

# THE SUCCESS KEYS FOR FAMILY FIRMS: COMPARISON BETWEEN LEBANESE AND FRENCH SYSTEMS

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## ABSTRACT

*This study investigates the success factors of French and Lebanese family firms. Based on 351 firms from two different countries Lebanon and France the results of this study indicate that is very difficult to generalize the family success keys around the world without considering the culture and the economic situation of each country. In France the family businesses are linked to six success keys (planning for succession, using of emotional intelligence, using of professional HR practices, longer term approach, using of small board's size with high level of independence) while the performance of Lebanese family firms is dependent from seven success factors (financial structure with low leverage, planning for the next generation, using of emotional intelligence, using of professional HR practices with high level of networking, and finally, using of small board's size with high level of independence).*

**Keywords:** family business, firm performance, succession planning, family networks strategy, financial structure, governance structure, family management practices

## INTRODUCTION

A family business is a business owned, controlled and managed by one or more of the family members who are actively involved in running of the company activities (Anderson & Reeb, 2003). Family businesses are vital for economic growth in many countries and constitute a primary source of employment. In France, for example, the majority of companies are family owned (Allouche & Amann, 2002). They employ the majority of country's work force and create more than 70% of new jobs (Sraer & Thesmar, 2005). In Lebanon, the contribution of family owned businesses is also significant. By their existence they perform an essential role as providers of innovation opportunities and act as key players for local developments (IFC, 2009).

Despite this international importance many studies showed that a limited number of family firms survive for the next generation. Accordingly, Ward (1988) found through a study of 200 family firms that only 13 percent complete successfully the succession to the next generation. Birley (1986) suggests that only 30 percent survive into the next generation.

For Bernice and Folker (2007), the growth of family firms is less probable than the non-family firms, mainly because their management practices are less formal. For other researchers, the family firm problems begin when the mechanism of succession arises and when the business faces some conflicts between the family members after the first and the

second succession level (Morck & Yeung, 2003)<sup>1</sup>. In this stage of family firm life, two important questions arise: for how many times the family firms can resist?, and what are the success keys that can be used to extend the continuity of the family in the business system?

The basic purpose of this study is to explore the main success factors of family businesses. Moreover, this study tries to compare the success keys of family firms between two different countries (Lebanon and France) in order to identify the impact of countries characteristics. In other words, one will try to test if the success keys of family businesses can be generated around the world.

To achieve these objectives, the following study will be divided into five sections: the first section is a literature review detecting the main success keys of family firms. The next two sections discuss all the details about data selection, defined variables and used methodology. The last two sections include descriptive and multivariate results.

## **LITERATURE REVIEW**

The literature review indicates that the continuity and the performance of family firms are related to many success keys: succession planning, networking strategy, financial structure, professional management practices and finally unity of command.

### **Family involvement and performance**

Numerous studies show a positive impact of family ownership on firm performance (Anderson & Da Reeb, 2003; Andres, 2008; Ahmad & Amran, 2010). For Anderson and Da Reeb (2003), the performance of private family firm can be explained by limited agency costs due to high level of ownership concentration. In this context of concentrated ownership structure, the constraints of external shareholders are reduced (Morck *et al.*, 1988), as well as the cost of control (Jensen & Meckling, 1976).

Other arguments based on psychological dimension arise to explain the family firm performance. For Nahapiet and Ghoshal (1998) the social capital established by the family can explain the positive relation between family ownership and firm performance. The involvement of family owners in the management ensures the development of trust and loyalty with all their stakeholders. Based on these views, Lee (2006) argues that family and non-family employees are improved by implementing the sense of involvement.

Finally, Arregle *et al.* (2007) indicate that the combination of several inputs in terms of capital, trust and culture improve the governance structure and the decision making process. To summarize, family involvement is a positive source for firm performance and the majority of researches have been showing that family firms outperform the non-family firms by focusing on capital structure, and governance structure. This study is focusing on several factors in order to highlight the dark sides of family firm performance.

### **Succession planning**

The owner is concerned in the continuity of the family firm. By using a succession planning, he has to choose and train a member of his family that should lead successfully the firm continuity. The absence of a succession plan is an important reason to explain why most

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<sup>1</sup> For the authors, most often, ownership becomes increasingly diluted from a single majority owner to a few or several owners.

family businesses do not survive to the next generation. A review of the literature suggests that the performance of family firms is related to the succession planning process as well as to the founder, successor and family harmony.

