F4), we find a significant positive effect on firm performance ($\beta = 0.92, p < .05$). As such, these results support H4. As final main effect, H5 cannot be confirmed as the model shows no significant relation between the amount of top level activeness (F5) and family firm performance.

These regression results support our initial concern that the concept of professionalization should not be studied unidimensional (being the presence of a nonfamily manager), as is often done in previous research. The construct encloses multiple subdimensions, of which each can have a different effect on firm performance. By comparing the standardized betas of each dimension, it appears that an increase in the amount of nonfamily involvement in governance systems (F2) ($\beta = 1.31$) has a relatively larger positive effect on firm performance than an increase in the amount of human resource control systems (F3) ($\beta = 0.80$), or when authority is being decentralized within the company (F4) ($\beta = 0.92$). Our results are also economically significant. A one standard deviation increase in F2 implies a 1.31 percent increase in performance, a (1.31 percent/4.05 percent =) 33 percent increase relative to the average performance reported in Table 2. Furthermore, a one standard deviation increase in F3 implies a 20 percent increase relative to the average performance. For F4, a one standard deviation increase implies a 23 percent increase relative to the average performance.

Moderating Effects. To test H6, we have estimated a second model (Model 2) in which the interaction effects between nonfamily involvement in governance systems (F2) and the other professionalization dimensions are included.

6As robustness check for the regression results we also estimate the model with an alternative measure of performance, being “added value per employee.” These results are highly similar and generate the same three main effects as having a significant impact on firm performance.
<table>
<thead>
<tr>
<th>Variables</th>
<th>Mean</th>
<th>S.D.</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
<th>10</th>
<th>11</th>
<th>12</th>
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</thead>
<tbody>
<tr>
<td>1. ROA (%)</td>
<td>4.05</td>
<td>10.28</td>
<td></td>
<td></td>
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<tr>
<td>2. Financial Control Systems (F1)</td>
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<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>3. Nonfamily Involvement in Governance Systems (F2)</td>
<td></td>
<td></td>
<td>0.12**</td>
<td>0.00</td>
<td></td>
<td></td>
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<td></td>
<td></td>
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<td></td>
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<tr>
<td>4. Human Resource Control Systems (F3)</td>
<td></td>
<td></td>
<td>0.10*</td>
<td>0.00</td>
<td>0.00</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>5. Decentralization of Authority (F4)</td>
<td></td>
<td></td>
<td>0.09*</td>
<td>-0.01</td>
<td>0.00</td>
<td>0.00</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>6. Top Level Activeness (F5)</td>
<td></td>
<td></td>
<td>0.01</td>
<td>0.00</td>
<td>0.00</td>
<td>0.02</td>
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<td></td>
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<td></td>
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<td></td>
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<tr>
<td>7. Firm Age (years)</td>
<td>26.84</td>
<td>13.99</td>
<td>-0.01</td>
<td>-0.02</td>
<td>0.00</td>
<td>-0.05</td>
<td>0.03</td>
<td>0.00</td>
<td></td>
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<td></td>
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</tr>
<tr>
<td>8. Firm Size (no. emp.)</td>
<td>28.65</td>
<td>28.30</td>
<td>-0.00</td>
<td>0.15***</td>
<td>0.12**</td>
<td>0.13***</td>
<td>0.20***</td>
<td>0.05</td>
<td>0.16***</td>
<td></td>
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<tr>
<td>9. Construction</td>
<td>0.24</td>
<td>0.43</td>
<td>-0.01</td>
<td>-0.04</td>
<td>-0.05</td>
<td>-0.15***</td>
<td>-0.02</td>
<td>0.03</td>
<td>-0.02</td>
<td>0.04</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>10. Manufacturing</td>
<td>0.28</td>
<td>0.45</td>
<td>-0.12**</td>
<td>0.00***</td>
<td>0.05</td>
<td>0.01</td>
<td>0.05</td>
<td>0.00</td>
<td>0.07</td>
<td>0.08</td>
<td>-0.35***</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>11. Service</td>
<td>0.22</td>
<td>0.42</td>
<td>0.04</td>
<td>0.02</td>
<td>0.03</td>
<td>0.11**</td>
<td>-0.05</td>
<td>0.07</td>
<td>-0.07</td>
<td>-0.06</td>
<td>-0.30***</td>
<td>-0.34***</td>
<td></td>
<td></td>
</tr>
<tr>
<td>12. Retail &amp; Wholesale</td>
<td>0.26</td>
<td>0.44</td>
<td>0.10*</td>
<td>0.06</td>
<td>-0.03</td>
<td>0.03</td>
<td>0.02</td>
<td>-0.09*</td>
<td>0.01</td>
<td>-0.06</td>
<td>-0.33***</td>
<td>-0.37***</td>
<td>-0.31***</td>
<td></td>
</tr>
</tbody>
</table>

