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Managerial Capabilities in Peruvian Family Companies: An Exploratory Study

by

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Abstract

In this research study, an attempt will be made to identify the managerial capabilities which determine performance of family firms in the context of the wheat milling industry in Peru. Researchers have suggested that the abilities and knowledge of the CEO, as applied to the organization, as well as the sort of social relationships (social capital) and the ability to envision the future (cognitive capital), are all relevant elements that contribute to shaping managerial capabilities. A qualitative methodology, focused on multiple cases studies, will be used. In-depth interviews for data collection will be held and a narrative (discursive) analysis will be done.

Keywords: managerial capabilities; family-firm performance.

CHAPTER 1: INTRODUCTION

Authors of literature on the topic of management suggest that the knowledge and the skills of managers are the foundations of management capabilities and should be developed and improved continually to be of use to the company (Abraham, Karns, Shaw, & Mena, 2001; Adner & Helfat, 2003; Caldeira & Ward, 2003; Helfat & Peteraf, 2003). In the context of family companies, management capabilities appear to form a crucial aspect for survival and the achievement of competitive advantage (Habbershon, Williams, & MacMillan, 2004).

In the proposed study, the researcher will seek to identify managerial capabilities in family companies to determine whether these vary over time and to determine their relationship with the performance of

family companies. It is therefore important to show how managers' skills and knowledge applied to family companies give life to these managerial capabilities. In other words, how the integration of skills and knowledge in a person, once used in a company, are transformed into managerial capabilities.

Managerial capabilities generated in a family company have a certain impact on the performance of the company-performance in the context of a family company being understood as the joint performance of the company and the family (Sharma, 2004), the achievement of both at the same time being important.

The proposed research is qualitative in nature. It is exploratory, using inductive logic; the results are pure or basic and the analysis horizon is transectional (Hernandez, Fernández, & Baptista, 2003).

Background to the Problem

The family company is probably the oldest form of business but has only been the subject of study since the 1950s. It was in the 1980s that researchers began to study this phenomenon systematically, and from 1992 onwards, they began to build theories around this new field of study.

In general, all researchers have agreed that the family company is a new academic field. This type of company has attracted the attention of researchers and advisors, as well as institutions engaged in the study and analysis of the succession process involving family-owned businesses (Brockhaus, 2004; Hatum & Pettigrew, 2004).

Researchers in the early 1950s were concerned about aspects of the succession, given the fact that most of the family businesses were starting to analyze aspects concerning who would replace the CEO. The founder needed to identify a suitable and reliable successor. For many founders, finding the right successor was the basis for the survival of the company. Therefore, the search for a member of the family who would best satisfy the requirements and expectations of the founder was one of the most important concerns of family companies. In subsequent decades, knowledge of family companies expanded rapidly, especially in North America and Europe. Even so, gaps in knowledge of family companies that have not been researched still exist (Dyer, 2003; Dyer & Handler, 1994; Dyer & Sanchez, 1998). Since 1997 new concerns have arisen in the literature and strategic aspects linked to people, such as the attributes of the CEO, the development of a successor, the flexibility of the organization, managerial capabilities, and other subjects relating to management, involving the CEO, in the family-company context are increasingly attracting the attention of researchers.

Thus, the need arose for an in-depth investigation into managerial aspects such as the discovery and development of a successor to the CEO and managerial capabilities (Daily & Dollinger, 1993; Lank, 1995; Littunen, 2003) which are developed when personal skills and knowledge are applied to companies. Personal aspects have been analyzed in a number of studies, and the resultant insights provide a wider view of the phenomenon that is the family company.

In a typical family company, the senior management and the family are one and the same. In other words, in a family company, individual skills and knowledge and the history, traditions, and life cycle of the family are linked to form a large subsystem, which has a certain impact upon the family company. For this reason, the family contribution to the development of managerial capabilities is considered important (Habbershon, Williams, & MacMillan, 2004; Littunen, 2003; Makadok, 2001).

The emphasis in this study will be on the importance of identifying managerial capabilities and how they evolve over time, using existing studies into the manager's skills

and knowledge as its starting point and applying my personal knowledge and experience of family companies and my connections with the community of researchers from world organizations in this field, such as The Family Firm Institute, The Family Business Network, The International Family Enterprise Research Academy, and The Family Enterprise Research Conference. This knowledge, it is hoped, will enable family businesses to achieve two complementary goals that are sought continually and reflect 'two sides of the same coin': the performance of the family and the performance of the company (Chrisman, Chua, & Sharma, 1998; Sharma, 2004; Sharma & Rao, 2000).

The ability of a successor to acquire, assimilate, and exploit new knowledge is related to existing skills and knowledge (Sharma, 2004). In this sense, to manage the family firm successfully (King, Solomon, & Fernald, 2001).

Authors of the available literature on the topic under study state that the success or failure of a family company depend upon the degree to which the successor is capable of continuing and renewing the vision of the firm's founder. Therefore, from the founder's point of view, the skills and knowledge that the successor should acquire are essential in the long term for creating managerial capabilities, and these, in turn, are crucial to the subsequent performance of the family company and the family itself.

The concept of *capability* has been studied at organizational level and has been linked to the performance of the business (Niemelä, 2004). Researchers state that there is a relationship between organizational abilities and the performance of the company, and that as managerial capability is an organizational capability, there should be a relationship between managerial capability and the performance of the company (Bailey & Helfat, 2003; Carmel & Tishler, 2004; Henderson, 2003; Holley, Greenley, Cadogan, & Fahy, 2005; Winter, 2003), where managerial capabilities contribute to the performance of the company.

Just as capabilities have been studied at organizational level and related to the performance of a business, a more integrated and complete understanding is required of capabilities in the context of a family company (Niemelä, 2004).

As in research into the field of management knowledge, a need exists to examine the CEO as part of the senior management and as an essential factor (Nonaka & Takeuchi, 1995) in the development of these capabilities (Stalk, 1992). Family companies still suffer from inadequate planning of the human resources that would enable them to build, integrate, and reconfigure their organizations (Astrachan & Kolenko, 1996; Astrachan, Klein, & Smyrnios, 2000; Astrachan, Klien, & Smyrnios, 2002).

In the results of this study are intended to contribute to the development of knowledge of family companies in Peru by confirming that the knowledge and skills required

by the successor to the CEO, as reported in literature, will enable him or her this study, an attempt will be made to fill in the gaps in research into managerial capabilities within family companies. Researchers have suggested that the skills and knowledge of the CEO are the basis for managerial capabilities, which, to be useful to the company and family (Sharma, 2004), must be developed and improved continually (Abraham et al., 2001; Adner & Helfat, 2003; Caldeira & Ward, 2003).

To date, little evidence has been produced of how managerial capabilities are formed and what they are capable of. The results of a study carried out by Adner and Helfat (2003) indicated that a company will acquire management capabilities through interrelation between three essential pillars: human capital, social managerial capital, and cognitive managerial capital.

Human managerial capital arises from knowledge (Van Den Bosch & Van Wijk, 2000) and individual abilities (Subramaniam & Youndt, 2005). Social managerial capital has been defined as the ability of the CEO to share and promote knowledge through social relations (Gupta & Govindarajan, 2000). Finally, cognitive managerial capital is related to the acquisition of knowledge, whether through reasoning or by reasoned intuition of future events (Adner & Helfat, 2003).

Research is needed on how managerial capabilities emerge, where they come from, the effort required to build them, and how these managerial capabilities evolve over time (Adner & Helfat, 2003; Boeker & Wiltbank, 2005; Dougherty, Barnard, & Dunne, 2004; Ethiraj, Kale, Krishnan, & Singh, 2005; Habbershon et al., 2004; Makadok, 2001; Niemelä, 2004).

For the purposes of the research, the claim made by the authors of existing literature that all managerial capabilities are based upon three important pillars: human capital, cognitive capital, and social relationships (Adner & Helfat, 2003; Chandler, 1990; Makadok, 2001; O'Regan & Ghobadan 2004.a; Valhondo, 2003), with which managers build, integrate, and reconfigure the intangible resources of their organizations is accepted (Eisenhardt & Martin, 2000; Dougherty et al., 2004).

An attempt will be made in this research to identify managerial capabilities in Peruvian family companies, how they evolve over time, and their relation to the performance of the company from a founder-successor perspective.

Recent studies (Sharma, 2004) show that, in a family company, performance should be understood as the performance of the family and that of the company, both being equally important and occurring over the same period of time. Habbershon et al, (2004) stated that within a family company, the role of managerial capabilities would appear to be of crucial importance for survival and obtaining competitive advantage.

The performance of a family company in the hands of a new CEO is based on the effectiveness of transferred

knowledge and social networks acquired (Sharma, 2004), as well as its ability to predict the future (Adner & Helfat, 2003).

As has already been mentioned, authors of literature on family companies have suggested that skills and knowledge are the basis for managerial capabilities, as a relation exists between the individual level of the CEO's skills and knowledge and the organizational level of the family company, where managerial capabilities develop (Abraham et al., 2001; Adner & Helfat, 2003; Caldeira & Ward, 2003).

In this study, an attempt will be made to identify (a) the managerial capabilities of a family company, (b) whether they evolve over time, and (c) how managerial capabilities relate to performance, understood as the performance of the family and that of the company (Caldiera & Ward, 2003; Sharma, 2004), in the context of Peruvian family companies.

Definition of the Problem

Although previous studies have indicated a relationship between the skills and knowledge of the management and managerial capabilities (Abraham et al., 2001; Adner & Helfat, 2003; Caldeira & Ward, 2003) and between managerial capabilities and the performance of the company (Bailey & Helfat, 2003; Carmel & Tishler, 2004; Henderson, 2003; Holley et al., 2005; Winter, 2003), they have also revealed a need for further investigation into the relationship between the three variables within the family company context, as this relationship has not yet been described in literature. This study will thus be concentrated upon the development of managerial capabilities in the context of family companies in Peru.

The skills and knowledge of the CEO "identified for the purpose of this study" derive from studies in managerial science into organizational behavior and the strategic management of human resources as well as studies into family companies, including the development of future successors.

Strategic management of human resources is concerned with the development of the human potential of individuals within the organization in order to achieve the organizational objectives (Holley et al, 2005; Patterson, Johnson, & Spreng, 1997).

The development of a successor is an important factor in the succession process as it addresses the question of why potential successors need to acquire the requisite skills and knowledge, and create social relationships and the cognitive capacity that will give them access to managerial capabilities (Abraham et al., 2001; Wang & Poutziouris, 2003; Ward, 1988, 2005).

Capabilities are a source of competitive advantage, but existing literature has little to offer on which capabilities form the basis for competitive advantage. Furthermore, little importance has been given to the individual as a source

of managerial capabilities. No reports of how managerial capabilities are formed and evolve are available. An attempt will be made in this work to clarify the concept of managerial capabilities in order to contribute to the creation of new theories.

Managerial capabilities studies can be found in the studies published on strategic management, resource theory, and the theory of capabilities. Authors of literature on strategic management have emphasized the importance of intangible resources (Collis, 1994; Hamel & Prahalad, 1996; Prahalad & Hamel, 1990; Wernerfelt, 1984, 1995), one of these being human resources, the determining factor in the competitiveness of a company (Aragón-Sánchez & Sánchez-Martin, 2005).