Succession planning is the explicit process by which management control is transferred from one family member to another. Therefore, an owner can keep a written successor plan that indicates that he has already chosen his successor in order to alleviate anxiety associated with the one who will run the business in the future. This written successor plan is an important element in the case of the sudden death of the ultimate owner, specifically when remaining family members do not know from where to begin.

According to the founders, a successful succession consists of choosing the right person before leaving the control of the family business. But the selection of a successor is a big issue for the owner, that is why Morris *et al.* (1997), indicate that 60% of family problems arise during and after the selection process of the successor. Consequently, the owner must be well informed in order to find the right successor who has the needed potentials to run the business in the future (Sharma *et al.*, 2001). Once the founder decides on the successor, he has to train and to prepare him for a leadership role. In 1968, Davis stated that succession means the transfer of leadership from one generation to the next in order to guarantee the stability of family possession. Barach and Ganitsky (1995) have confirmed that succession is the successful passing of leadership from the founder to a successor. In this case the conflict could be avoided between family members who are engaged in the succession (Hirigoyen, 2008).

Another important factor of success is the willingness of the successor to take over the business (Chua *et al.*, 1999). It is very important for the successor to join the business as early as possible in order to gain experience, loyalty and emotional preparation through on-job training. If the successor is under-qualified and lacks the needed skills to run the family business, the firm will suffer and its sustainability will be threatened. Therefore, succession planning helps in creating a required talent pool of family members for future organizational needs.

By considering these results, the first hypothesis of the research is defined as follows:

*H1: Succession planning is positively correlated with family firm performance.*

### **The family networks strategy**

In addition to a successful transition, the key defining the characteristics of the family firm implies a successful strategy. In the family firms it's very difficult to separate between the business system and the family system accordingly the personal goals of owner cannot be separated from the business strategies (Chua *et al.*, 2003). One of the most used strategies inside the family firms is the creation of a solid and enduring social connection between the family and the external environment. Thus, social networking relationships developed with the external stakeholders help to build a social capital and enable them to obtain some critical resources in form of information, knowledge, financial and human capital (Burt, 2000; Lin, 2001).

Both political and governmental leaders have a considerable power and control over the allocation of resources. The family members create networks with the politics leaders because they are very influential in garnering resources and providing access to valuable

needed information and knowledge (Acquaah, 2011). Fisman (2001) indicates that political connections can provide large benefits for private firms, especially in economies with high levels of corruption. At the same time, Acquaah (2011) reveals that the family members try to establish longtime relations with the leaders at the different levels of government in order to acquire all the authorities and the facilitations required for the continuity of the family firms.

Therefore, family businesses that develop extensive personal and social networking relationships with political leaders and governmental partners will be more able to get and secure the resources for their activities in order to guide their firms to higher performance. Based on the above results, the second and the third hypotheses of the research are defined as follows:

*H2: Political networks strategy is positively correlated with family firm performance.*

*H3: Governmental networks strategy is positively correlated with family firm performance.*

### **The family management practices**

In general, family firm members use a conservative management style and react slowly to environmental changes (Daily & Dollinger, 1993). The main objective of the family owners is to protect the business and the fortune for the next generation without any level of risk. In order to achieve their objectives, the latter prefer, specifically in the cases of SME, to centralize all the decisions and the authorities through the use of informal management practices. In this order, Astrachan and Kolenko (1994) observed that managers in family firms prefer a centralized system and do not use a formal appraisal procedure.

The Human Resources (HR) management and the organizational behavior (OB) practices inside the family firms play another important role by helping the continuity of family system at the head of business. The family managers try to reflect their positive emotions about the business future in their HR and OB practices. They treat their employees by using a high level of emotional intelligence to increase their level of trust, motivation and satisfaction (El-Chaarani, 2012). For the family managers, the employees are considered as members of the family which can make family membership valuable in ways that may be difficult for non-family firms to imitate (Schulze *et al.*, 2001). Accordingly, Allouche and Amann (1995) have found through many ratios that the levels of HR tenure, stability, wedges and employee fidelity are very high in the family firms which can lead to an increase in the business performance. In 1994, Astrachan and Kolenko have found a positive correlation between HR practices and family firm performance.

Finally, the enormous success of some prominent family firms has prompted a popular perception that family-controlled firms embrace a longer-term approach to management. The non-family firms, however, are often associated with short-termism and myopia of corporate managers.

