A cultural perspective on the impact of family and society on the competitive advantage of organizations and nations

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A CULTURAL PERSPECTIVE ON THE IMPACT OF FAMILY AND SOCIETY ON THE COMPETITIVE ADVANTAGE OF ORGANIZATIONS AND NATIONS

By

Sami Abdallah Alwuhaibi

A Dissertation
Submitted to the Faculty of Mississippi State University in Partial Fulfillment of the Requirements for the Degree of Doctor of Philosophy in Business Administration in the Department of Management and Information Systems

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May 2009
A CULTURAL PERSPECTIVE ON THE IMPACT OF FAMILY AND SOCIETY ON THE COMPETITIVE ADVANTAGE OF ORGANIZATIONS AND NATIONS

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This dissertation is interested in explaining how and why the culture of family and society impacts the competitive advantage of organizations and nations. Central to such an explanation is the development of a theory of the family firm because that theory is a potential link between the four distinct systems, the family, organization, nation, and society. This dissertation consists of four essays, three theoretical and one empirical.

The first essay is theoretical; it argues that the formation of family and non-family firms depends on the family culture of the firm’s founders. The essay distinguishes between two family cultures: one supports the formation of family firms and another supports the formation of non-family firms. Accordingly, the essay provides a framework to understand family culture by using family concepts, such as marriage and love. The second essay is theoretical; it uses the developed framework in the first essay to understand the behavior and performance of family and non-family firms. Specifically,
the second essay attempts to answer the questions of why and when a business’s owner maintains the ownership with the family and/or hires family managers rather than non-family managers, or vise versa.

The third essay is theoretical; it argues that the formation of family and non-family firms depends also on societal culture. Societies who endorse traditional and postmodern cultures support the formation of family firms because non-economic objectives have a higher priority than economic objectives. However, societies who endorse modern cultures support the formation of non-family firms because economic objectives have first priority rather than non-economic objectives. The fourth essay is empirical; it tests some of the generated research questions in the third essay. The fourth essay argues that nations are exposed to cultural competition where nations of similar cultures compete against each other. This essay finds that the family mode of governance is the most appropriate mode for nations competing in traditional societies, the non-family mode of governance is the most appropriate mode for nations competing in modern societies, and the state mode of governance is the most appropriate mode for nations competing in postmodern societies.

Keywords: competitive advantage, culture, family, organization, nation, society, strategy, cultural competition, family business
DEDICATION

In the Name of Allah (God), the Most Gracious, the Most Merciful

All the praises and thanks are to Allah, the Lord of all the universe. I am so thankful to Allah for his countless blessings on me, including the achievement of one of my knowledge’s goals, the Ph.D. in Strategic Management. The patience, ability, and enlightenment that Allah bestowed on me were critical in earning this scientific degree. O’ Allah, as You ease my way to get such knowledge, ease my way to apply it in the way that pleases You. Verily, You are the All-Hearer, the All-Knower.

I am so blessed by my parents who are the ones I most value in this world. My father Dr. Abdullah Alwehebi and my mother Haya Almuqayteeb are the most influential individuals behind my success. The way they raised me, their motivation, support, and supplications to me are basis for all my accomplishments. For them, I dedicate this work with plenty of love. Also, I dedicate this work to my grand fathers and mothers who continuously impact my life. I have realized that I have been following their footprints, unconsciously.

I also dedicate this work to my wife, Taghreed Almuqayteeb, who is my life partner. She has been a great supporter for my dreams. I appreciate her encouragement, sacrifices, and being with me in all my hard and pleasant days. Furthermore, I dedicate
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1.1. Introduction

This dissertation, “A cultural perspective on the impact of family and society on the competitive advantage of organizations and nations”, intends to develop a theory of the performance of organizations and nations which takes into consideration the culture of family and society. This dissertation views the family, organization, nation, and society as four distinct systems of different levels which influence each other. Particularly, this dissertation is interested in explaining how and why the outer systems, the family and society, impact the competitive advantage of the inner systems, the organization and nation. Central to such an explanation is the development of a theory of the family firm. This may raise a legitimate question in some readers’ minds: why should one be interested in family firms? In order to set the stage for this dissertation, this introduction addresses this fundamental question by breaking it into three smaller, albeit important, questions. What are family firms? Do they represent an important phenomenon worthy of researchers’ investigations? Does family involvement impact the performance of organizations and nations? In the remainder of this opening section of the dissertation, each of these questions would be discussed as a prelude to introducing its topic. Following that, this introduction briefly explains what a theory of the firm and a theory of
the family firm are about. From that foundation, this introduction then elaborates on the purpose, research questions, and content of the dissertation.