A great deal has been written on company performance, based principally on financial and market considerations (Gupta & Sommers, 1996). Recently, Sharma (2004) emphasized the need to consider financial and market analyses within the company dimension and to include a further dimension: the family, analyzed through the concept of family harmony. Both dimensions analyzed together can give an integrated view of the performance of a family company. The proposed work will include an attempt to explain how managerial capabilities relate to the performance of family companies through the dimension of family performance and company performance.

In the proposed research, the first in Peru into family companies, the researcher will try to bridge the existing gap in knowledge, while stating whether the success or failure of Peruvian family companies is a function of the existence, or not, of certain managerial capabilities.

Purpose of the Study

This will be an exploratory study using qualitative analysis, in which an attempt will be made to discover the managerial capabilities of family firms and whether they change over time. The purpose will be to study managerial capabilities in family companies, based on the relationship between two variables: the skills and knowledge of the managers and managerial capabilities, and between these and another variable: the performance of the company assessed through the dimensions of company performance and family performance in the context of Peruvian family businesses.

This study will be exploratory, attempting to contribute knowledge of Peruvian family companies to existing literature on the theory of capabilities. I will attempt to understand how managerial capabilities emerge, what they are, and how they evolve during the life cycle of the company, as reported by the CEO (Dougherty, Barnard, & Dunne, 2004), and to promote a better understanding of the managerial capabilities that appear to determine the performance of a family company and consequently its survival, which shall be understood as success.

Finally, this study could contribute to a better

understanding of the development of the successor in Peruvian family companies and may provide advice for the founders of family businesses on which skills and knowledge should be acquired or improved on by their successors in order to improve the likelihood of a better future for the individuals concerned, their families and companies, and the country.

Importance of the Study

The general objective of this work is to ensure that family companies select an appropriate successor to the CEO so that the company survives and remains within the family.

Surely there are many reasons why families exist. The family is more likely to be the *raison d'être* for the company, and the company makes possible to join family members. The success of a family company, which depends on harmony between members of the family, creates the union of individuals and the family.

The founders face the need for the business to continue and seek a family member or outsider who best fulfills their requirements and expectations. The development of the successor should not be something that the founder concerns himself or herself with at a given moment; rather, it should be part of the responsibility of the family company.

Generating in the founder of the family company a necessary concern for the importance of skills and knowledge of the future CEO in the early part of his or her life cycle could enable family companies to endure over time, as this is an essential ingredient for the creation of managerial capabilities, which, in turn, will have a certain impact on the performance of the company.

The survival and success of family companies will improve the country's economy (Villarán, 2001). Hence, the purpose, in this work is to stimulate concern in academic circles regarding the importance of creating opportunities for interaction and education among members of family companies in Peru (a) through a family company program aimed at members of family companies, and (b) through the creation of a management course for family businesses, aimed at MBA students, in which proper attention will be paid to the particular nature of the family company. This research may be one of the first Peruvian studies of family companies and strategic management.

Nature of the Study

A qualitative analysis will be used in the proposed research to identify managerial capabilities in a family company, from the point of view of the CEO, and to discover whether these managerial capabilities evolve over time and whether they determine the performance of the company, understood as the joint performance of the company and family.

Given that little work has been done on this subject, the investigation will be exploratory in nature. The study will follow inductive logic as its target is to develop a theory from observations of reality, analyzing both specific and general aspects. As an attempt is to be made to understand the phenomenon under study without an immediate application, the results will be basic or pure. In other words, the time horizon for the analysis will be transectional at a given moment in time (Hernández et al., 2003).

The case study method will be applied (Yin, 2003), in which the sample will be nonprobabilistic and chosen for the purpose from a selection of extreme, nonconventional cases (Saunders, Lewis & Thornhill, 2003; Sekaran, 2003). The design will be holistic and multiple-case, using a single unit of analysis (Yin, 2004). Four cases will be chosen from a single industry, as recommended in the literature for this type of analysis (Adner & Helfat, 2003; Boeker & Wiltbank, 2005; Caldeira & Ward, 2003; Holley et al, 2005; O'Regan & Ghobadan, 2004b).

Data will be collected through in-depth interviews, in multiple sessions, and through secondary information. Data will be analyzed using narrative analysis techniques (Cortazzi, 2003; Creswell, 2003; Saunders et al., 2003) and using the Atlas-ti computerized support system to categorize the variables.

As there are no national statistics in Peru on family companies, and no professional associations for such companies at present, it is not possible to say how many family companies there are in total. Therefore, an initial sample is not available for the study. The sample population will consist of all Peruvian companies in one industry that are recognized as family businesses.

Research Question

The aim in this study is to (a) compile a list of managerial capabilities assessed by observing the application in the company of the skills and knowledge of the CEO, and (b) to determine how these managerial capabilities are related to the performance of the company and that of the family. In this context, the question that arises is the following: What managerial capabilities determine the performance of Peruvian family companies?

Conceptual Reference Framework

The proposed study is based on two academic fields: management science, through the study of organizational behavior and human resources management, and the analysis of family companies through a study of the development of successors. Both areas allow an analysis of the skills and knowledge of the CEO.

In the field of strategic management, a study of the theory of resources and capabilities enables a researcher to analyze managerial capabilities. The authors of literature on strategic management insist on the relevance

of intangible resources as a determining factor in the competitiveness of a company (Aragón-Sánchez & Sánchez-Marín, 2005).

Several academic studies have addressed the performance of companies and included an analysis of the performance of family companies (Sharma, 2004). In the proposed study, the focus will be on the family, given that in family companies, the individual, the family, and the company form a single unit (Habbershon et al., 2004).

A conceptual reference framework will be developed in which a relationship between the skills and knowledge of the CEO and the managerial capabilities and performance of a family company, as perceived by the CEO, in the context of the Peruvian family company, is proposed. An examination of the literature, combined with my experience in the study of family companies and the knowledge I have acquired through my relationships with other researchers into family companies and management will be applied to devise a conceptual reference framework (Figure 1) in which the relations between identified factors are shown as important and relevant (Sekaran, 2003).

The founders of family companies usually seek the successor to the CEO from members of the family, giving preference to those in whom the founder sees a reflection of himself or herself. Although this process could be easier between the first and second generations, given the proximity between fathers or mothers and children, it is rather more complicated between the second and third generations as the family culture becomes more dispersed (Flemming, 2000). That is why it is considered necessary for founders to develop the necessary skills in their possible successors so that they acquire the knowledge necessary for success as managers of their companies.

To achieve success, the skills and knowledge that the founders possess must also be effectively transmitted to and developed in potential successors to the CEO from the initial stage of the successors' life cycles. Furthermore, from the founder's point of view, the successor requires certain abilities that enable him or her to acquire a combination of skills and knowledge that are important for the success of the family company.

According to Maxwell (1996), the conceptual reference framework represents what the researcher believes is happening when he or she studies the phenomenon. Thus, in this study, the following reference framework, derived from the literature analyzed, my own experience in the field and my interaction with experts in family companies, and the study of management sciences and strategic management, is proposed in advance (Maxwell, 1996).

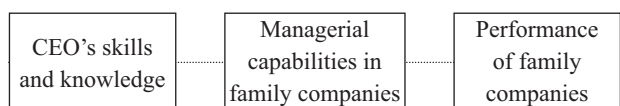


Figure 1. Conceptual Reference Framework

The variables given will be studied in the context of Peruvian family companies. The performance of family companies, understood as the combined performance of the business and the family, will be examined (Sharma, 2004). The performance of the company is considered a valid indicator to assess the effectiveness of the succession process in a family company (Gupta & Sommers, 1996; Hall, 2004; Morris, William, Allen, & Avila, 1997; Wang, Watkins, Harris, & Spicer, 2004). The performance of the business will be measured by the perception of the CEO (Wall, Michie, Patterson, Wood, Sheehan, Clegg, & West, 2004) and also using secondary information on its financial and market performance. Financial performance will be evaluated using the following indicators: (a) operating profit, (b) the profit/sales ratio, (c) operating cash flow, and (d) return on investment. Market performance will be measured using these indicators: (a) growth in sales, and (b) market share (Gupta & Somers, 1996).

Family performance will be assessed by determining the emotional capital of the family, understood as the degree of harmony between its members (Sharma, 2004), where the perceived level of harmony is defined as the degree of respect, confidence, and understanding between the members of the owning family (Sharma, 1997). The concept of family performance will be applied using the indicators suggested by Malone (1989) and Olson, Russell, and Sprenkle (1988): (a) emotional links, (b) respect between members of the family, (c) harmony between them, (d) degree of confidence, and (e) the level of communication between them (Sharma, 1997).

With regard to the skills and knowledge of the CEOs, skills are understood to mean the ability of an individual to apply his or her personal characteristics to solving problems and knowledge as the ability to use information to understand and resolve a problem (Tobin, 1997). The different skills and knowledge of the CEO of a family company will be evaluated using the indicators determined in previous studies by Chrisman, Chua, and Sharma (1998), and Sharma and Rao (2000).

Research does not cover managerial capabilities or how they are formed. In this work, an attempt will be made to draw up a list of managerial capabilities in family companies, based on the understanding of managerial capabilities of family company CEOs in Peru as the sum of (a) the skills (Subramaniam & Youndt, 2005), and knowledge (Van Den Bosh & Van Wijk, 2000) possessed by the CEO and applied to the company; (b) the social capital, meaning internal and external social relationships and links (O'Regan & Ghobadan, 2004a; Makadok, 2001; Chandler, 1990); and (c) the managerial cognitive capital, meaning the CEO's experience that enables him or her to envision the future (Adner & Helfat, 2003; Valhondo, 2003; Yu, 2001), understanding that with these, the CEO will build, integrate, and reconfigure the resources of the organization (Adner & Helfat, 2003; Boecker & Wiltbank, 2005) of the study, and it is expected that it will be enriched

or modified by the findings of the study. The conceptual reference framework will be the starting point.

Definition of Terms

Terms such as *family company*, *skills and knowledge of the CEO*, *managerial capabilities* and *family company performance* will be used in the study.

A family company is one which is legally incorporated and has the following characteristics: (a) a business in which more than 20% of the voting shares belong to the same family, related by blood or marriage, (b) the company should be seen by the CEO as a family company, and (c) at least one member of the family should be part of the company's management team (Dodero, 2002; Poza, 2005, 2007; Neubauer, 2003; Neubauer & Lank, 1999; Weshead & Crowling, 1998; Zahra & Sharma, 2004).

Family company performance is understood as the combined performance of the business and the family (Sharma, 2004). Business performance will be measured through the perception of the CEO (Wall, et al. 2004) and secondary information on the financial and market performance of the company.

Financial performance will be evaluated using the following indicators: (a) operating profit, (b) profits/sales ratio, (c) operating cash flow, and (d) return on investment. Market performance will be measured using these indicators: (a) growth in sales, and (b) market share (Gupta & Somers, 1996). Family performance will be studied through the analysis of the emotional capital of the family, understood as the degree of harmony between its members (Sharma, 2004), where the perceived level of harmony is defined as the degree of respect, confidence, and understanding between the members of the owning family (Sharma, 1997). It will be evaluated using the following indicators: (a) emotional links, (b) respect, (c) the harmony, (d) the degree of confidence, and (e) the level of communication between members of the family (Sharma, 1997).