Therefore, the following hypotheses can be defined:

*H4-1: A centralized organizational structure is positively correlated with family firm performance.*

*H4-2: A professional HR management is positively correlated with family firm performance.*

*H4-3: A professional family behavior is positively correlated with family firm performance.*

*H4-4: The Family longer-term approach is positively correlated with family firm performance.*

### **The governance structure**

Agency theory, which originated in economics and finance by Berle and Means (1932), then by Jensen and Meckling (1976), is recognized as one of the theories explaining the corporate governance. Agency theorists argue that there is an unavoidable conflict between the principals (Owner) and the agents (Manager); an individual is self-interested and self-opportunist, rather than altruistic. Based on this, the agent may be driven by his self-interest, and he will try to satisfy his proper interest through a number of activities that could be detrimental to the financial resources of the principal. Different costly mechanisms and incentives methods are proposed to motivate and to monitor the managers in order to align their interests with those of shareholders. Jensen and Meckling (1976) assume that separation of ownership from control is a principal source of the agency costs. Therefore the related costs are eliminated when the firm is managed by a single owner and when there is separation between ownership-management as was the case for the majority of family firms.

According to the aforementioned, family firms should be exempt from problems of agency. Jensen and Meckling (1976) indicate that family firms are qualitatively different from non-family firms making formal governance unnecessary. Daily and Dollinger (1992) propose that the practical implications of familial altruism and reliability mean that family firms are the least costly and most efficient form of organization. According to these results, the hypothesis of family governance is defined as follows:

*H5: The non-separation between ownership-control and management is positively correlated with family firm performance.*

### **The financial structure**

The family founders have in general a stagnation perspective in order to conserve the continuity of the family at the head of the family system. This conservative conduct can manifest itself by a financial behavior through a specific capital structure. This means that families are more likely to prefer the free cash-flows rather than other sources to finance their new investments. For this reason, family firms could end up with lower debt-equity ratios compared to non-family firms (Gallo & Vilaseca, 1996). Schulze *et al.* (2003) argue that family ownership is likely to become more diffuse with each transition to the next generation. This can lead the family members to reduce the financial leverage in order to increase the independence and to reduce the bankruptcy risk. Reid *et al.* (1999) confirm the following above by indicating that family firms are more reluctant to use the external sources of capital.

Therefore, the following hypothesis can be defined:

*H6: A low debt-equity ratio is positively correlated with family firm performance.*

## **METHODOLOGY AND VARIABLES**

To get all the necessary information, a direct-mail questionnaire was sent to 2347 family firms during 3 months. The questionnaire was mailed from and returned to a university address, using a self-addressed reply envelope. In addition, the financial information has been collected through two methods: the use of international financial database (In-Financial) for the French family firms and the direct collection of financial data from the Lebanese family firms. Based on the financial and non-financial data, various types of regression were done through dependents and independents variables in order to achieve the objective of this study and to conclude the significant factors of family success.

In this study, the dependent variables (success of family business) were measured by: the Return on Assets (ROA) and the Return on Equity (ROE). ROA is net income of the company divided by its average Assets. ROE is a company's net income divided by its average stockholder's equity. While ROE shows how well a company uses investment funds to generate earnings growth. ROA gives an idea of the efficiency of management in using its assets to generate earnings.

To identify the keys of success in the family firms, many independent variables have been used: the financial structure (FS) measured by dividing long-term debt by the total assets, the governance structure (GS) measured by a binary variable that equals 1 when the ultimate owner is present in the boards of control and 0 otherwise, and, finally, planning for the succession (PS) was studied by a binary variable that equals to 1 if there is any issued or used plan for the succession and 0 otherwise.

Political network (PN)<sup>2</sup> and Governmental network (GN)<sup>3</sup> were measured by a seven points Likert scale, ranging from (1) very low networking to (7) very high networking.

To detect the influence of family management practices on firm performance, four variables have been used: Degree of centralization (DC)<sup>4</sup>, Organizational Behavior index (OB)<sup>5</sup>, family Term Approach (TA)<sup>6</sup> and Human Resources management index (HR)<sup>7</sup>. These four elements were assessed on a seven point Likert scale (ranging from 1 = very low, to 7 = very high).

Finally, several control variables were introduced into this analysis to control the firm's characteristics. The firm size (Fsize) is the natural log of the book value of total assets. The firm age (Fage) is measured as the natural log of the number of years since the firm's inception. The firm sector (Fsector) is defined at the two-digit SIC<sup>8</sup> code level. Some other variables were excluded due to the lack of information.

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<sup>2</sup>The political network (PN) is measured through five questions based on the network with regional and national politicians.

<sup>3</sup>The governmental network (GN) is detected by four questions related to the connection with official public service.

<sup>4</sup>The DC was measured through the level of the manager autonomy, the level of delegation and finally the number of subordinates.