\( n = 523. \)

*p < .05, two-tailed test

**p < .01

***p < .001
H6 argues that these other professionalization dimensions will moderate the relationship between nonfamily involvement and firm performance, in such a way that nonfamily involvement has a more positive effect on firm performance at higher levels of the other professionalization dimensions. The change in $F$ for Model 2 was significant with $p < .01$. With respect to the independent variables, the three professionalization dimensions that had a significant effect on firm performance in Model 1, remain significant in Model 2 (nonfamily involvement in governance systems $\beta = 1.40$, $p < .001$; human resource control systems $\beta = 0.88$, $p < .05$; and decentralization of authority $\beta = 1.07$, $p < .01$).

The interaction terms in Model 2 indicate a significant negative interaction effect between the amount of nonfamily involvement in governance systems (F2) and the amount of

<table>
<thead>
<tr>
<th>Variable</th>
<th>Model 1</th>
<th>Model 2</th>
</tr>
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<tbody>
<tr>
<td>Constant</td>
<td>10.46** 3.32</td>
<td>10.08** 3.25</td>
</tr>
<tr>
<td><strong>Independent Variables: Professionalization</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>F1—Financial Control Systems</td>
<td>−0.39 0.41</td>
<td>−0.52 0.43</td>
</tr>
<tr>
<td>F2—Nonfamily Involvement in Governance Systems</td>
<td>1.31** 0.46</td>
<td>1.40*** 0.42</td>
</tr>
<tr>
<td>F3—Human Resource Control Systems</td>
<td>0.80* 0.39</td>
<td>0.88* 0.39</td>
</tr>
<tr>
<td>F4—Decentralization of Authority</td>
<td>0.92* 0.41</td>
<td>1.07** 0.41</td>
</tr>
<tr>
<td>F5—Top Level Activeness</td>
<td>−0.21 0.45</td>
<td>−0.31 0.46</td>
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<tr>
<td><strong>Interaction Terms</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nonfamily Involvement in Governance Systems (F2) × Financial Control Systems (F1)</td>
<td>−1.06* 0.44</td>
<td></td>
</tr>
<tr>
<td>Nonfamily Involvement in Governance Systems (F2) × Human Resource Control Systems (F3)</td>
<td>−0.18 0.41</td>
<td></td>
</tr>
<tr>
<td>Nonfamily Involvement in Governance Systems (F2) × Decentralization of Authority (F4)</td>
<td>0.81* 0.42</td>
<td></td>
</tr>
<tr>
<td>Nonfamily Involvement in Governance Systems (F2) × Top Level Activeness (F5)</td>
<td>−0.33 0.46</td>
<td></td>
</tr>
<tr>
<td><strong>Control Variables</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Firm Size (log)</td>
<td>−0.60 0.66</td>
<td>−0.58 0.66</td>
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<tr>
<td>Firm Age (log)</td>
<td>−1.16 0.92</td>
<td>−1.08 0.88</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>−2.16* 1.05</td>
<td>−2.00† 1.06</td>
</tr>
<tr>
<td>Service</td>
<td>−0.46 1.18</td>
<td>−0.39 1.18</td>
</tr>
<tr>
<td>Retail &amp; Wholesale</td>
<td>0.38 1.00</td>
<td>0.37 1.01</td>
</tr>
<tr>
<td>$F$-value</td>
<td>2.42***</td>
<td>2.68***</td>
</tr>
<tr>
<td>$R^2$</td>
<td>0.06</td>
<td>0.08</td>
</tr>
<tr>
<td>Adjusted $R^2$</td>
<td>0.04</td>
<td>0.05</td>
</tr>
<tr>
<td>$\Delta F$</td>
<td></td>
<td>2.41**</td>
</tr>
</tbody>
</table>

$n = 523$.

*p < .10  
*†p < .05  
**p < .01  
***p < .001
financial control systems (F1) on firm performance ($\beta = -1.06, p < .05$). Furthermore, there is a significant positive interaction effect between the amount of nonfamily involvement in governance systems (F2) and decentralization of authority (F4) on firm performance ($\beta = 0.81, p < .05$). The other two interaction terms included in the model have no significant $\beta$-coefficient, thereby providing only partial support for H6.