*What is a family business?* Controversy exists in the family business literature regarding what is considered a family business (Chua et al., 1999). Chrisman et al. (2005) show that the family business literature generally has two approaches in defining family business: the component of involvement approach and the essence approach. The component approach defines family business by the involvement of family in the business in the form of ownership, management, governance, succession, or any combination of these forms. The essence approach, however, argues that family involvement (i.e., ownership, management, governance, or succession) is necessary but not sufficient to distinguish family business from non-family ones. The essence approach views a business as a family business if family involvement creates distinctive behaviors and outcomes. In other words, a family business is an entity that should be shaped by the interaction of two different components: a social component – the family, and an economic component – the business. An example of defining family business by the essence approach is Chua et al. (1999) who define family business as “a business governed and/or managed with the intention to shape and pursue the vision of the business held by a dominant coalition controlled by members of the same family or a small number of families in a manner that is potentially sustainable across generations of the family or families” (p. 25). In their definition, Chua and his colleagues insist on the presence of a family vision for the business that maintains the family interests across generations, and that vision is being pursued in order to consider the business as a family
business. Accordingly, the behaviors and outcomes of family businesses will be distinctive from the ones of non-family businesses because they are shaped by a family vision.

*Importance of family businesses.* Family businesses “long served as the backbone of ancient economies and civilizations” (Bird et al., 2002: p. 337); and they continue to dominate world economic activities (Chrisman et al. 2005). For example, Goffee (1996) states that worldwide, family firms “account for well over half of all existing and newly created jobs” (p. 36). Floren (1998) states that the most conservative estimates of world family business range from 65% to 80%. La Porta et al. (1999) illustrate that most large firms, outside the United States, are controlled by families. Davis et al. (2000) report that family companies of the Arab Gulf States control almost 40% of the total Gulf region’s gross domestic product (GDP). Astrachan and Shanker (2003) state that 80-90% of North America businesses are family businesses. Floren (1998) also reports the significance of family businesses in some world countries. For example, family businesses represent 76% of the top 8,000 Britain firms, more than 80% of Australian private firms, 75% of all Chilean firms, 80% of all Germany firms, 80% of Italian firms that have between 20 and 500 employees, 71% of Spanish firms with annual sales exceeding $2 million, and 83% of Dutch firms (Floren, 1998). While family businesses represent the norm and non-family businesses represent the exception (Glassop et al., 2006), business research and education are biased toward non-family businesses (Bird et al., 2002; Chrisman et al., 2006; Steier and Ward, 2006). However, since the 1990s, the family business field has

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been viewed as “a separate academic discipline” (Bird et al., 2002: p. 338), and the interest on it has been increasing since that time (Sharma, 2004).

*Family involvement’s influence on firm performance.* The heart of strategic management research is explaining and predicting the superior performance of business firms (Porter, 1980) and nations (Porter, 1990). In the case of family business, the interaction of the family as a social entity and the business as an economic entity is a source of distinctiveness; strategy researchers believe that such interaction would impact the performance of firms and nations. Empirical research shows that family involvement could positively or negatively impact the performance of organizations and nations. For example, Anderson and Reeb (2003) found that family involvement enhances the performance of the U.S. Fortune 500 firms. However, Morck and Yeung (2004) found that family involvement in the business negatively impacts the economic development of nations. Thus, focusing on the dominant form of business, family business, and explaining why and how family involvement influences firm and nation performance are within the core of the strategic management domain.

1.2. Theory of the Firm

One approach to explain and predict firm performance is to use theory of the firm as a base for developing a theory of firm performance. The theory of the firm was initially used to differentiate firm organization from market contracting (e.g., Coase, 1937), but more recently it has been used to differentiate among firms themselves using the resource based view (RBV) of the firm (i.e., Conner, 1991) and the transaction cost
theory of the firm (i.e., Williamson, 1975). Firm organization differs from market contracting in the existence of authority in the firm (i.e., managers over employees) compared to ‘the parties acting autonomously’ in the market (Conner and Prahalad, 1996: 480). People create firms because they believe that doing so adds value relative to autonomous market contracts. A theory of the firm explains this added value and firm boundaries through addressing two questions: why do firms exist and what are the limits of their scale and scope (Coase, 1937)?

Because firm organization is a complex phenomenon (Boulding, 1956; Burrell and Morgan, 1979), it is unlikely to have only one theory or perspective, which explains all facets of an organization (Hatch, 1997). For example, transaction cost theory (Coase, 1937) answered the two questions of the theory of the firm from a behavioral perspective where people choose the firm mode over the market mode in order to minimize the market’s contract costs. The transaction cost theory assumes that business activities could be done either in firms or in markets, and the criteria for choosing the firm depends on the saved costs of autonomous contracts. Thus, a firm’s boundary ends when there is no cost difference between business transactions conducted within the firm or on the market. Williamson (1975, 1985) explains situations where the market’s transaction costs would be higher than those within the firm as a result of some conditions such as asset specificity, bounded rationality, and opportunism. Asset specificity means specialized investments or assets (e.g., site specificity, physical asset specificity, human asset specificity, dedicated assets) that “cannot be redeployed without sacrifice of productive value if contracts should be interrupted or prematurely terminated” (Williamson, 1985:
If a business transaction requires a specific asset that the buyer and seller depend on, the cost of the business transaction will be lowered if the contractors form a firm. Specific assets are difficult to be used for other purposes in case of contract termination; thus, their redeploying costs will be higher when market contracts are used. Bounded rationality means that contractors are assumed to be “intendedly rational, but only limitedly so” (Simon, 1961: xxiv; Williamson, 1985: 44). In reality, contractors are not able to predict and incorporate all possible circumstances in their contracts. Opportunism is defined as “self-interest seeking with guile” (Williamson, 1985: 30). As part of human nature, some contractors may not fulfill their promises. Accordingly, the central idea of Williamson (1975, 1985) is that firms exist when conditions such as asset specificity, bounded rationality, and opportunism make the costs of business transactions lower than when conducted through market contracting.