The CEO's skills refers to the ability of an individual to apply his or her personal characteristics to solving problems (Sharma & Rao, 2000), and the CEO's knowledge means the ability to apply information to understand and resolve a specific problem (Tobin, 1997).

The managerial capabilities of the CEOs of Peruvian family companies shall be understood as the sum of the (a) skills (Subramaniam & Youndt, 2005) and knowledge (Van Den Bosh & Van Wijk, 2000) of the CEO applied to the company, (b) social capital understood as internal and external social relationships and links (O'Regan & Ghobadan, 2004a; Makadok, 2001; Chandler, 1990), and (c) managerial cognitive capital, meaning the CEO's experience that enables him or her to envision the future (Adner & Helfat, 2003; Valhondo, 2003; Yu, 2001); the understanding being that with these, the CEO will build, integrate, and reconfigure the resources of the organization (Adner & Helfat, 2003; Boecker & Wiltbank, 2005).

Assumptions

The following assumption will be made: (a) A relationship exists between the skills and knowledge of the managers, managerial capabilities, and performance of a family company, and (b) for the purpose of this study, it is assumed that interviewees and those questioned in the surveys will reply honestly.

Limitations

As stated by Patton (2002), "There is no perfect design for a piece of research; there are always trade-offs" (p. 87). This research will be subject to the following limitations: The applicability of the results will be limited to the industry sector being studied, the study will be restricted to companies in one sector of industry, and care must be taken in generalizing the results.

Delimitations

The research will have the following boundaries: (a) This study will concentrate on the variables referred to in the conceptual reference framework, and (b) the researcher's own bias will be taken into account as he forms part of one of the companies in the sector studied in the qualitative stage.

Summary

The purpose of this research is to identify managerial capabilities in the context of Peruvian family companies and to analyze how they evolve over time, considering that managerial capabilities are dynamic. Furthermore, it is necessary to examine whether managerial capabilities are a source of competitive advantage, measured by the performance of family companies.

An exploratory analysis using case studies will be done in this research (Creswell, 2003), given that there has been little research done on the subject. The researcher will apply inductive logic, that is, from the specific to the general, attempting to develop a theory based on reality. The purpose of this work is to attempt to understand the phenomenon under study without there being an immediate application; therefore, the results will be basic or pure. The time horizon for the analysis will be transectional, in other words, at a given moment in time.

The second chapter will be concentrated on an examination of the literature on family companies, their life cycles, the skills and knowledge of the managers of family companies, and the performance of family companies, as well as on managerial capabilities and the context in which this research is carried out.

CHAPTER 2: LITERATURE REVIEW

The bibliographic search is both an examination of literature and a source of secondary data in the specific areas of interest of the researcher (Sekaran, 2003), which helps to emphasize certain aspects that are considered important to the study, as well as the necessary interrelation between the authors and world experts in the subject under study (Gay & Airasian, 1992).

Thus, this research includes an examination of the existing literature in order to (a) discover which variables are capable of influencing the problem, (b) obtain a clear idea of the most important variables, (c) identify the problem clearly, and (d) discover whether the problem is perceived by the scientific community as significant and relevant.

This chapter is concerned with defining and clarifying what is understood by family businesses, their life cycles, and their performance. An examination is included of literature on the skills and knowledge of the managers of family companies, and their managerial capabilities before a final analysis of the industry sector that will be the subject of the qualitative study.

Family Companies

All previous researchers have asked the same questions: What is the difference between a family business and any other business? Is there really any difference between the two? Research shows that the answer to these questions is somewhat ambiguous as researchers and consultants have helped to surround them in mystery.

Strictly speaking, no difference exists between family and nonfamily businesses when financial, manufacturing, or marketing aspects or competitiveness are compared. Differences arise from the way the businesses are administered, how the management is conducted, and what the role of the family is in the decision-making process, that is to say, in the behavior of the organization (Biosca, 2000; Bork, 1993; Bork, Jaffee, Heisler, Lane, & Dashew, 1995).

In family companies, there is a sense of legacy and a feeling of confidence, which have financial and emotional repercussions in the company. There is also a responsibility to family shareholders, considering that the direction taken by the company is critical to maintaining the family legacy. In family companies, the planning horizon is usually measured in years rather than in quarters.

The history of the family business is a history of romanticism, enthusiasm, and sacrifice. Its history is not just that of the founder but of the other family members as well. The great challenge in managing a family business is in knowing how to balance market demands with those of the family. Consequently, the business is the family's, and the history of the family is to a certain extent the history of the business (Breedon, 2003; Koironen, 2002). The good of

the family is the principal concern and interest taken into consideration when major decisions have to be taken, given that they affect not only the business but the family too.

Among those who have studied family businesses, concern relating to the interaction between researchers, consultants, and teachers of this field of study has been expressed. Researchers create studies that are later revised and applied by consultants and taught by lecturers. Although, in past decades, consultants have written extensively on family businesses, since the 1990s, researchers have been trying to define what is meant by the term *family business* and to differentiate such businesses from nonfamily affairs, with a view to generating theories about this new field of study (Davis, 1968; Davis, 1997; Dyck, Maunws, Starke, & Miske, 2002; Janjuha-Jivraj & Woods, 2002).

While aspects surrounding the succession to the founders of family businesses have been studied in detail for years and discussed by researchers, the development of the successor has not been so examined (Wasserman, 2001; Westhead & Crowling, 1998). The subject of the succession to the CEO is a new topic of research which has been arousing the interest of researchers since 1997.

Several definitions and conceptualizations of the family company can be found. Neubauer and Lank (1999) stated that a family company is such if it was founded by members of a family, and if its administration has been or will be transferred to the next generation of family members.

A family company is a unique and special mixture of human emotions, involving what it means to be a family and the logical dynamics of a business. A family company is one in which ownership and control of the assets is to be retained by the founder and his or her heirs; in other words, the family group intends to maintain and manage the business using the most capable members of the family, and its horizons are wider than those of nonfamily businesses (Cromie, Stephenson, & Monteith, 1995; Dodero, 2002; James, 1999).

The family company is considered the predominant type of business throughout the world. At a conservative estimate, between 65% and 80% of the world's businesses could be considered family businesses (Gersick, McCollom-Hampton, Davis, & Lansberg, 1997; Hilbert-Davis, Hilbert-Davis, & Dyer, 2002).

Some researchers equate family businesses with small, nonprofessional enterprises. This is not necessarily the case, given that it is easy to find family companies, large and small, that are professionally managed. For example, some of the largest companies in the world are family businesses (Litz, 1995), such as the Ford Motor Company and the Rockefeller Group.

Family businesses are unique entities, in which the business and the family form a single unit, and for the founder, no difference exists between business and family as the business is crucial for his or her personal success

and for the survival of all the members of the family. Family businesses can be viewed as such only when the intention is to transfer the management of the company to the next generation (Barach, Ganitsky, Carson, & Doochin 1988; Birley & Muzyka, 1997; Ward, 1988). At least one generational transfer is required for a company to be considered a family company. Researchers agree that each succession increases business experience for both the family and the company, but the experience gained is greater in the transfer from the first to the second generation because beliefs and rituals are part of the culture being transferred (Astracham, Klein, & Smyrnios, 2000; Daily & Dollinger, 1993).

In order to evaluate the extent to which the family influences the organization of the business, Astracham, Klein and Smyrnios (2002) produced a scale that was subdivided into three subscales: power, experience, and culture. The power of the family is understood as ownership, that is, the general management and governability. Experience is measured by the dedication of family members to the business. Culture is measured by the family's commitment to the business and family values. Research results indicate that it is necessary to confirm whether subcultures exist within family businesses or whether the prevalent culture reflects that of the founder and/or the successor CEO.

The founders have great influence on the culture and performance of companies of this type. Thus, a distinctive competitive advantage of the family company is that it generates cohesion between members of the owning family, based on belonging to a group and being part of the family wealth. This is considered to have a favorable impact on the business. Through the generations, these family values form the basis of a family culture, becoming a competitive advantage for family companies. It is therefore important that the CEO is capable and familiar with the organizational structure so that the family company is successful and survives, maintaining its unique culture, values, and the behavior of an organization, to which are added the values, culture, and behavior of the members of the family (Daily & Dollinger, 1993; Florez-García-Rada, 1994).

There is thus a relationship between an efficient company and the attributes of the members of the family and the capabilities of the members of the family who work in the company. Family members share a common vision, and the family members who work in the company develop a certain commitment to the company, which generates a harmonic relationship between the members of the family. The family members help to keep the company efficient, the company generates a greater commitment on the part of the family members working in it, and they, in turn, enrich relationships between the members of the family (Dodero, 2000; Drozdow & Carroll, 1997; Ram & Holliday, 2003). While a family company is growing and producing positive results so that its shareholders enjoy

increasing dividends, family harmony is maintained, and, therefore, family crises are minimized. In this way, the challenge facing family companies is that of generating growth that supports the growth of the family.

In the first stages of the company's life, the founder is more concerned with generating growth, but as it matures within its life cycle, the need arises to find someone within the family who can better satisfy its expectations. The founder will look for a member of the family who possesses the skills and knowledge required to manage the growing business successfully. One of the principal advantages of a family business is the high probability of finding a family member who has these particular skills and the knowledge required to take control of the company (Fritz, 1997; Nass, 1994).

The continuity of the family company is related to the way the dreams of different generations are related, such that a shared collective dream can be pursued. That dream is based on the founder's vision, which inspires in members of the family a commitment to hard work and collaboration in order to achieve the ideals of the business and the ideals of the family together (Amat, 2000; Lansberg, 1999; Lansberg, 2000).

A family company is considered to be the commonest form of business and is, at the same time, a complex organization. Family businesses have advantages and disadvantages, compared with nonfamily businesses. Researchers have agreed that the positive aspects of family businesses outweigh the negative aspects. Among the principal advantages of family companies, authors of the associated literature have suggested, are (a) a long-term vision, produced by long-term investments, (b) greater similarity between the shareholders, (c) a harmonious business culture, (d) high knowledge of consumer demands in terms of quality and brand image, (e) the shared strategic vision of the founder, (f) the training of his or her successor, (g) rapid decision making, (h) family commitment to the success of the business, (i) a tendency to emphasize high quality of products and services, and (j) loyalty to the employees and everyone concerned with the conduct of the business (Anderson & Reeb, 2003; Gersick, McCollom-Hampton, Davis, & Lansberg, 1997; Lank, 1995; Neubauer & Lank, 1999).

Nevertheless, family businesses also have their weak points, for example: (a) resistance to change and to professionalism, (b) excessive secrecy about the business on the part of the CEO, (c) excess control, (d) duplication in the management of the company, (e) difficulty in attracting talented members, (f) nepotism taken to extremes, (g) lack of leadership, (h) the demand from family members for higher dividends, (i) lack of planning for the succession, (j) the loss of a strategic vision in the decision-making process, (k) absence of organizational discipline among members of the family, and (l) improvisation in the daily operation of the business (Gersick et al, 1997).