The marginal effects are calculated using derivatives in order to describe the significant moderation effects signified in Model 2. Figures 2 and 3 graphically present the marginal effect for each significant interaction within a 95 percent confidence interval (dotted lines) while keeping the other professionalization dimensions at a mean value.7 The dotted lines around the marginal effect line (full line) represent the confidence intervals. The effect is only significant if the upper and lower bounds of the confidence interval are both above or below the zero line. We note that, because the professionalization dimensions contain standard scores, the values on the axes only have a relative meaning. A score of 0 refers to an average value of a firm on that specific dimension. Negative and positive values indicate, respectively, less than average and more than average values.

In Figure 2, the line trend indicates that the effect of nonfamily involvement in governance systems on firm performance decreases as the amount of financial control systems increases. Nonfamily involvement in governance systems has a significant positive effect on firm performance if the amount of financial control systems is average or less than average.

Regarding the second significant interaction coefficient, Figure 3 reports an increasing line trend. The graph indicates that nonfamily involvement in governance systems has a significant positive effect on firm performance if decentralization of authority is around average or more than average.

**Endogeneity Issues.** As there might be a potential problem of endogeneity between professionalization and performance, we apply an instrumental variable (IV) approach. Implementing IV estimation requires the identification of variables correlated with the five professionalization factors but unrelated to performance (i.e., exogenous). Given that the five factors are orthogonal (noncorrelating), we can look at endogeneity for each of the factors separately. Based on the availability of data and the correlation matrix, we identified the availability of financial information and size.
of the management team as instrumental variables for factors F1, F3, and F5. For factors F2 and F4, we identified the generational stage and size of the management team as instrumental variables. Also from a theoretical perspective, these instruments can be considered as suitable. The size of the management team is expected to increase as the firm becomes more complex. Gedajlovic, Lubatkin, and Schulze (2004) indicate that complexity of operations will lead to a more demanding task of running the family firm. Complexity as such also seems to necessitate professionalization in all five dimensions. The availability of financial information is expected to be positively related to the introduction of control systems (F1 and F3) and may also engender a higher top level activeness to discuss this financial information (F5). With respect to generational stage, Schulze, Lubatkin, and Dino (2003a) posit that throughout generations, more outside family members become shareholder and hence, behave more as rational diversified investors. Therefore, centralization of authority (F4) is expected to decrease, whereas nonfamily involvement in governance (F2) is expected to increase.

Based on the Sargan statistic, Basmann statistic and Hansen J-statistic, we fail to reject the null hypothesis that the instruments are exogenous, which is a necessary condition for the use of the Hausman test (Bascle 2008). Subsequently, we performed the Hausman test for each of the five factors. The p-values ranging from 0.734 to 0.310 clearly indicate that we cannot reject the null hypothesis of no endogeneity. As a result, our OLS regression results are not expected to be inconsistent or biased.

**Discussion**

The objective of this study was to empirically examine the relationship between professionalization and performance in privately held family businesses. In order to address this research question, we first assessed the true essence of the professionalization concept. Based on general management literature and conceptual papers on the construct of professionalization, we expected that professionalization would enclose multiple dimensions. Through an exploratory factor analysis, we were able to identify five underlying dimensions: Financial Control Systems (F1); Human Resource Control Systems (F2); Nonfamily Involvement in Governance Systems (F3); Decentralization of Authority (F4); and Top Level Activeness (F5). Therefore, our factor results support the multidimensional approach of the professionalization concept. These findings signify that the traditional view of professionalization through an external manager might not be sufficient anymore. The analysis identifies five major components that simultaneously affect the professionalization level of the company. Thereby, we dissociate our research from those who have the tendency to simplify the concept into something binary, that is, the presence/absence of an external nonfamily manager (e.g., Barth, Gulbrandsen, and Schønea 2005; Chittoor and Das 2007; Corbetta 1995; Klein and Bell 2007).

By using this multidimensional concept of professionalization, we are able to extract those elements of professionalization that might improve firm performance of private family firms. By means of an OLS regression, we found support for H2, H3, and H4. This indicates that, if a family business wants to positively affect its performance through professionalization, the company should concentrate on diminishing family involvement in governance systems (H2), increase the usage of human resource control systems (H3), and decentralize organizational authority (H4). Our findings support earlier research that observed a positive effect on firm performance by decreasing family involvement (Bennedsen et al. 2007; Filatotchev, Yung-Chih, and Piesse 2005; Oswald, Muse, and Rutherford 2009; Sonfield and Lussier 2009) and hiring independent external board directors (Anderson and Reeb 2004). They further solidify those studies that highlight the importance of human resource controls within family businesses context (de Kok, Uhlanner, and Thurik 2006; Kotey and Folker 2007; Reid and Adams 2001). The use of these formal human resource control systems can help the family business to overcome issues related to nepotism or familial altruism. A formalized manner of selection and evaluation generates more objectivity and transparency to all firm employees (Van den Berghe and Carchon 2003). Also, by increasing the amount of nonfamily involvement, the family business can counteract some of the previously discussed agency problems such as the entrenchment problem. Finally, decentralization of authority will also increase firm performance. As there are no prior studies on this
matter, our results contribute to the research field by providing some initial evidence stating that decentralization of authority can be beneficial for firm performance.

