Family Business Review
http://fbr.sagepub.com

Family Capital, Family Business, and Free Enterprise

Ritch L. Sorenson and Leonard Bierman

Family Business Review 2009; 22; 193
DOI: 10.1177/0894486509341178

Family Business Review
Volume 22 Number 3
September 2009 193-195

10.1177/0894486509341178
http://fbr.sagepub.com

Family Capital, Family Business, and Free Enterprise

Ritch L. Sorenson
University of St. Thomas
Leonard Bierman
Texas A&M University

In the 50th anniversary edition of the *Academy of Management Journal*, respected scholars expressed concerns about the Academy's relevance to practitioners, lack of influence in public policy, and disconnection to the field studied. In addition, some indicated that research was too narrowly focused on theory and not sufficiently connected to other disciplines (Pfeffer, 2007; Rynes, 2007). This special issue attempts to address some of these concerns.

The basis for this issue of *Family Business Review* was a conference sponsored by the Center for Family Enterprise at the University of St. Thomas in Minneapolis, Minnesota, September 25 and 26, 2008.[1] The theme of the conference was Family Capital, Family Business, and Free Enterprise. David Durenberger, former U.S. senator from Minnesota, helped organize and actively participated in the conference. Researchers from a variety of disciplines were invited to present papers. Business owners and advisors, and policy experts commented about the papers, particularly in regard to public policy.

Both the process and the product of this conference were somewhat unique. The process was dialogue among conference participants who were from different professional spheres. As a result of this dialogue, researchers can ask different questions, family business owners may find new insights for their businesses, and policy makers can speak with more authority about family business. In general, the goal was to help participants see how they can create political, social, and economic conditions favorable to family business.

A primary product of the conference is this special issue, which reflects the diversity and the dialogue present at the conference. Former Senator Durenberger's speech, included in this introduction, draws attention to broad social issues. Papers and commentaries were written by researchers in consumer and family social sciences, agriculture, economics, law, management, strategy, entrepreneurship, and family business.

Family capital and its relationship to family business and free enterprise serve as the unifying theme for this special issue. As is described in the following discussion, all of the articles included in this issue address some form of family capital. Family capital consists of resources within the family that can be made available to the business. When family resources or assets outweigh liabilities, a family has family capital. Consistent with previous research, family capital is defined as social, human, and financial resources available to the business (for definitions, see Danes, Stafford, Haynes, & Amarapurkar, 2009). Together, all three types of family capital—social, human, and financial—account for a significant portion of family firm gross revenue and perceived success, particularly in small firms (Danes et al., 2009). The common thread that runs through all the articles and commentaries is family social capital.

Family Social Capital

Of the three types of family capital, family social capital best distinguishes family from nonfamily businesses. Nonfamily businesses can hire human resources, and they can obtain financial resources elsewhere. But family social capital cannot be hired or imported; it exists within family relationships. And the nature of family social relationships matters (see Dyer & Dyer, 2009). For example, family relationships can be a liability when negative feelings and escalating conflict get in the way of working together. Relationships can be an asset when feelings of trust promote cooperation. Such relationships can attract family human and financial capital to the business.

The heart of family social capital is moral infrastructure: family member beliefs about themselves and how family members should relate to one another and to the larger

community (Hoffman, Hoelscher, & Sorenson, 2006). Moral infrastructure provides the basis for family values, norms, obligations, and expectations. Open dialogue within the family helps individuals connect their own sense of morality to family beliefs (Sorenson, Goodpaster, Hedberg, & Yu, 2009). It also helps ground family moral infrastructure in an innate morality that is common to individuals across communities and cultures (e.g., Haidt & Joseph, 2007).

Through dialogue, often around a family meal, family members can create common beliefs about their family and business identity. In family businesses, family beliefs form the basis for values, norms, and expectations that guide interactions among stakeholders, including employees and customers. Thus, depending on their beliefs, the family can have a positive and/or negative impact on the larger community (Sorenson et al., 2009).

To build and sustain family social capital, many families establish meetings and councils. Ongoing collaborative dialogue helps family members remain grounded in their family social structure (see Sorenson et al., 2009). Some families produce collaborative documents in the form of constitutions and charters that capture family beliefs, values, and norms, and that help to maintain agreements and sustain collective trust (Hubler, 2009). Collective trust enables family members to work together efficiently and effectively in matters related both to the family and the business.

Families who maintain relationships have stocks of social capital available that can be employed for business purposes (Danes et al., 2009; Sharma, 2008). Family social capital in the form of family support provides a foundation that enables family entrepreneurs to start new ventures (Chang, Memili, Chrisman, Kellermanns, & Chua, 2009). The nature of relationships within a household makes a difference. Marriage and children increase probability, but the presence of adult children and other relatives living in a household reduces the probability of starting new ventures (Rodriguez, Tuggle, & Hackett, 2009).

Social conditions can help promote or diminish family social capital. For example, participants in the conference noted that when immigration policies disrupt social connections in families, they also limit their abilities to establish new ventures. One researcher in this issue notes that in different European countries, unique government policies result in different forms of social capital (Steier, 2009). The implication is that countries that hope to stimulate their economies should examine policies that promote family stability and social capital.