A close relationship exists between the family, the

business, and individual family members who are also part of the organization. Any analysis of a family business should take into account these relationships because it is difficult to obtain a deep understanding of family businesses if the family is separated from the business. Various authors have said that family businesses give meaning to the family and it is the family on which the business depends (Dodero, 2002; Neubauer & Lank, 1999; Poza, 2005, 2007; Weshead & Crowling, 1998) As these relationships give such companies competitive advantages, they should be sustainable over time. In order to keep a business operational within the family, the founder and family members must give some thought to the succession. The succession and preparation of a possible successor is the greatest concern for the survival of a family business. One principal aspect is the identification, within the family or outside it, of a person or group of people with the skills and knowledge required to manage the business. The process of preparing the new successor with the founder's skills, knowledge, and vision should start with the founder himself and continue through subsequent generations (Aronoff, 2000; Aronoff, Astrachan, & Ward, 2002; Aronoff & Ward, 2000; Barach, Gantisky, Carson, & Doochin, 1988).

In order to obtain a better understanding of the skills and knowledge of the successor, they should be analyzed through the lens of the business life cycle (Alexander, 2002, 2004; Arce, 1994; Astrachan, Klein, & Smyrniotis, 2002; Smith, Mitchell, & Summer, 1985).

Life Cycles

When should a business start to identify and prepare the future successor? This is the essential question that the founder and future generations face in order to keep the business within the family and ensure its success over time. Researchers use the concept of *life cycle* to identify the appropriate moment for the succession. Life cycle is a useful concept not only to determine when the succession process should start, but also to identify and understand when to start developing the skills and knowledge of the CEO's successor that the founder considers most appropriate (Amin & Cohendet, 2004; Anakwe, Hall, & Schor, 2000; Argyris, 1999; Flemming, 2000; Hughes, 1990; Jawahar & McLaughlin, 2001; Trice & Beyer, 1991).

Some authors have claimed that all changes are preceded by a crisis. Each evolution is followed by a revolution. In this sense, family businesses enter a period of conflict if the succession process is not properly planned. An important aspect in avoiding conflict is to identify and develop skills, as understood by the founder, from very early in the life cycle of the company. The founder should therefore try to involve family members in the business from an early age, thus passing on to them his or her knowledge and skills. A family business is complex because of the interdependence of the life cycle of the

company and that of the family (Carlock & Ward, 2001; Fynn & Forman, 2001; Mintzberg, 1984; Mintzberg et al., 1999; Murria, 2003).

Although the importance of identifying and developing skills has not been stated clearly in the literature, this is crucial to the success of a family company because such skills can be taught over time to possible or potential successors to the CEO. Leadership skills in a family company take between 25 and 30 years. For that reason, training the CEO should start early on in a person's life (Anderson & Zeithaml, 1984; Gupta & Chin, 1994; Lee, 1996; Murria, 2003).

Levinson (2003) suggested that a leadership life cycle has three phases. The first phase, called proximity, between 25 and 35 years of age, is when an individual is acquiring experiences and management skills. A second, generative, phase between 35 and 55 years of age is when, in addition to acquiring leadership skills, it is important to improve them and teach them to young managers. Finally, the integration phase, from 55 years of age onwards, is when modernization skills are learned.

There is a relationship between an organization's size and its age. The greatest crisis of growth that a family business faces is when the successor is between 35 and 50 years of age. In this stage, the company is between 25 and 35 years old. This is the context in which the succession takes place. If the future successor has not acquired the necessary skills and knowledge, he or she will not be able to manage the company successfully (Hult, Snow, & Kandemis, 2003; Quinn & Cameron, 1983).

The life-cycle model emphasizes aspects relating to the succession process, highlighting the need for the founder to make his or her vision known to future generations. A study of the life cycles of family companies should enable a researcher to relate each stage in the life cycle of the company to the life cycle of the founder and to the life cycle of the future CEO. These stages will be determined on the basis of the periods of crisis through which the family company has passed (Adizes, 1979, 1994; Dodge, Fullerton, & Robbins, 1994; Dodge & Robbins, 1992; Miller & Friesen, 1983).

The intention behind the proposed study is to examine both the life cycle of the founder and that of his or her successor (Flemming, 2000; Milliman, Von Glinow, & Nathan, 1991) and how these impinge upon the life cycle of the family company. Consideration will be given to the fact that the managerial capabilities of family companies are dynamic *per se* and that they may change and evolve throughout the life cycle of the company.

Skills and Knowledge of the Managers of Family Companies

The matter of who is considered the most appropriate successor in a family company has not received much attention in research into family companies. Researchers

have carried out investigations into the attributes that the CEO of a family company should possess (Borghans, 2001; Chrisman, Chua, & Sharma, 1998; Sharma & Rao, 2000). By definition, his or her skills and knowledge are important aspects of a CEO; skills are personal abilities that enable an individual to apply his or her knowledge and personal characteristics to complete tasks. Skills are discrete attributes that a person can acquire over time and which can be taught and transferred (Boyatzis & Kolb, 1995; Chrisman et al., 1998).

As far as family companies are concerned, some skills may be acquired through study and others through experience at work or outside it. They can also be transferred from generation to generation. It is necessary for the successor to the CEO to learn these skills over time and through his or her relationship with the founder and prior to the succession. Nevertheless, in order to understand these skills, something more than education is required; the personal attributes that underlie the skills must also be included. Skills can be developed and are not necessarily inherited genetically; they are shown in the performance and potential of each individual, implying effective action under a variety of conditions (Katz, 1974).

Among the skills that are necessary in the successor to a CEO are personal sacrifice, good reputation, loyalty as an employee, unity and participation between shareholders and the management, social sensitivity, and an active participation in the community (Donnelley, 1964, Gudmundson, Toser, & Hartman, 2003). Skinner (1997) mentioned four areas of study relating to skills: cognitive or academic skills that can be taught and transferred; generic skills, such as problem solving and communication, which can also be transferred; technical skills, such as being able to give a clear description of work and industry standards, which are linked to academic abilities; and finally, soft or malleable skills, including attitudes to work such as motivation, good will, and disposition.

Since the 1950s, the skills needed for management have been widely studied by researchers. Katz (1955, 1960, 1974), in a series of seminal studies on the skills of a manager, identified three dimensions which determine whether an administrator will be effective and successful: technical skills, human skills, and conceptual skills. Operational skills are also important for a good CEO, given that a CEO should be competent, have knowledge of his or her company's industry, and have previous experience in manufacturing (Skinner, 1997).

A child needs to learn to love, respect, be disciplined, and feel comfortable from birth up to the age of 8 years. Learning these concepts early in life gives young people more possibilities for developing a better attitude and understanding of what a family company means (Poza, 1996, 2005). The skills and knowledge of the CEO are related to the characteristics of an ideal leader (Levinson, 2003).

Human capital appears to be very important in ensuring the success of the CEO in business, where life experience

and previous work experience are crucial to his or her role in the family company. Transmitting business skills from generation to generation is therefore important to ensure the survival of the company within the family. It is also important to understand the past life of the founder, his or her motivations, experiences, background, and the influence of the environment on him or her (Bachkaniwala, Wright, & Ram, 2001; Fairlie & Robb, 2003).

In order to achieve success, the founder should be intelligent and able to adapt the organization to the skills, knowledge, perspectives, and values that must be found in the next generation's CEO (Barach et al., 1988; Beckhard & Dyer, 1983). Founders must search among future successors for those who emulate their own particular skills and talents. Aspirant successors should ask themselves the following question: Do I have the skills necessary to manage the family company successfully? (Chung & Yuen, 2003). The answer to this question will come from the founder.

A successor needs certain characteristics if he or she is to be successful, such as business acumen and leadership, a clear vision, a commitment to the personal dream of the founder, a deep understanding of the business, an ability to lead the members of the family, and charisma (Lansberg, 1999).

Carlock and Ward (2001), applying Mintzberg's conceptual framework for large corporations, tried to classify the management skills that the generation succeeding the founder needs to possess. Carlock proposed interpersonal abilities as the principal characteristics of a leader; informational roles such as those of monitor, disseminator and communicator; business decision maker, problem solver, assignor of resources, and negotiator. These skills seem to point to the characteristic profile of a leader. In the proposed study, the successor to the CEO will be considered as a leader, given that he or she will need the ability to manage, lead, organize, and predict the changes necessary in his or her own company. In that sense, excellence in management, diligence, initiative, a simple life style, and austerity are some of the characteristics that a CEO needs in order to be successful in the organization. Family companies require their leaders to be highly capable and qualified as successors in order to direct the business (Flemming, 2000).

Leaders are persons who are aware of and can control their own emotions and those of others; leaders are reflexive thinkers, with intellect, energy, tenacity, and a passion for work. People follow them and they have time for everything, even for training their own staff. What is more, they have a wide understanding of the industry (Skinner, 1997; Weyme, 2003).

A person remains a leader as long as he or she continues to lead, that is, as long as he or she has followers (Fritz, 1997). Leadership and management are closely linked because the CEO governs the destiny of the organization. This was the argument put forward by Weymes (2003),

who asked an interesting question: Are leaders simple people with extraordinary features or do they have a mythical talent or rare gift not possessed by ordinary mortals?

Researchers have suggested that leadership can be learned under training. Kouzes and Posner (2002) claimed that leadership is a process that people use when they give the best of themselves and influence others to do the same, and that it is not found only in charismatic people.

To borrow from Shakespeare, some are born or educated to lead businesses, while some seek leadership, and others have it thrust upon them. Leaders of family companies possess self-confidence; they are secure, aware of the personal aspects of the business, decisive, and know how to delegate and motivate. Leaders possess certain qualities. An exceptional leader reveals his or her own weaknesses, has the time and method appropriate for his or her actions, manages the employees with empathy that at the same time reflects strength, and, finally, knows how to make the best use of individual differences (Fritz, 1997).

Carreon (2003) defined the characteristics that make excellent leaders. They show integrity and humanity; they are realists and are connected to real life, are competent, have a passion for success, are loyal to the people around them, respect everyone, and have the vision and courage to reflect all of this in other people in the business.

Managers and academics have long been interested in the relationship between styles of leadership and the success of companies. Leaders need to be efficient and effective, and for this, they require skills and knowledge relating to their responsibilities. They should also be visionaries and highly motivated (Bennis, 1989; Bennis & Nanus, 1985; Conger & Benjamin, 1999; Sarros, Gray, & Densten, 2002; Weymes, 2003). In addition, leaders must have *architectural responsibility* because they have to be the designers of organizations. They need to control and monitor, and must also be flexible and sensitive (Davis & Newstrom, 2003; Kets de Vries, 1991).

Among the attributes identified in the literature are individual characteristics such as persistence, a desire to achieve, ambition, hard work, competitiveness, and a search for social standards. Leaders must know how to take risks and must be persuasive and innovative. The personality traits of CEOs, or soft skills or attitudes, include flexibility, reputation, power, a focus on control, self-confidence, and persistence. Demographic characteristics of the CEO include affinity with his or her position, the number of years in the same position, age, personal career, functional experience, education, socioeconomic roots, financial position, and formal education (Denison & Mishra, 1995; Howell & Higgins, 1990; Papadakis & Bourantas, 1998; Tucker, Sojka, Barone, & McCarthy, 2000).