<sup>5</sup>The organizational behavior was measured through the degree of emotional intelligence of the family manager based on: one's intrapersonal ability to be aware of himself, to understand one's strengths and weaknesses, and to express his feelings and thoughts non-destructively.

<sup>6</sup>The TA was measured by strategy's period, investment's period and planning's period.

<sup>7</sup>HR Index was measured through the level of wages, rotation ratio and finally the level of stability.

<sup>8</sup>This technique was applied by Claessens *et al.* (1999) which involves two phases. Firstly, they allocate the four-digit SIC codes reported by Worldscope to appropriate segments. In the majority of cases they are able to obtain one-to-one matches between SIC codes and segments. For some companies, the number of reported SIC codes is different than the number of reported segments. If a segment cannot be associated with a reported SIC code, they determine the segment's SIC code according to its business description. If a segment is associated with multiple SIC codes, it is broken down equally so that each segment is associated with one SIC code. In the second step, Claessens *et al.* (1999) redefine segments at

**DATA CONSTRUCTION AND DESCRIPTIVE STATISTICS**

The targeted groups of this study were the family firms in two countries: Lebanon and France. A questionnaire was used as an instrument tapping different measures to detect the success keys for the family businesses.

351 usable questionnaires were returned from 2347 direct-mails that have been sent to Lebanese and French family firms. Effectively, the percentage of replied questionnaires represents 14.9% based on 351 answers from 2347 e-mailed questionnaires (Table 1).

**TABLE 1**

**Replied Questionnaires**

	Lebanon	France	Total
Number of questionnaires	701	1646	2347
Percentage of questionnaires	30%	70%	100%
Number of replied questionnaires	186	165	351
Percentage of replied questionnaires	53%	47%	100%

After receiving the answered questions, SPSS<sup>9</sup> was used to generate the descriptive statistics reports for the following variables: Gender of ultimate owner, Industry and Age of the business.

**TABLE 2**

**Gender of Ultimate Owner**

	Male	Female	Lebanon		France	
			Male	Female	Male	Female
Number per gender	279	72	171	15	136	29
Percentage per gender	79%	21%	92%	8%	83%	17%

In this sample, the male owners count 279 over 351 which represent 79%. Female owners count 72 and represent 21% of this sample (Table 2). In Lebanon, the female owners represent 15 over 186 (8%), suggesting that managers-owners of family businesses consist mainly of male members.

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the two-digit SIC level and aggregate segment sales to that level. Second, they classify firms as single-segment if at least 90 percent of their total sales are derived from one two-digit SIC segment. Firms are classified as multi-segment if they operate in more than one two-digit SIC code industries and none of their two-digit SIC code segments accounts for more than 90 percent of total firm sales.

<sup>9</sup> Version 19.

**TABLE 3**  
**Age of the Business**

Age of Business	Total		Lebanon		France	
	Number	%	Number	%	Number	%
Less than 5	89	25.36%	54	29.03%	35	21.21%
Between 5 and 8	135	38.46%	83	44.62%	52	31.52%
Between 8 and 10	80	22.79%	38	20.43%	42	25.45%
More than 10	47	13.39%	11	5.91%	36	21.82%
<b>Total</b>	<b>351</b>	<b>100%</b>	<b>186</b>	<b>100%</b>	<b>165</b>	<b>100%</b>

In Lebanon, 74% of family firms have been in business for less than 8 years while 47% of family firms in France are in the business for more than 8 years which indicates that family firms in Lebanon are in their development period (Table 3).

**TABLE 4**  
**Type of Business**

Industry	Total		Lebanon		France	
	Number	%	Number	%	Number	%
Manufacturing	61	17.38%	17	9.14%	44	26.67%
Construction	47	13.39%	23	12.37%	24	14.55%
Services	105	29.91%	76	40.86%	29	17.58%
Wholesales and retails	78	22.22%	42	22.58%	36	21.82%
Agriculture	36	10.26%	12	6.45%	24	14.55%
Others	24	6.84%	16	8.60%	8	4.85%
<b>Total</b>	<b>351</b>	<b>100%</b>	<b>186</b>	<b>100%</b>	<b>165</b>	<b>100%</b>

The comparison between Lebanese and French samples indicates that Lebanese family businesses were strongly represented in wholesale, retail and services sectors but the French family firms are mainly based on manufacturing, wholesale and retails (Table 4).