Our results were unable to identify a significant effect between the use of financial control systems and firm performance. As such, no support was found for H1. The introduction of formal financial control systems may not be appropriate for entrepreneurial family firms (Stewart and Hitt 2012). Entrepreneurial family management using informal social ties may be superior because it enhances the coordination and knowledge sharing within the family firm. Introducing formal financial control systems requires many coordination challenges in which family firms might fail (Sayles and Stewart 1995). Past results have already indicated that family firms tend to rely to a lesser degree on the use of financial control systems than their nonfamily counterparts (Daily and Dollinger 1993; Pérez de Lema and Duréndez 2007; Perren, Berry, and Partridge 1998). These firms might have a greater reliance on informal control methods that have been embedded in the company for years. The informal methods have emerged from practice, based on firm specific knowledge, experience and training, idiosyncratic to the particular work (Dyer 1989). This tacit, team-based knowledge is more likely to be developed within a long-term relationship, which is a typical characteristic of family firms (Habbershon 2006). Therefore, informal control systems might be the best fit for certain family firms depending on their life cycle stage (Moore and Mula 2000). However, other family firms might benefit from the introduction of formal financial control systems. Therefore, future research would benefit from a contingency approach. There is a need to focus on contingencies within family firms, which make the introduction of financial control systems beneficial.

Furthermore, our results did not support H5, as no significant relation was found between the amount of top level activeness and performance. This is similar to the study of Jackling and Johl (2009), who found the number of board meetings to be unrelated to performance. The same reasoning as with “formal financial control systems” could apply here, in the sense that there should be a fit between top level activeness and the specific family firms. An increase in the frequency of official management and board meetings may not be the best fit for the family firm. If the firm is family managed and has the tradition of discussing business matters around the kitchen table, it may be that this is the most suitable environment to discuss the relevant issues for that type of firm. For family firms in a later generational phase, with many siblings and/or outside members taking part in the management, an increase in formal management meetings may benefit the firm. Similarly for the board of directors, there should be a fit between the optimal number of board meetings and the need for them in the specific firm. As the board of directors in SMEs mainly has an advice providing role (Bammens, Voordeckers, and Van Gils 2010), the number of board meetings and the need for these board meetings depends on the need for advice. When this need for advice is present within the firm due to, for example, strategic change or a new market development, an increase in the frequency of board meetings is expected to increase firm performance. So, future research would benefit from a contingency approach in order to verify under what conditions both formal financial control systems and top level activeness would be beneficial for firm performance.

Moreover, we argue that the inconsistent results that now exist in this research domain on the link between professionalization, measured by the unidimensional nonfamily management measure, and firm performance might be due to the misconception of the professionalization process as a binary variable. We argue that the effect of nonfamily involvement on firm performance depends on the firm’s engagement in the professionalization process, that is, how the firm is professionalizing on the other dimensions. Our results provide support for this reasoning. The effect of nonfamily involvement on firm performance depends on the amount of formal financial control systems and decentralization of authority. Therefore, it is necessary to take into account these other professionalization dimensions when studying the effect of nonfamily involvement. In other words, whether nonfamily involvement has a positive, a negative, or no significant effect on firm performance depends on the amount of financial control systems and decentralization of authority.

More specifically, there is a significantly positive effect of the nonfamily involvement in governance systems on firm performance if
there is a sufficient amount of decentralization of authority. It seems that hiring nonfamily members into the top level of the company will be positive for firm performance when there is enough decentralization of authority. This means that these externals should be provided with sufficient amounts of control and decision-making authority in order for them to work effectively. If externals are hired into a family company, but are still bound by an authoritarian family owner, the professionalization process might not unfold to its full potential.