The research carried out by Chrisman, Chua, and Sharma (1998) and by Sharma and Rao (2000) indicated that there is a set of general attributes that the CEO of

a family company must possess. These attributes largely agree with the skills and knowledge identified in this study. Factors mentioned in previous research are age, gender, blood relationship, birth order, level of education, aggressiveness, integrity, intelligence, creativity, a willingness to take risks, independence, self-confidence, business experience, prior experience, past performance, financial skills and experience, marketing skills and experience, interpersonal skills and experience, technical skills and experience, strategic planning, skill at decision making, compatibility with the founder, commitment to the business, a shareholding in the business, personal relationship with the existing CEO, confidence and a high credibility with members of the family, respect from the active family members, respect from the inactive members of the family, and respect from the employees.

Leadership by the CEO must be understood in the context of the company and of the family. Although the leader reports to the company's shareholders, the other members of the family should be considered as people who are related to the company.

What the successors to CEOs learn at school and university is basic general knowledge, which is not in itself considered sufficient to face the real world adequately. They must understand what roles they will play in order to expand the company over time and understand the family's role in the company. A successor needs to cultivate skills over time in order to adapt the company to changes, create wealth, and nurture business relationships. The new CEO has to have the intellectual capacity, a certain level of education, and experience to take the best business decisions (Chung & Yuan, 2003).

An appropriate selection of knowledge throughout the life of the successor to the CEO will enable him or her to acquire a level of ease and confidence in handling of the company. Furthermore, acquired experiences, skills, and knowledge absorbed over a potential leader's lifetime will enable him or her to understand the business phenomenon in which he or she is immersed, as well as the reality and context in which he or she will operate. Equipped with these attributes, the new CEO will be able to find better solutions for the welfare of the family, the company, and the country. Knowledge means the individual ability to use information in order to understand and resolve a specific problem. A CEO needs to know how to apply knowledge and to use the information available (Hedlung, 1994; Fiegner, Brown, Prince, & File, 1996; Tobin, 1997).

In the course of this study, an attempt will be made to identify those managerial capabilities that appear to be important for the development of family companies. Studies on the skills and knowledge of CEOs will be used to identify the most important business skills: managerial capabilities. Thus, this study will be a continuation of the research carried out by Chrisman, Chua and Sharma (1998) and Sharma and Rao (2000), considered the first serious studies of the attributes of CEOs of family

companies (Abraham et al., 2001; Adner & Helfat, 2003; Caldeira & Ward, 2003).

Researchers have suggested that a relationship exists between managerial capabilities and the performance of family companies (Adner & Helfat, 2003; Carmel & Tishler, 2004; Henderson, 2003; Holley et al., 2005; Winter, 2003), but to date no serious effort has been made to relate these variables.

The Performance of Family Companies

Capabilities have been studied at organizational level and related to the performance of the business (Niemele, 2004). The results of these studies indicate a relationship between managerial capabilities and the performance of a business, with the ability of the CEO being the most important of the organizational capabilities (Adner & Helfat, 2003; Carmel & Tishler, 2004; Henderson, 2003; Holley et al., 2005; Winter, 2003). One of the aims of the proposed study is to establish whether managerial capabilities contribute to the performance of a company.

The performance of family companies should be understood as the performance of the family and that of the business (Sharma, 2004), and it is important that both are achieved at the same time. In the context of the family company, the role of managerial capabilities appears to be crucial in the acquisition of competitive advantages and for long-term survival (Habbershon et al., 2003), with consequent good business performance.

Company performance has been discussed from various perspectives. Researchers have affirmed that in developing countries, taxes and tax legislation influence family companies, causing some leaders to attempt to minimize taxes in order to retain the "fruits of their labor" within the family and the company (Sharma, 2004, p. 6). That is why it is assumed that the financial results of family companies do not perhaps adequately reflect their real performance, distorting the analysis.

According to Sharma, variations in the performance of a family company can be conceptualized on the basis of a matrix in which the performance of the family and that of the company are analyzed, that is, a two-dimensional analysis: family and company. The family dimension concerns family harmony, and the business dimension concerns financial and market performance. Good performance in the family dimension is related to an accumulation of emotional capital, and good performance in the business dimension is reflected in the accumulation of financial and market capital (Salinas, 1992; Sharma, 2004). This model is recommended for future use in research into family companies.

The application of such a matrix for analyzing the performance of a company can demonstrate whether emotional capital is as important as financial capital in family companies, considering that most decisions made by companies of this type are not guided solely by the

welfare of the company but also by the welfare of the family.

That leaders of organizations and company founders exercise considerable influence on the performance of their companies is accepted by most academic researchers (Aronoff & Ward, 2000). However, little importance has been given to analyzing the performance of families. The performance of a family company is a combination of the performance of the business and of the family (Sharma, 2004). Company performance is a valid piece of data for evaluating the effectiveness of the succession and is measured by financial and market indicators. The constructs to be used in this study are those proposed by Gupta and Somers (Carmelli & Tishler, 2004; Gupta & Somers, 1996; Hall, 2004; Morris, Willian, Allen & Avila, 1997; Wang et al., 2004). Family performance is measured through the indicators of emotional capital or harmony. Harmony is defined as the degree of respect, confidence, and understanding between the members of the family, and the indicators to be used include the emotional relationship between family members, the confidence, respect, and harmony between them, and their degree of open communication (Davidson, 2003; Mitchell, Morse & Sharma, 2003; Sharma, 1997, 2004).

Managerial Capabilities

Interest and concerns have arisen among researchers on the subject of managerial capabilities in the context of family companies, generating increasing interest in academia. There is a need, in the field of study of family companies, for an in-depth study of management aspects such as managerial capabilities of family companies (Daily & Dollinger, 1993; Day, 1993; De Bono, 2003; Dutta, Narasimhan, & Rajiv, 2004; Lank, 1995; Littunen, 2003).

According to researchers in the field of knowledge management, a need exists to identify that person whose direct intervention plays a key role in the senior management (Nonaka & Takeuchi, 1995) as the developer and builder of the capabilities required (Stalk & Hout, 1990), including managerial capabilities. Katz (1974) established that, in order to build a better management team, organizations need a combination of capabilities deriving from technical, conceptual, and human skills. Research by Dougherty, Barnard, and Dunne (2004) shows that a need to know what managerial capabilities are and how they evolve over time also exists. Preparatory work on the proposed study confirmed that there is a gap in our knowledge of managerial capabilities, how they are formed, what management effort is required to build them, and whether they evolve over time in the way that organizational capabilities do (Ethiraj, Kale, Krishnan, & Singh, 2005; Fahy & Smithee, 1999; Habbershon et al., 2003; Niemelä, 2004). A company may acquire managerial capabilities through the relationships between

three main pillars: managerial human capital, managerial social capital, and managerial cognitive capital (Adner & Helfat, 2003; Garcia-Alvarez, Lopez-Sintas, & Saldaña-Gonzalvo, 2002; King & Tucci, 2002).

Managerial human capital arises from knowledge applied to the company (Van Den Bosch & Van Wijk, 2000) and individual capabilities applied to the business (Subramanian & Youndt, 2005). Managerial social capital is defined as the skill of the CEO in sharing and homogenizing knowledge through internal and external social relationships (Gupta & Govindarajan, 2000). Finally, managerial cognitive capital is related to the acquisition of knowledge through reasoning or by intuition on the future of the company (Adner & Helfat, 2003; Korhies & Morgan, 2005).

As author of the proposed study, I will consider that managerial capabilities consist of human, social, and cognitive capital, as suggested in literature (Adner & Helfat, 2003; Chandler, 1990; Makadok, 2001; O'Regan & Ghobadan, 2004b; Valhondo, 2003), with which CEOs build, integrate, and reconfigure human resources and intangible organizational competences (Adner & Helfat, 2003; Boecker & Wiltbank, 2005; Dougherty et al., 2004; Eisenhardt & Martin, 2000).

The three proposed pillars will be the basis for a focus that will enable me, the researcher, to discover managerial capabilities in Peruvian family companies. By determining that the application in a company of the skills and knowledge of the CEO create managerial capabilities, I will be able to relate both variables, in other words, the integration of skills and knowledge reconfigured into managerial capabilities (Hatun & Petigrew, 2004; Hit & Ireland, 2002; Teece, Pisano, & Shuen, 1997), with these managerial capabilities defined according to the perspective of the founder and his or her successor.

Authors of literature on family companies and on capabilities in general suggest that the skills and knowledge of CEOs are the foundation for capabilities, including managerial capabilities. In the proposed study, an attempt will be made to discover the managerial capabilities of family companies and how they relate to the performance of the business, in the context of Peruvian family companies.

Context of the Research

The investigation is qualitative in nature. In order to analyze managerial capabilities, the surroundings must be neutral. Therefore, the analysis will cover a single industry, as recommended in several previous studies of this type. The results generated may be used to determine a possible general application to other industries (Ander & Helfat, 2003; Boecker & Wiltbank, 2005; Caldeira & Ward, 2003; Holley et al, 2005; O'Regan & Ghobadan, 2004b).

The qualitative analysis will be applied within the context of the wheat milling industry in Peru, as this

provides an example of how a family companies operate, which is the phenomenon under study, in order to acquire a better understanding of family businesses. The study will be concentrated on second generation family companies which agree to participate in this research. Four cases will be analyzed, all of them extreme examples, using a holistic multi-case strategy.

For this purpose, the origins of the industry, its structure, conduct, and relevant government policy will be analyzed, following the Bain and Mason model (Adams & Brock, 2001; Alcorta, 1987; Badcock, Cramer, & Nelson, 1995; Eguren-Lopez, Fernandez-Baca, & Tume-Torres, 1981; Lipczynski & Wilson, 2001). The section will end with an identification of the stages of the chosen industry through which the companies have passed in the last 20 years. Furthermore, the factors that have contributed to the formation of a noncooperative oligopoly in Peru's wheat milling industry will be described in detail.

It is interesting to point out that after the liberalization of the Peruvian market in 1991, the wheat milling industry in Peru has remained concentrated in a few companies up to the present day. Some have been in the industry for many years, but their ownership structure has changed considerably, being now owned by foreign companies; this factor is very important for future analysis and understanding of the concentration and consequent alignment of new entrants to the sector, and also for explaining the noncooperative oligopoly which my preliminary research reveals to prevail in this sector of Peruvian industry.

Many of the companies in the sector are vertically integrated, both backward and forward. Of these companies, 80% produce biscuits, pasta, and balanced feedstuffs for chickens, cattle, and domestic pets. Other companies operate efficient distribution systems throughout Peru.

The company with the largest market share has among its shareholders large international corporations, including growers of wheat, the raw material for flour milling; thus, they have a particular concern for wheat qualities and prices compared with the rest of the companies in the market. This gives rise to the following question: What factors have led to this high concentration and noncooperative monopoly in the Peruvian wheat milling industry? A closer examination of the milling industry may provide an answer to this question.