**TABLE 5**  
**Dependent and Independent Variables**

Variables /#	Lebanon	France
	#	#
ROA	2.452	<b>3.431</b>
ROE	16.203	<b>18.993</b>
FS	<b>34%</b>	28%
GS	<b>83%</b>	69%
PS	34%	<b>41%</b>
GN	<b>4.8</b>	1.2
PN	<b>4.2</b>	0.6
DC	2.9	<b>3.4</b>
OB	<b>4.4</b>	3.7
TA	5.6	<b>6.2</b>
HR	2.1	<b>3.7</b>



The descriptive statistics<sup>10</sup> presented in Table 5 indicate an over-performance of French family firms. In France, the family firms have a higher level of decentralization and HR index. Moreover, they use a long term approach by preparing the next generation. In Lebanese family firms the using of networks seems more developed and the entrenchment of family is captured through a higher level of (GS) indicating the presence of owner in the control of business. To complete this descriptive statistics, Chi-square tests are used to detect any significant correlation between family firm performance and success keys.

**TABLE 6**  
**Correlation between Success Keys and Firms Performance**

*Panel A: Correlation between ROA and factors of success*

Factors of success /#	Lebanon	France
	p-value	p-value
FS	(0.143)**	(0.104)*
GS	0.427	0.324
PS	0.022	0.031
GN	0.094	0.353
PN	0.121	0.331
DC	0.427	0.521
OB	0.048	0.061
TA	0.092	0.102
HR	0.022	0.046

*Panel B: Correlation between ROE and factors of success*

Factors of success /#	Lebanon	France
	p-value	p-value
FS	(0.127)***	(0.115)**
GS	0.164	0.142
PS	0.053	0.042
GN	0.177	0.353
PN	0.062	0.321
DC	0.216	0.622
OB	0.124	0.035
TA	0.132	0.244
HR	0.011	0.021

Significance levels: +  $p < 0.10$ ; \*  $p < 0.05$ ; \*\*  $p < 0.01$ ; \*\*\*  $p < 0.001$

From Table 6 (Panel A and Panel B), one can conclude that the performance of family firms is positively correlated with the positive HR practices and the use of any plan for succession. The results showed the absence of strong evidence to indicate a permanent

<sup>10</sup> Likert scale is set as continuous data analysis to run descriptive statistics. The non-parametric tests have captured the same results. Lubke and Muthen (2004) found that it is possible to find true parameter values in factor analysis with Likert scale data.

correlation between the other success keys (TA, DC, GN, PS, GS, and FS) and family firm performance.

The Pearson correlations between the success variables are presented in Table 7. The results indicate that there is no significant association between all the independent variables ( $p > 0.05$ , two-tailed) which leads to confirm the absence of multicollinearity problem.

In the next section, an appropriate regression analysis will be conducted to determine the relevant factors that contribute to the success of family businesses.

**TABLE 7**  
**Correlation between Success Keys**

<i>Panel A: Correlation between success keys of family business in France</i>										
		FS	GS	PS	GN	PN	DC	OB	TA	HR
FS	Pearson correlation Sig. (2-tailed)	1								
GS	Pearson correlation Sig. (2-tailed)	-0.041 0.331	1							
PS	Pearson correlation Sig. (2-tailed)	0.234 0.411	0.035 0.336	1						
GN	Pearson correlation Sig. (2-tailed)	0.152 0.812	0.043 0.601	0.022 0.254	1					
PN	Pearson correlation Sig. (2-tailed)	0.093 0.633	0.052 0.521	0.035 0.313	0.011 0.424	1				
DC	Pearson correlation Sig. (2-tailed)	0.066 0.561	0.044 0.495	0.124 0.239	0.075 0.743	0.002 0.355	1			
OB	Pearson correlation Sig. (2-tailed)	0.032 0.677	0.221 0.346	0.072 0.301	0.034 0.555	0.007 0.422	0.023 0.621	1		
TA	Pearson correlation Sig. (2-tailed)	0.087 0.632	0.001 0.281	0.162 0.422	0.001 0.757	0.021 0.519	0.055 0.711	0.091 0.535	1	
HR	Pearson correlation Sig. (2-tailed)	0.102 0.541	0.102 0.411	0.033 0.292	0.202 0.296	0.421 0.747	-0.142 0.369	0.324 0.302	0.422 0.366	1
<i>Panel B: Correlation between success keys of family business in Lebanon</i>										
		FS	GS	PS	GN	PN	DC	OB	TA	HR
FS	Pearson correlation Sig. (2-tailed)	1								
GS	Pearson correlation Sig. (2-tailed)	-0.033 0.511	1							
PS	Pearson correlation Sig. (2-tailed)	0.266 0.371	0.135 0.511	1						