Family Human Capital

When a family has social capital, often it can enlist the human capital of family members to support the firm (Chang et al., 2009; Rodriguez et al., 2009). Family human capital includes individual family member knowledge, experience, ability, and energy that can be made available to the business. The availability of family human capital provides a potential resource advantage. Family members, even those who are not employed in the business, are more likely to make human capital available to the business when they have positive social relationships. Stocks of family human capital can be expanded when spouses are included (Rothausen, 2009).

For some families, stocks of human resources are consumed in caring for family members. For example, Rodriguez et al. (2009) found that poor health and lack of health care insurance are associated with the lack of social and human resources to support new ventures.

To the extent that all family members develop knowledge, skills, and abilities relevant to working in and managing the family *and* business systems, the family increases its flexibility. Unique to family firms, stocks of family human capital can be made available to business, family, and governance systems, allowing resources to flow where needed (Sharma, 2008). Thus, developing human capital holistically for the entire family enterprise—family and business—provides resource flexibility and can enhance the quality of life of family members (Rothausen, 2009; Stafford & Tews, 2009).

Family Financial Capital

Family members who have positive relationships often share financial resources; they make personal loans or gifts to other family members for a variety of reasons, including developing or sustaining a business. When the family has a good reputation, even more financial resources may be available from institutions and individuals outside the family.

In some minority and immigrant groups, financial resources for new ventures are not available from family or other institutions (Rodriguez et al., 2009; Steier, 2009). Without financial capital, these individuals often rely on social and human capital from family members and friends within their ethnic communities to support new ventures (Harris, 2009). Governments interested in economic development and job creation should examine the effects of their policies on entrepreneurship in general, but particularly

among minority groups (Rodriguez, et al., 2009; Steier, 2009).

To summarize, business families have a unique resource in family capital. The foundation for family capital is positive relationships among family members. When family members maintain positive social relationships, they expand human and financial capital that can made available to the business. Building and maintaining all forms of family capital require effective family stewardship.

Family businesses are the major contributors to the world's jobs and economic prosperity. A primary purpose of the Family Capital, Family Business, and Free Enterprise Conference was to focus attention on public policy that might build and sustain the economic heartland, the family business. The spirit and nature of this conference are represented in former Senator Durenberger's speech and post-election comments, which are provided below as a part of this introduction.

Note

1. A white paper summarizes the conference and is available from William Monson, the author of the paper, or from Ritch L. Sorenson at the University of St. Thomas.

References

Chang, E. P. C., Memili, E., Chrisman, J. J., Kellermanns, F. W., & Chua, J. H. (2009). Family social capital, venture preparedness, and start-up decisions: A study of Hispanic entrepreneurs in New England. *Family Business Review, 22,* 279-292.

Danes, S. M., Stafford, K., Haynes, G., & Amarapurkar, S. S. (2009). Family capital of family firms: Bridging human, social, and financial capital. *Family Business Review, 22,* 199-216.

Dyer, W. G., Jr., & Dyer, W. J. (2009). Putting the family into family business research. *Family Business Review, 22*, 216-219.

Haidt, J., & Joseph, C. (2007). The moral mind: How five sets of innate intuitions guide the development of many culture-specific virtues, and perhaps even modules. In P. Carruthers, S. Laurence, & S. Stich (Eds.), *The innate mind: Future and foundations* (pp. 367-392). New York: Oxford University Press.

Harris, I. C. (2009). Ethnicity effects on the family business entrepreneurial process: Commentary and extension. *Family Business Review, 22,* 293-296.

Hoffman, J., Hoelscher, M., & Sorenson, R. (2006). Achieving sustained competitive advantage: A family capital theory. *Family Business Review, 24*, 137-146.

Hubler, T. M. (2009). The soul of family business. *Family Business Review, 22,* 254-258.

Pfeffer, J. (2007). A modest proposal: How we might change the process and product of managerial research. *Academy of Management Journal, 50*(6), 1334-1345.

Rodriguez, P., Tuggle, C. S., & Hackett, S. M. (2009). An exploratory study of how potential "family and household capital" impacts new venture start-up rates. *Family Business Review, 22,* 259-272.

Rothausen, T. J. (2009). Management work-family research and work-family fit: Implications for building family capital in family business. *Family Business Review, 22,* 220-234.

Rynes, S. L. (2007). Afterword: To the next 50 years. *Academy of Management Journal, 50*(6), 1379-1383.

Sharma, P. (2008). Familiness: Capital stocks and flows between family and business. *Entrepreneurship Theory and Practice, 32*(6), 971-977.

Sorenson, R. L., Goodpaster, K. E., Hedberg, P. R., & Yu, A. (2009). The family point of view, family social capital, and firm performance: An exploratory test. *Family Business Review, 22,* 239-253.

Stafford, K. & Tews, M. F. (2009). Enhancing work-family balance research in family businesses. *Family Business Review, 22,* 235-238.

Steier, L. (2009). Where do new firms come from? Households, family capital, ethnicity, and the welfare mix. *Family Business Review, 22*, 273-278.

Ritch L. Sorenson is the Opus Endowed Chair and Academic Director of the Center for Family Enterprise at the University of St. Thomas in Minneapolis and an associate editor for *Family Business Review*. He does research in family business on social capital, leadership, conflict management, ethics, and succession.

Leonard Bierman is a professor of management at Texas A&M University. Until recently he was an associate editor of *Family Business Review* and continues to serve on its editorial board. He does research on family business, corporate governance (especially in professional service firms), and human resource management and labor relations issues. Earlier in his career he held various high-level positions in the U.S. federal government.