Origins of the Wheat Milling Industry

Wheat is native to Asia and was brought to America by Europeans after Columbus discovered America in 1492. Wheat was grown in Peru after the arrival of the Spaniards in the 16th century. The first mills were built around 1539.

The 16th and 17th centuries saw a series of natural disasters, which prevented wheat becoming a widely

grown crop (Fernández-Baca, Parodi-Cevallos, & Tume-Torres, 1983; Flint-Blanck, 1999; Portocarrero-Suarez, 1997). Since the 18th century, Peru has depended on imported wheat to meet the demands of its millers. Wheat importers used to sell the grain to a large number of small millers, who in turn sold flour to the bakeries.

Mills employing millstones predominated until the 19th century. Cia. Molinera Santa Rosa was founded in 1896 and used special machinery to grind wheat. The company was owned by Alexander Milne, a British citizen, and Roberto Murdoch, a Peruvian (Fernández-Baca et al., 1983; Gonzales-Vigil, Parodi-Zevallos, & Tume-Torres, 1980; Parodi-Zevallos, 1981; Parodi-Zevallos & Gonzales-Vigil, 1983).

Around 1904, there were 14 milling companies, but by 1907, there were only 9. The company Nicolini Hermanos was founded in 1928, and 1933 saw the birth of the Cogorno Company. In 1934, the three principal wheat milling companies in Peru were Molinera Santa Rosa, with 45% of the domestic market, Nicolini, with 37%, and Cogorno, with 18%.

The market concentration, which started at the beginning of the 1990s, was due to various factors. First, the large sales volumes of the three principal milling companies generated competitive advantages over smaller companies, while the small companies were financed by wheat wholesalers. Second, the surviving milling companies had economies of scale and a large production capacity. Third, the shareholders of these companies had very close links with the financial system, the political system, and the authorities and influential people of that time. Finally, improvements in the milling process led to greater efficiency, due to the acquisition of the latest technology.

In 1940, wheat wholesaler Bunge & Born, bought shares in Molinera Santa Rosa, through La Fabril, which represented its interests in Peru. The company developed a new and efficient distribution system throughout Peru, using high-level technology. In 1945, Nicolini Hermanos founded Cia. Molinera del Peru. In 1947, Molinera Manuel Valencia was founded in Arequipa. In 1962, Molino Las Mercedes was founded in Ayacucho. In 1964, Molino Italia-Molitalia was founded, and Nicolini Hermanos, together with the Continental Grain Company (USA), created Molinera Inca in Trujillo. In 1968, Molinera Iquitos Guulfo was founded, and in 1975 Molino El Triunfo was created. In the 1980s, Lugón Hermanos (later Industrias Teal S.A.), Corporación Molinera, Molinera Antonio de Coll (later Corporación ADC) and Molinera Mantaro were founded. Even though considerable investment was required to enter the market, given the open market and the high sales value of the industry's final products, Cia. Molinera del Centro S.A. was founded in 1994, followed in 1996 by Anita Food S.A. In the last 3 years, (2006-2008), Molino el Trébol, Molino Grano de Oro, and Molino Espinosa have been incorporated.

Structure of the Industry

According to Baird (1997), the industry structure is defined in terms of financial earnings, growth in market share, and market concentration. Structural changes in the Peruvian wheat milling industry consist of changes in distribution systems, in the number of companies in the sector, and in the level of market concentration. What is more, according to Carlton and Perloff (2000), by measuring the market, it is possible to analyze the structure of the industry through an analysis of variations in performance. This shows that the chosen sector has been and is still highly concentrated (Duetsch, 2002; Marrion, 1990; Ortega, 1999).

Although concentration in the industry has been increasing rapidly in recent years, the companies in it all agree that it is one of the most competitive sectors. Milling companies frequently treat flour as a highly price-sensitive commodity, in the belief that the business should aim for low prices and high sales volumes.

Conduct of the Industry

The central problem of the oligopoly is in recognizing the existence of mutual interdependence. As Asch states, "I, the oligopolist, cannot decide which is the best policy until I know what you - my rival - are going to do; and likewise my rival cannot decide what to do until he knows what I will do" (cited in Lipczynski, 2001, p.15).

It is this circular dependence that makes an analysis of oligopolies special, given the relationship between the rivals. Peruvian companies in the wheat milling sector have developed a noncooperative oligopoly because of the existence of a small group of companies who act independently, but are alert to the existence and actions of the competition.

Some assumptions about noncooperative monopoly models are relevant to the industry under analysis: Consumers buy on price and all the companies produce identical and homogeneous goods (Carlton & Perloff, 2000; Kim, Hallahan, Schaible, & Schluter, 2001). In addition, oligopoly games have two aspects in common that also coincide with the sector under analysis: There are more than two players (companies) and each company tries to maximize its earnings.

Noncooperative behavior includes what a company is trying to achieve, such as maximizing its profits and improving its position with respect to its rivals. The following conditions must prevail for a successful strategy to be achieved: A company must have some advantage over the rest of the companies in the industry and should demonstrate that it is following its strategy. Nevertheless, cartel behavior is a possible result of oligopoly models, both cooperative and noncooperative.

Each company can obtain additional information simply by observing the behavior of the other companies

in the sector (Delorme, Klein, Kamerschen, & Voeks, 2003; Morris, Williams, & Nel, 1996; Scherer, 1990; Wilson, 1995), this being the work of the management team. They can also see what action each company takes that could affect their earnings. In the industry under analysis, therefore, there is interdependence between the five largest companies. Among the smaller companies there is less interdependence, and it can be said that any action taken independently by any such company is the result of "an unnatural ignorance state" (Lipczynski, 2001, p. 16).

A secret cooperation agreement is thought of as a solution to the oligopoly problem in such industries, which are also characterized by high levels of concentration, which means that the number of firms in the industry increases to a point where the cost of monitoring and adjusting a company's actions increases.

In 1995, efforts were made in the industry to form a cartel, aimed at halting the price war then in progress (Salomón, 1988, 1995). Some of the participants tried to determine prices by fixing the market share of each company in the sector. The Peruvian government, through Indecopi (the fair trading body), carried out an efficient and exhaustive analysis of each of the companies in the sector, obtaining sufficient evidence that a large number of these companies should be penalized for this action. The Indecopi study was conclusive and, with one exception, all the companies in the department of Lima were penalized (Salomón, 1995).

In Peru, a high degree of concentration among the four largest companies has resulted in an asymmetry among the wheat milling companies. Even so, it is not possible to form or maintain a cartel because the next six companies in the market have different strategies that force the four largest to think again about their initial strategy for forming a cartel. Furthermore, the asymmetry implies a divergence in the way of looking at the sector on the part of the four largest companies and on the part of the smallest. Some of these companies act as leaders and others simply accept and are happy with their position as followers. In the sector under study, there is no relationship between the leading companies and their sizes, bearing in mind that a company is a leader only if it is followed by the rest.

Preliminary work for this study confirms that the reasons why the wheat milling sector in Peru has remained a noncooperative oligopoly are that smaller companies (a) have limited access to information (knowledge) and cannot afford the cost of sea freight and port charges, (b) lack wheat milling technology, lack of integrated companies, and difficulty access to raw materials, and (c) have difficulty with the distribution of the finished products. Three phases in the wheat milling process have been identified: wheat supply, milling, and distribution of the finished products. In addition, the structure of the sector determines the conduct of the wheat millers in each of the stages described. Preliminary investigation for this

study shows that an oligopoly has existed since before 1991 and persists until the present day; it was cooperative until the beginning of the 1990s, and from then on, noncooperative. Throughout the period under analysis, the industry has been concentrated on the basis of vertical integration, economies of scale, the degree of technology used, and access to information.

Government Policy

Since 1983, the Peruvian wheat milling industry has been a vulnerable oligopoly, regardless of the nationality of its shareholders (Lajo-Lazo, 1983). More than 25 years later, the same can be said, and furthermore, one of the causes of this situation has been the policy pursued by the government during this time, which has failed to encourage the cultivation of wheat in Peru. Contrary Chile, is a good example of a country that has less cultivable land than Peru but, as a result of unchanging government policy over 20 years, was able, in 1995, to produce 50% of the wheat it consumed, and even export certain varieties (Salomón, 1995). An assumption can therefore be made that barriers have survived over time because they have been supported by the state (Carlton & Perloff, 2000) encourage the cultivation of wheat in Peru.

In 1991, the Peruvian government abolished the licenses that were needed to import most products and equipment, including wheat and milling machinery.

Stages in the Industry

A description of the phases that have been identified by preliminary research for this study will demonstrate the development in the sector over two decades. This analysis will facilitate understanding of the sector over the last few decades and of each one of the chosen companies, in order to determine whether the business environment played an important role and whether the managerial capabilities of each company have changed over time.

During the first phase, which lasted until 1991, the milling sector was a cooperative and highly collusive oligopoly, making high profits and solidly supported by government policy, which was also in line with the economic trends that dominated Latin America. In the current study, this period will be referred to as the *golden age*.

The second stage occurred between 1991 and 1995, and is referred to as the *market deregulation* phase. Deregulation was promoted by the state in 1991. In this stage, ownership of the millers was restructured, causing great changes in the conduct of the companies, while new companies also entered the market. Companies of the sector saw their profits fall. The sector then became a noncooperative oligopoly.

The third phase took place between 1995 and 2000. This stage saw *structural changes*, the name assigned to this period for the purposes of this study. Foreign

investment in the sector increased and the noncooperative oligopoly remained. Finally, the last phase or stage in the analysis of the sector covers the period 2000 to 2005, when certain companies consolidated in the market, forcing the industry to be more competitive. This stage has been named *consolidation of new players* and is characterized by a high degree of competition and large investments in the latest technology.

Preparatory research for this study showed that, in stage 1, the Peruvian wheat milling sector underwent a series of distinctly marked phases or stages. At that time, the companies' profits were decided indirectly by the government, and because of protectionist policies, the companies knew in advance what their earnings would be. The government sold them the wheat and set the sale value of the finished products. In the 1960s, the industry was an oligopoly with a high degree of collusion.

This policy was maintained until 1991, the year in which the economy was liberalized. Until that year, wheat was imported directly by the government and distributed and sold through a state company, Empresa Nacional de Comercialización de Insumos (ENCI), according to Ministerial Ruling N° 068-82-EFC/15. The supply of wheat was a monopoly. In addition, the government set the sale price of finished products and wheat derivatives: bread, pasta, and biscuits.

For this reason, most of the companies in the sector did not seek to become efficient; between 1980 and 1991, they were considered to be 'gold mines'. Until 1991, the industry contained large obstacles to competition: import licenses and raw material quotas (Salomón, 1995).

The industry was an oligopoly and highly collusive, supported by government policy, and its market protected by those policies. Therefore, lobbies were commonly used to influence raw materials quotas and the price of the finished products. This stage is referred to in the current study as the *golden age* or *golden period* of the wheat milling industry in Peru.

During stage 2, up until 1991, the companies of the sector were accustomed to high profit margins and were entirely unconcerned by the international wheat market. Then, the economy was liberalized and competition arose as the companies had to acquire their raw materials directly and at international prices, selling their finished products at prices determined by supply and demand. This was difficult for the large companies since they had to adapt to the new reality, when they had become used to receiving their raw materials directly at their plants at prices fixed in local currency, with credit of up to 270 days. In March 1991, Supreme Decree DS 67-91/EF annulled the abovementioned ministerial ruling and liberated the Peruvian economy.