	Continued:									
GN	Pearson correlation Sig. (2-tailed)	0.212 0.512	0.033 0.335	0.056 0.334	1					
PN	Pearson correlation Sig. (2-tailed) Continued:	0.093 0.561	0.035 0.611	0.067 0.667	0.351 0.524	1				
DC	Pearson correlation Sig. (2-tailed)	0.024 0.341	0.074 0.377	0.321 0.344	0.036 0.567	0.031 0.605	1			
OB	Pearson correlation Sig. (2-tailed)	0.126 0.522	0.171 0.478	0.041 0.651	0.041 0.411	0.031 0.578	0.167 0.511	1		
TA	Pearson correlation Sig. (2-tailed)	0.034 0.422	0.035 0.522	0.155 0.633	0.052 0.811	0.056 0.444	0.064 0.625	0.044 0.621	1	
HR	Pearson correlation Sig. (2-tailed)	0.303 0.377	0.307 0.551	0.054 0.372	0.345 0.311	0.331 0.346	- 0.532 0.511	0.201 0.421	0.067 0.151	1

Significance levels: +  $p < 0.10$ ; \*  $p < 0.05$ ; \*\*  $p < 0.01$ ; \*\*\*  $p < 0.001$

### RESULTS

To capture the keys of success in both French and Lebanese family businesses, a set of 4 regressions have been used on two dependent variables (ROA and ROE), by controlling 3 variables (size, age and sector). Before conducting the regression analysis of the study, two tests were conducted for Classical Linear Regression model assumptions. Both the ( $\chi^2$ ) and (F) versions of the test statistics indicate that there is no evidence of heteroscedasticity.

The regression outputs are analyzed to determine the most relevant factors of success after detecting the scale reliability coefficients for each of the scales used in political networks, governmental networks and family management practices. Cronbach's reliability coefficients are ranged from 0.7837 to 0.8512 (Table 8).

**TABLE 8**

#### Reliability Results

Variables	Cronbach's- Alpha	
Political networks (PN)	0.8512	
Governmental networks (GN)	0.8227	
Management practices	DC	0.7974
	OB	0.7906
	TA	0.8031
	HR	0.7837

In Table 8, Cronbach's reliability coefficients for political network (PN) and governmental network (GN) have a value of 0.8512 and 0.8227 respectively. The variable (DC) indicating the level of centralization has a value of 0.7974. The variable (OB)

representing the used level of emotional intelligence inside the family firms has a value of 0.7906, while the variable (TA) indicating the orientation's level to the long term has a value of 0.8031. Finally Cronbach's reliability coefficient of human resources management Index has a value of 0.7837. Under this condition (Cronbach's- Alpha>0.7)<sup>11</sup> it was decided to keep the item under each defined scale.

After the preparation tests, four regressions were applied In Table 9. In these regressions, the company age, the company size and the industry sector have been used as control variables. The dependent variables (financial performances) were measured by ROA and ROE. The independent variables were measured by: the financial structure (FS), the governance structure (GS), the planning for the succession (PS), the political network (PN), the governmental network (GN), the degree of centralization (DC), the organizational behavior (OB), the family term approach (TA) and finally the human resources management index (HR).

The results in Table 9 capture some differences between French and Lebanese family firms in terms of keys of success. For French family firms the results indicate a positive impact of four main variables: the planning for succession, the use of high level of emotional intelligence by the family-manager, the human resource practices and finally the orientation of the firm to the long term strategies.

For the Lebanese family firms, the number of factors is more developed. Effectively, five factors are considered as valuable keys for the family firm performance: the use of planning for succession, the professional HR practices, the use of network strategy and the high level of emotional intelligence. Moreover it seems that a high level of leverage decreases the family firm performance; consequently, the Lebanese family firms must drop-off their levels of firm leverage (Figure 1). The positive impact of firm size indicates a possible synergy effect.



**Figure 1. Success keys for family business.**

<sup>11</sup> Nunnally (1978).