In addition, we found a second significant interaction effect between the amount of nonfamily involvement in governance systems and the use of financial control systems. The nonfamily involvement has a significant positive effect on firm performance when the amount of financial control systems is average or below average. The trend line indicates that the positive effect of nonfamily involvement on firm performance decreases as the amount of financial control systems within the business increases. These findings do not correspond with what we initially would expect, that is, increased use of financial control systems would strengthen the positive effect of nonfamily involvement on performance. However, these results could be explained by using a stewardship lens. From an agency theoretic view, nonfamily managers will act as agents and might pursue individual self-serving utility-maximizing behavior. These resulting agency costs can then be countered by implementing management (financial) control systems. Yet, what if these nonfamily managers are not self-interested agents, but rather behave as stewards whose motives are aligned with the objectives of the organization? The steward's pro-organizational behavior, aimed at maximizing organizational performance, will in turn benefit the steward's principals (Davis, Schoorman, and Donaldson 1997). Research already indicated that stewardship relationships may exist, or even prevail, in some family firms (Chrisman, Chua, and Litz 2004). Nonfamily middle-level managers that feel psychological ownership toward the family firm can be considered rather as stewards than as agents (Davis, Schoorman, and Donaldson 1997; Pierce, Kostova, and Dirks 2003). If goal congruence already exists, imposing formal control systems may undermine manager's willingness to cooperate which is detrimental for firm performance (Bouillon et al. 2006). In a similar reasoning, Corbetta and Salvato (2004) have argued that any form of direct or indirect control may lower stewards' motivation and thereby negatively affecting their pro-organizational behavior. These stewardship arguments might explain this second moderating effect.

Limitations and Future Studies

As with all studies, this paper is not exempt from limitations. Evidence was solely gathered from the Belgian context. Even though the representation of family businesses in Belgium is similar to other European countries (IFERA 2003), it would be beneficial for the assessment of professionalization to explore a variety of national settings. Second, due to data restrictions, we were only able to assess the financial firm performance. There are other indicators to evaluate family business performance, such as the performance on nonfinancial goals or family objectives, or subjective self-reported measures of performance. This can be a challenge for future research as this can contribute to the research field by introducing multiple other measures of performance. Furthermore, as the dimension-approach of professionalization presented in this paper is novel, we are not able to employ existing measurement scales. Our exploratory study provides a basis for future scale development of the professionalization construct.

Our findings instigate multiple other future research issues. As this study has postulated a new and multidimensional approach of the professionalization process within private family owned SMEs, future research is required to extend and/or verify the empirically derived dimensions of professionalization. Specifically, the dimensions of decentralization of authority (F4) and top level activeness (F5) can be further extended as they contain few scale items. This can be beneficial for the scale validity and internal consistency.

Another important issue for future research is to verify under what conditions the dimensions of formal financial control systems (F1) and top level activeness (F5) would be beneficial for firm performance. In this context, a contingency approach would be advisable. Future scholars can search for certain professionalization packages which “fit” the firm based on, for example, the agency problems it is dealing with or dependent on their life cycle stage.
Conclusion

This study contributes to the family business domain as it provides valuable insights into the construct of professionalization. This research topic has gained a considerable amount of interest in recent years. Many academics have tackled the issue, yet most of them simplify the process to the entry of an external nonfamily manager in the company. Minimizing this multidimensional concept might lead to disputable and contrasting results, where some believe the effect of professionalization on performance to be positive, whereas others do not. As such, based on our findings, we have presented a more nuanced and extensive interpretation of the multiple dimensions of which professionalization is comprised and their effect on firm performance. In this way, this study has highlighted that external nonfamily management is not synonymous for professional management, which is sometimes suggested in previous research, as family firms can also professionalize through the development of formal financial and/or human resource control systems, decentralization of authority, top level activeness, and nonfamily involvement in governance systems. Moreover, we have provided evidence that the effect of nonfamily involvement on firm performance is dependent on the firm’s engagement in the professionalization process, that is, how the firm is professionalizing on the other dimensions. More precisely, this effect depends on the amount of formal financial control systems and decentralization of authority. Therefore, it is necessary to take into account these other professionalization dimensions when studying the effect of nonfamily involvement, as this is not an isolated effect.

This paper has several practical implications. When a family firm has the intention to professionalize its business, there are different dimensions on which it can focus. The business can identify possible needs—such as outside expertise, which is lacking within the family, or control mechanisms to objectively evaluate family members’ performance—and act accordingly. They also have an idea of what the implications are on their business performance when they adopt one or more professionalization dimensions. As such, this paper has proven that it is not just a matter of ceding control to an outsider that makes a family business professional and improves performance. After further refinements, these research findings might also contribute to the development of a tool for practitioners who are seeking to assess or convert their firm operations through business professionalization, and as such improve firm performance.

References