Not all companies were able to adapt and operate in a free market. Existing companies had little or no ability to react and adapt. Without the support of the government, these companies made losses. Those that did adapt had

efficient operations and controlled their costs. For that reason, the ownership of several companies suffering financial difficulties was restructured, and this changed the structure and conduct of the sector. Around 1995, new foreign shareholders bought into certain companies, while new participants appeared in the industry (Apoyo Consultoria, 1995; Conasev, 1995).

In stage 3, a significant number of changes took place in company shareholdings, with foreign companies with long experience in the international flour milling business taking stakes. For example, Alicorp (a merger between Nicolini and Fabril) and Molitalia (formerly the Piaggio and Lanata families) attracted Chilean and South African capital. Thanks to this, by 1998, companies in the industry had invested heavily in technology for their mills. They also applied modern management techniques. By 2000, only Molitalia had managed to reverse its financial fortunes through professional and experienced management.

The wheat milling industry changed from a cooperative oligopoly to a noncooperative oligopoly. This phase is referred to in this study as a period of structural change, in which ownership of the largest companies was restructured. These changes modified the behavior of the industry and explain, to a certain extent, the concentration in the sector and the creation of a noncooperative oligopoly.

In the final stage, from 2001 onwards, a series of problems has arisen in the sector, and the companies with the highest market share but with large liabilities have offered themselves for sale without success. In 2002, these companies went through a demanding process of restructuring, with the aim of staying in the market.

A group of small companies that were able to adapt to the changes of the previous years, and those new companies formed after the opening of the market, became more important and relevant in the sector. Two of these invested in the latest technology and continually adapted their organizations to the existing situation. Thus, in this phase, new players consolidated their positions in the market, forcing the sector to become more competitive. The behavior shown is similar to that of companies in the same sector in different countries in the region and in the world (Bentley, Tripp, & Delgado, 2001; London & Kenley, 2001; Monke, Pearson, & Silva-Carvalho, 1987; Vasquez-Huaman, 2002).

Summary

By means of an examination of existing literature, a conceptual reference framework in which important and relevant factors have been identified has been defined for this research (Sekaran, 2003). In the study, an attempt will be made to identify which managerial capabilities are created in family companies and how they vary over time, through an analysis of the context of the Peruvian milling industry.

Authors of the literature on this topic suggested that these managerial capabilities are generated by the

application in a company of the skills and knowledge of the CEO (Abraham et al., 2001; Adner & Helfat, 2003; Caldeira & Ward, 2003). They also suggest that these managerial capabilities have an impact on the performance of family companies. The concept of capability has been studied at organizational level and has been related to the performance of the business. In the last 5 years research has indicated that there should be a relationship between managerial capabilities and the performance of a company. Thus, researchers concluded that managerial capabilities contribute to the performance of a company (Adner & Helfat, 2003; Boecker & Wiltbank, 2005; Carmel & Tishler, 2004; Dougherty et al., 2004; Eisenhardt & Martin, 2000; Henderson, 2003; Holley et al., 2005; Niemelä, 2004; Winter, 2003).

Within a family company, the role of managerial capabilities appears to be a vitally important aspect, not only to obtain a competitive advantage but also for the company's survival (Habbershon et al., 2003). Studies show that in a family company, performance should be understood as the performance of the family and of the business (Sharma, 2004); both are equally important and should occur over the same period of time.

The proposed conceptual reference framework includes the assumption that managerial capabilities in family companies arise from the application of the CEO's skills and knowledge to the company. Furthermore, these managerial capabilities will have an impact on the performance of the company, meaning the joint performance of the company and family. The proposed framework will be the starting point for this work, and it is expected that it will be enriched or modified during or at the end of the study, on the basis of the study's findings.

Conclusions

Although the family company is generally considered the dominant form of business organization around the world, different researchers do not agree on a definition of family company, so there is a lack of consistency in the data on family companies, and statistics on family companies in different countries cannot be compared.

If the future successor has not acquired the skills and knowledge necessary from an early age, he or she is not capable of managing a company successfully. The founder should develop the skills and acquire the knowledge necessary to enable him or her to manage the company successfully. These skills and knowledge must be transmitted to potential successors and developed effectively from an early period in the successor's life cycle. Furthermore, the successor requires certain abilities that allow him or her to acquire the combination of skills and knowledge that are important for the success of the family firm, from the perspective of the founder.

The success or failure of a family company depends on the degree to which the successor is capable of continuing

and renewing the founder's vision. In this sense, and seen from the founder's point of view, the skills and knowledge that the successor should acquire are essential in the long term for creating managerial capabilities and these, in turn, are crucial to the subsequent performance of the family company and the family itself. The performance of a family company in the hands of a new CEO will depend on the effectiveness of the knowledge transferred to him or her and the social networks created (Sharma, 2004) as well as his or her ability to envisage the future (Adner & Helfat, 2003).

The literature on family companies has indicated that skills and knowledge are the foundations for managerial capabilities. In the current study, a claim will be made that there is a *leap* from the individual level to the organizational level of a family company: The skills and knowledge of the CEO are individually held, and it is at the organizational level that management capabilities are generated and used. Having identified these managerial capabilities, I intend to discover the process that occurs between the two levels.

In this study, I will attempt to discover how managerial capabilities are related to performance, meaning the performance of the family and that of the company (Caldeira & Ward, 2003), in the context of Peruvian family companies. To date, I have not identified a list of managerial capabilities in family companies.

In this context, I submit the following proposal, derived from literature, my personal experience, and the interrelation between me and the academic community (Maxwell, 1996; Miles & Huberman, 1994): Managerial capabilities are a determining factor for sustained performance of family companies in Peru.

CHAPTER 3: METHOD

Researchers have attempted to discover the relationship between the proposed variables in order to determine the managerial capabilities formed in family companies in the Peruvian context. Investigation into the problem described in the previous chapters implies a commitment to a series of steps designed and executed in order to discover answers to the proposed questions with which this study is concerned (Gill & Johnson, 2002; Morse, 2003; Sekaran, 2003).

This research will be qualitative and its aim is to study managerial capabilities in family firms, based on the relationship between the skills and knowledge of the CEO and managerial capabilities, and between the latter and the performance of the company in two dimensions: the performance of the firm and that of the family, in the context of Peruvian family companies (Taylor & Bogdan, 2005). This study will be exploratory and constitutes an attempt to contribute to the published knowledge on Peruvian family companies and the theory of capabilities.

This investigation, therefore, is intended at furthering an

understanding of how managerial capabilities arise, what they are, and how they evolve over the life cycle of the company, as reported by the CEO (Dougherty, Barnard, & Dunne, 2004). In order to define managerial capabilities, it is proposed that the results of recent investigations into the skills and knowledge of the CEO in family companies (Chrisman, Chua, & Sharma, 1998; Sharma & Rao, 2000) be applied to the context of Peruvian family companies. The intention is to see whether skills and knowledge, or a combination thereof, are a prerequisite for the creation of managerial capabilities.

The aim is to generate increased understanding of the managerial capabilities that appear to determine the performance of a family company and therefore its survival, which will be considered as a success.

Finally, this research may contribute to a better understanding of the development of Peruvian family companies, providing advice to the founders of family businesses on which skills and knowledge should be acquired or improved on by their successors, or potential successors, in order to increase the possibility of a better future for individuals, families, companies, and the country.

The predominant paradigm is qualitative in nature, given that researchers who have published literature on family companies have suggested this type of approximation and offered new theories in this field of study, and because qualitative studies allow an exploration and understanding of the phenomenon under study.

Design of the Research

The planned research is designed to be logical and coherent with the study carried out; it makes use of suggestions taken from literature (Galal, 2001; Maxwell, 1996) and recommendations made by well-known international researchers in the field of family companies. The purpose of this research is exploratory as this is a subject on which little investigatory work has been carried out. In the course of the research, I will follow inductive logic in an attempt to develop a theory on the basis of reality; in other words, to move from the specific to the general. The results of the research will be pure because this work constitutes an attempt to understand the phenomenon under study without an immediate application (Moustakas, 1994). The time horizon of the analysis will be a single moment in time, that is, transectional (Hernández et al., 2003).

Performance of the family company will be understood as the performance of the business and that of the family (Sharma, 2004). The performance of the company is considered a valid indicator to assess the effectiveness of the succession in a family company (Gupta & Somers, 1996; Hall, 2004; Morris, et al., 1997; Wang et al., 2004). The performance of the business will be measured through the perception of the CEO (Wall et al., 2004),

and by secondary information on its financial and market performance. Financial performance will be evaluated using the following indicators: (a) operating profit, (b) the profit/sales ratio, (c) operating cash flow, and (d) return on investment. Market performance will be measured using these indicators: (a) growth in sales, and (b) market share (Gupta & Somers, 1996).

Family performance will be studied through the emotional capital of the family, understood as the degree of harmony between its members (Sharma, 2004), where the perceived level of harmony is defined as the degree of respect, confidence, and understanding between the members of the owning family (Sharma, 1997). Family performance will be assessed using the indicators suggested by Malone (1989) and Olson, Russell, and Sprenkle (1988): (a) emotional links, (b) respect, (c) harmony, (d) degree of confidence, and (e) level of communication between members of the family (Sharma, 1997).

When speaking of the skills and knowledge of the CEOs, skills is understood to mean the ability of an individual to apply his or her personal characteristics to solving problems and the CEO's knowledge as the ability to use information to understand and resolve a problem (Tobin, 1997). The skills and knowledge of the CEOs of family companies will be evaluated using the indicators determined by earlier studies by Chrisman, Chua, and Sharma (1998), and Sharma and Rao (2000).

Recent investigations have failed to yield a definition of managerial capabilities or how they are formed. In this work, an attempt will be made to determine a list of managerial capabilities in family companies, based on the idea that the managerial capabilities of the CEOs of Peruvian family companies are to be understood as the sum of (a) the skills (Subramaniam & Youndt, 2005) and knowledge (Van Den Bosch & Van Wijk, 2000) of the CEO, applied to the company, (b) social capital in the form of internal and external social relationships and links (Chandler, 1990; Makadok, 2001; O'Regan & Ghobadan, 2004), and (c) managerial cognitive capital in the form of the CEO's experience that enables him or her to envisage the future (Adner & Helfat, 2003; Valhondo, 2003; Yu, 2001), the understanding being that with these the CEO will build, integrate, and reconfigure the resources of the organization (Adner & Helfat, 2003; Boecker & Wiltbank, 2005).

The research will be based on an examination of existing literature and my own experience, as well as my relationships with experts in the study of family companies and will use case studies (Yin, 2003), in which the sample will not be probabilistic and selected for the purpose, and a selection of extreme or unconventional cases (Saunders et al., 2003; Yin, 2003). The extreme cases allow an investigation into new areas of word missing here and, through analysis, enable questions of the 'what' type to be answered. Selection for a specific purpose is a nonprobabilistic design and concentrates on solving problems (Sekaran, 2003). Furthermore, the extreme cases

allow comparisons to be made which, in turn, generate common patterns and differences between cases.