**TABLE 9**  
**Regression Results**

<b>Dependent variable : ROA</b>													
<i>Panel A: France</i>													
Variable	FS	GS	PS	GN	PN	DC	OB	TA	HR	Fsize	Fage	Fsector	F
Coefficient	0.320 (0.082)	0.448 (0.224)	0.562** (0.021)	0.103 (0.011)	0.148 (0.032)	0.301 (0.121)	0.411* (0.011)	0.211* (0.004)	0.522** (0.003)	0.533* (0.012)	0.441 (0.113)	Yes	9.62**
<i>Panel B: Lebanon</i>													
Variable	FS	GS	PS	GN	PN	DC	OB	TA	HR	Fsize	Fage	Fsector	F
Coefficient	-0.211*** (0.013)	0.281 (0.301)	0.262* (0.011)	0.433* (0.023)	0.248* (0.029)	0.421 (0.153)	0.384* (0.025)	0.222 (0.009)	0.403* (0.001)	0.489** (0.018)	0.542 (0.135)	Yes	10.52***
<b>Dependent variable : ROE</b>													
<i>Panel C: France</i>													
Variable	FS	GS	PS	GN	PN	DC	OB	TA	HR	Fsize	Fage	Fsector	F
Coefficient	0.212 (0.095)	0.541 (0.232)	0.132* (0.031)	0.155 (0.053)	0.138 (0.044)	0.324 (0.244)	0.141* (0.012)	0.301* (0.006)	0.201** (0.001)	0.319* (0.021)	0.231 (0.177)	Yes	11.231***
<i>Panel D: Lebanon</i>													
Variable	FS	GS	PS	GN	PN	DC	OB	TA	HR	Fsize	Fage	Fsector	F
Coefficient	-0.114* (0.020)	0.345* (0.253)	0.231** (0.022)	0.123* (0.041)	0.151* (0.042)	0.211 (0.211)	0.265* (0.029)	0.231 (0.010)	0.298** (0.004)	0.401* (0.019)	0.303 (0.145)	Yes	10.928***

Significance levels: +  $p < 0.10$ ; \*  $p < 0.05$ ; \*\*  $p < 0.01$ ; \*\*\*  $p < 0.001$

From Table 9, one cannot generate a positive impact of governance structure (GS) on the performance of family firms. The only significant impact of (GS) exists when the performance of Lebanese family firms is measured by ROE.

The ambiguity of (GS) results leads us to divide it into many sub-variables: (GS-OUT) is the number of independent members over the total number of members in board of directors; (GS-FM) is a binary variable that equals to one if the executive director is a family member; (GS-Size) is the number of members in the board of directors and (GS-FB) is a binary variable that equals to one if there is any family board.

After defining the sub-variables of the governance structure, the variables (GS-OUT), (GS-FM), (GS-NUM) and (GS-FB) on the family firm performance (measured by ROE and ROA) are regressed. In these regressions, the company age, the company size and the industry sector have been used as control variables.

**TABLE 10**  
**GS Regression**

Panel A: regression on ROA

French family firms								
Indep. variables	GS-OUT	GS-FM	GS-Size	GS-FB	Fsize	Fage	Fsector	F
Values	0.311* (0.093)	-0.095 (0.023)	-0.271** (0.069)	0.112 (0.014)	0.112* (0.028)	0.226 (0.118)	Yes	8.42**
Lebanese family firms								
Indep. variables	GS-OUT	GS-FM	GS-Size	GS-FB	Fsize	Fage	Fsector	F
Values	0.276* (0.087)	-0.135 (0.034)	-0.149* (0.034)	0.346 (0.017)	0.332** (0.033)	0.241 (0.122)	Yes	9.01***

Panel B: regression on ROE

French family firms								
Indep. variables	GS-OUT	GS-FM	GS-Size	GS-FB	Fsize	Fage	Fsector	F
Values	0.423* (0.094)	-0.274 (0.042)	-0.207** (0.041)	0.334 (0.017)	0.316* (0.026)	0.301 (0.120)	Yes	9.33***
Lebanese family firms								
Indep. variables	GS-OUT	GS-FM	GS-Size	GS-FB	Fsize	Fage	Fsector	F
Values	0.353** (0.099)	-0.332 (0.036)	-0.190* (0.038)	0.323 (0.019)	0.421** (0.029)	0.231 (0.127)	Yes	9.64***

Significance levels: +  $p < 0.10$ ; \*  $p < 0.05$ ; \*\*  $p < 0.01$ ; \*\*\*  $p < 0.001$

The results presented in Table 10 indicate a positive impact of the outsiders in the board of directors for Lebanese and French family firms. These results are consistent with the agency theory explanation. Accordingly Jensen and Meckling (1976) have indicated that the role of the independents is to prevent the eventual expropriation and to safeguard the business performance. The negative and significant link between board size and performance in Table 10 is consistent with earlier evidence that small groups are more efficient than the large ones

(Jensen, 1993)<sup>12</sup>. These findings are consistent with Eisenberg, Sundgren *et al.* (1998), which report a negative relationship between board size and firm value, for large and small firms, respectively. Finally, the regressions in Table 10 indicate a negligible impact if the family member is an executive director. Moreover, these results show a negligible impact of the family board. Based on the results presented in Tables 7, 9 and 10 one can't confirm all these hypotheses. Only a few number of hypotheses were confirmed as follow:

**TABLE 11**  
**The Global Results**

Hypothesis number	Hypothesis definition	Lebanese Family Firms	French Family Firms
H1	<i>Succession planning is positively correlated with family firm performance</i>	<i>Confirm</i>	<i>Confirm</i>
H2	<i>Political networks strategy is positively correlated with family firm performance</i>	<i>Confirm</i>	<i>Cannot confirm</i>
H3	<i>Governmental networks strategy is positively correlated with family firm performance.</i>	<i>Confirm</i>	<i>Cannot confirm</i>
H4-1	<i>A centralized organizational structure is positively correlated with family firm performance.</i>	<i>Cannot confirm</i>	<i>Cannot confirm</i>
H4-2	<i>A professional HR management is positively correlated with family firm performance</i>	<i>Confirm</i>	<i>Confirm</i>
H4-3	<i>A professional Family Behavior is positively correlated with family firm performance</i>	<i>Confirm</i>	<i>Confirm</i>
H4-4	<i>The Family longer-term approach is positively correlated with family firm performance</i>	<i>Cannot Confirm</i>	<i>Confirm</i>
H5	<i>The no separation between ownership-control and management is positively correlated with family firm performance</i>	<i>Cannot confirm*</i>	<i>Cannot confirm*</i>
H6	<i>A low debt-equity ratio is positively correlated with family firm performance</i>	<i>Confirm</i>	<i>Cannot confirm</i>

(\*) An advanced test based on this hypothesis demonstrates a positive impact of the independent members in the board of directors and a negative impact of board's size.

The differences between the French and Lebanese firms are due to cultural, legal protection and economic situation. First, the poor legal protection, the political system and the governmental networks in Lebanon are strongly influential in decision-making. The results demonstrate that the social networks (governmental and politic) are used in family firms in order to facilitate the access to resources and information. For the French family firms one did not find any correlation between social networks (governmental and politic) and family business performance. It seems that the family managers are uninterested to build this kind of networks specifically in countries that are characterized by high level of legal protection.

Second, the high rate of interests used in financial sector and the financial crises leads the Lebanese family firms to minimize the use of debt. In the Lebanese family businesses, the use of debt is considered as a negative key that should be reduced. This result was confirmed in 1999 by Majumdar and Chhibber. Adopting an accounting measure of

<sup>12</sup>Because groups communicate less effectively beyond a certain size, there is pressure from self-serving managers or entrenched owners to expand board size beyond its value-maximizing level.

profitability to evaluate the performance, they observed a significant negative link between leverage and corporate performance.

### DISCUSSION AND CONCLUSION

In this research, the success keys were studied in both French and Lebanese family firms. From the literature review one can derive nine hypotheses to test them by using direct and indirect data on two different samples: the Lebanese and the French family firms.

The empirical evidences obtained corroborate and generate three hypotheses (H1, H4-2 and H4-3). Hence, in order to sustain its success, the family owned company must combine four basic international approaches which are:

- 1- Applying a professional HR management by improving the productivity of employees through motivational techniques (promotions, job enrichment, job rotation and wedges);
- 2- Being emotionally intelligent by increasing some employee's feelings (specifically organizational citizenship behavior and job satisfaction);
- 3- Using a succession plan;
- 4- Creating a professional board of directors characterized by a limited size and high level of independence.

Despite the above keys of success, in some development countries such as Lebanon, the family firms must consider other factors (Low debt ratio and social networks) to ensure a high level of performance. The findings suggest the resort to political and governmental networks in countries with poor legal protections. Moreover, one cannot isolate the family business from the external environment. Therefore, the managers of family businesses must consider the economic situation when their decisions concern the financial policies.

Several limitations constrain the interpretation and the application of the study findings. The first limitation of this research is the exploration of the success factors inside the family firms without studying the non-family firms. The second limitation was related to the performance variables. For some authors the accounting measures (ROA and ROE) do not take into consideration the future prospects of family firm performance. Finally, the last limitation in this study is the limited size of this sample. Therefore, the results could not be generalized across the whole population of the family firms. Further studies should include larger and broader samples from different countries that are more representative of the family firms' population. Furthermore, the upcoming studies should not be limited to the accounting variables to measure the firms' performance and should include in the future the employees at different levels in the organization.

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