Four cases will be chosen from the industry in question, as is recommended in the literature on this type of analysis (Adner & Helfat, 2003; Boecker & Wiltbank, 2005; Caldeira & Ward, 2003; Holley et al, 2005; O'Regan & Ghobadan, 2004b). A holistic multi-case design will be used for the four cases, with a single unit of analysis (Yin, 2004): a failure and three successes -companies that are still in the market- will be analyzed (Astracham, Klein, & Smyrmos, 2000; Daily & Dollinger, 1993).

The chosen industry is the Peruvian wheat milling sector, analyzed in the previous chapter. The companies will be chosen as a function of the characteristics described and their agreement to participate in this investigation (O'Regan & Ghobadan, 2004a). Data will be collected through in-depth interviews, using more than one session, and from secondary sources. Data will be analyzed using narrative analysis techniques (Cortazzi, 1993; Creswell, 2003; Saunders et al., 2003) and supported by an Atlas-ti computer system. The design of the investigation will be holistic as the study contains a single unit of analysis: the CEOs of family companies. To triangulate the information, the founder, successor to the CEO, and a family member working on the management team of the company will be interviewed (Sharma, 2004).

Given that access to information is a continuous process, I will apply for access to the chosen companies by letter through the Pontificia Universidad Católica del Perú-PUCP/ Centrum (Behling, 1984; Gummesson, 2002; Marshall & Rossman, 1999; Murray, 2000) and by informed consent.

Data in this qualitative study will be collected through in-depth interviews and then analyzed by analysis of the narratives (Creswell, 2003; Saunders et al., 2003), in which the Atlas-ti software will be used to categorize the variables. The unit of analysis will be the CEOs of family companies.

Validity and reliability will be ensured. An examination of the validity will take place in the data collection phase, during triangulation of replies from multiple sources to establish a chain of evidence, and when asking key interviewees to examine the results of the case study. External validity will be assured by the use of a protocol to monitor the case studies; this will enable the logic of replicability to be maintained in each case study. Finally, reliability will be achieved through the use of the case study protocols, which will also generate a database for each case analyzed.

This study will constitute an attempt to generate a conceptual reference framework applicable to family companies managed by the second generation, in the Peruvian wheat milling industry, thus contributing to the sum of knowledge on the topic and creating a theory of management capabilities. I recommend that future investigations into this subject be carried out. The sample

population will consist of all Peruvian companies in the selected industry.

Suitability of the Design

The purpose of this research is exploratory as this is a subject on which little investigatory work has been carried out. In conducting the study, I will follow inductive logic by trying to construct a theory on the basis of reality, in other words, going from the specific to the general. The results of the research will be pure as the aim of the study is to understand the phenomenon under study without an immediate application (De Canales, De Alvarado, & Pineda, 1986; Leady & Ormrod, 2005). The time horizon will be momentary or transectional, (Hernández et al., 2003).

In the study, an attempt will be made to identify managerial capabilities in Peruvian family companies and to determine whether they vary over time. Case studies will be used for this (Yin, 2003, 2004) in a single industry (Adner & Helfat, 2003; Boeker & Wiltbank, 2005; Caldeira & Ward, 2003; Holley et al., 2005; O'Regan & Ghobadan, 2004b).

Research Question

The objective of this study is to determine (a) a list of managerial capabilities originating from the application in the company of the skills and knowledge of the CEO, and (b) how these managerial capabilities are related to the performance of the company and that of the family. In this context, the question that arises is: What managerial capabilities determine the performance of Peruvian family companies?

Population, Sample Boundaries, and Sample

The participants in this investigation will be Peruvian family companies. The analysis will cover four companies in the wheat milling industry. The sample will be nonprobabilistic, chosen for the purpose, and include a selection of extreme, nonconventional cases (Coffey & Atkinson, 2003; Saunders et al., 2003; Yin, 2003). The extreme case will enable comparisons to be made and, at the same time, generate common patterns and differences between the cases.

The choice of cases is an important aspect in the creation of the theory (Eisenhardt, 1989). Four cases will be chosen from the industry in question, as is recommended in the literature on this type of analysis (Adner & Helfat, 2003; Boeker & Wiltbank, 2005; Caldeira & Ward, 2003; Holley et al, 2005; O'Regan & Ghobadan, 2004b); a holistic multi-case design will be used for the four cases, with a single unit of analysis (Yin, 2004): a failure and three successes -companies that are still in the market- will be analyzed. The chosen companies should preferably be managed by the second generation of the family, and the

founder ought to be available. Finally, in-depth interviews will take place wherever those interviewed decide.

Informed Consent

Those participating in the in-depth interviews in this research will be volunteers. Companies will be chosen if they agree to take part in this study. An informed consent form will be given to each person taking part in the in-depth interviews.

Confidentiality

This researcher will guarantee that the information will be completely confidential and, if necessary, the participants will remain anonymous, in which case, it shall be understood that this research is confidential (Gay & Airasian, 1992). If necessary, I, the researcher, will sign a confidentiality agreement with each one of the participants.

Suitable language will be used, avoiding words that could suggest bias toward gender, sexual orientation, race or ethnic group, age, or any other factor (Marshall & Rossman, 1999). Another ethical principle to be followed will be the maintenance of objectivity during the information compilation stage (Saunders et al., 2003).

Geographical Area

The investigation will take place throughout Peru. I will conduct the in-depth interviews personally.

Selected cases correspond to enterprises placed in Lima, capital of Peru, and other cities around the country, if necessary. The meetings will be held at a place of the interviewee's choosing.

Instrumentation

The performance of family companies as a combination of business performance and that of the family will be observed during the study (Sharma, 2004). The performance of the business will be measured through the perception of the CEO (Wall et al, 2004) and by secondary information on its financial and market performance. Financial performance will be evaluated using the following indicators: (a) operating profit, (b) the profit/sales ratio, (c) operating cash flow, and (d) return on investment. Market performance will be measured using the following indicators: (a) growth in turnover and (b) market share (Gupta & Somers, 1996). Family performance will be studied through the emotional capital of the family, understood as the degree of harmony between its members (Sharma, 2004), where the perceived level of harmony is defined as the degree of respect, confidence, and understanding between the members of the owning family (Sharma, 1997). Family performance will be

assessed using the indicators suggested by Malone (1989) and Olson, Russell, and Sprenkle (1988), which are (a) emotional links, (b) respect, (c) harmony, (d) degree of confidence, and (e) the level of communication between members of the family (Sharma, 1997). The skills and knowledge of the CEOs will be evaluated using the indicators determined in previous studies by Chrisman, Chua, and Sharma (1998) and Sharma and Rao (2000).

This work will attempt to determine a list of managerial capabilities in family companies, based on the idea that the managerial capabilities of the CEOs of Peruvian family companies are to be understood as the sum of (a) the skills (Subramaniam & Youndt, 2005) and knowledge (Van Den Bosch & Van Wijk, 2000) of the CEO applied to the company, (b) the social capital in the form of internal and external social relationships and links (Chandler, 1990; Makadok, 2001; O'Regan & Ghobadan, 2004b), and (c) the managerial cognitive capital in the form of the CEO's experience that enables him or her to envisage the future (Adner & Helfat, 2003; Valhondo, 2003; Yu, 2001), the understanding being that with these, the CEO will build, integrate, and reconfigure the resources of the organization (Adner & Helfat, 2003; Boecker & Wiltbank, 2005). An interview protocol has been devised for the qualitative study, using the data described.

Data Collection

In this qualitative study, in-depth interviews will be used together with secondary data. The interview will contain questions that enable people to relate their experiences, perceptions, opinions, and knowledge (Patton, 2002), thus yielding qualitative data. The secondary data may include the company's annual reports, life stories when available, materials in the public domain, and data from experts in the sector under study. A tape recorder will be used for the in-depth interviews, with the consent of the interviewee (Romero, 1995; Turabian, 1996; Williams, 2002). The unit of analysis will be the CEO.

Data Analysis

Data analysis will take the form of an analysis of narratives (Cortazzi, 1993; Creswell, 2003; Saunders et al., 2003) in which the Atlas-ti software will be used to categorize the variables. This software is recommended for this type of analysis.

Narrative analysis takes the procedures and notions of Grounded Theory in order to contribute for future theory building.

Validity and Reliability

An analysis of validity and reliability will be carried out during data collection. Case studies will use multiple sources of evidence, given that the data will be cross-

checked by interviewing three people in each company. For the purposes of triangulation, depending on each case and as the unit of analysis is the CEO of the family company, the founder, successor to the CEO, and a family member who holds a management position in the company will be interviewed. Triangulation will be used to ensure the reliability of the results, to allow a greater understanding of the study topic from analysis of the differences found, and also to create validity (Patton, 2002). Validity and reliability will also be ensured by establishing a chain of evidence and by inviting the interviewees to examine the draft final report of each case. External validity will be guaranteed by the use of a replica, which is recommended when multiple cases are used (Yin, 2003). Reliability will be ensured by (a) use of a case protocol, and (b) by the development of a database for each case.

In order to increase the reliability of each case study, a protocol will be implemented, to be understood as a process of monitoring in each case. Prior to the interview, each participant will be told the subject of the research. In addition, the protocol will contain (a) a general revision of the case study, including the basis for the study, the purposes of the case study, processes to be followed, the name of the interviewees and their companies, a letter agreeing to participate, and the calendar of interviews, (b) introduction to the case study, including the questions to be asked, (c) the procedures and plan for compiling data, and (d) the case reports (Yin, 2003).

Summary

This research is exploratory in nature, uses inductive logic, and is expected to produce pure results within a transectional time horizon (Hernández et al., 2003). Exploratory research is recommended when little is known about the subject under study, or when no information is available on how similar problems were solved in the past. Exploratory studies are also necessary when certain facts are known but there is insufficient information to develop a viable theoretical reference framework (Sekaran, 2003). Exploratory qualitative research is used by researchers to interpret what is happening in actor's context. A qualitative researcher observes a social phenomenon in a holistic manner, and uses complex and interactive forms of reasoning (Marshall & Rossman, 1999; Rossman & Rallis, 1998).

In the research process, I will use inductive logic, given that this is a process in which I will observe a phenomenon, which in turn, will enable me to arrive at certain conclusions through logical propositions and patterns, thus establishing the way forward to a possible new theory (Creswell, 2003). The qualitative approximation tends to be inductive. The inductive work will start with, in-depth interviews, and an analysis of the patterns seen in the phenomenon will enable it to be better understood (Saunders et al., 2003; Sekaran, 2003).

The results of the research will be basic, pure, or fundamental and will assist in generating knowledge to help company managers to find solutions to certain problems occurring in the organizations in question (Sekaran, 2003). The research horizon will be a moment in time, given that the data will be collected only once and over a period of time. Studies are generated at a given moment when time is a limiting factor.

An outline of the proposed research study has been presented in chapter 3, along with the method to be used, the population, sample population and samples, the method of collecting data, analysis of that data, validity and reliability, and geographical location.

Finally, when this study has been completed two more chapters will be included. Chapter 4 will present results of analysis of cases, and chapter 5 with conclusions and recommendations.

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