However, the resource based view (i.e., Barney, 1991; Conner, 1991), another perspective, which does not depend upon assumptions of opportunism between potential partners to an exchange, suggests that firms exist because of unique resources which do not exist in the market that enable the firm to generate above normal rate of returns. Additionally, the firm boundary is limited by the linkage of a new business activity to the firm’s unique resources. Thus, it is not uncommon that firms could have multiple reasons for existence and multiple factors that limit their boundaries. All of these could help in differentiating between firms and markets and among firms.

Strategic management researchers are interested in theories of the firm (theoretical explanation of why firms differ) because they are an important component of
their theory of the firm performance (theoretical explanation of why firms’ performances differ). If researchers are able to differentiate among firms using the criteria of theory of the firm (purpose and scale/scope), they may find performance differences among them. As Conner and Prahalad (1996) stated “a theory of performance differences between firms necessarily implies and incorporates a theory of the firm itself” (p. 480).

1.3. Theory of the Family Firm

A theory of the family firm attempts to distinguish family firms from non-family firms. Similarly, it focuses on answering two questions: why do family firms exist – compared to non-family firms – and what are the limits of their scale and scope? The main concern of the theory of the family firm is not to explain why a family hierarchy exists compared to the market. However, within the hierarchy form, it explains why the family hierarchy is selected compared to the non-family one. As explained above, what distinguishes family firms from non-family firms is the existence of family involvement that shapes the firm behaviors and outcomes. Thus, theory of the family firm is an explanation of how family involvement differentiates family firms from non-family firms. Also, family involvement is not considered as a constant factor that only distinguishes between family and non-family firms; but a variable that varies from family to family and distinguishes among family firms themselves. Based on that, a theory of the family firm performance is an explanation of how family involvement differentiates the performance of family firms from the performance of non-family firms. Also, a theory of
the family firm performance should explain how family involvement differentiates among the performance of different types of family firms.

Currently, strategic management research focuses on two organizational aspects that could be influenced by family involvement and differentiate the performance of family firms from the performance of non-family firms: (1) firm governance; (2) firm resources. The first perspective uses agency theory (i.e., Jensen and Meckling, 1976) and argues that family involvement in management influences the principal-agent relationship that ultimately influences firm performance. It states that altruism between family owners and managers, which does not exist in non-family firms, could mitigate (e.g., Eaton et al., 2002; Chrisman et al., 2004) or worsen (e.g., Schulze et al., 2001, 2003) firm agency costs. The second perspective uses the resource based view (Barney, 1991) and argues that family involvement in the firm could create unique resources, or ‘familiness’ (Habbershon and Williams, 1999) that are unavailable for non-family firms. For example, Sirmon and Hitt (2003) argue that family firms manage, evaluate, acquire, shed, bundle and leverage their resources differently than non-family firms and that these differences could positively or negatively impact firm performance. While those two perspectives help in understanding the performance phenomenon of family businesses, “much interesting research remains to be done” such as exploring the conditions where family involvement lead to the achievement of non-economic objectives of a family, firm, and society (Chrisman et al., 2005: p. 570).
1.4. Dissertation Purpose and Research Questions

Chrisman et al. (2005) explain that the development of a theory of the family firm requires identifying the distinctive nature of family firms and how it forms by family involvement. Then, strategy researchers could build on the distinction of family business to develop a theory of the organization and nation performance by explaining how such distinction influences performance. This dissertation is limited to two distinctions of family businesses: (1) the presence of altruism and (2) the presence of non-economic objectives, both of which either do not exist, or are much less prevalent in non-family firms (Chrisman et al., 2005). The dissertation explains how the two distinctions impact the performance of organizations and nations. As a result, the dissertation has four purposes that are achieved through answering eight research questions. The remaining of this section is devoted to those purposes and questions.

In the first distinction, research found that altruism, which prevails in family firms, influences the relationship between family owners and managers. While research shows that altruism could positively and negatively impact the agency relationship, a call is raised to develop a theory of altruism to explain how and when altruism increases or decreases agency problems (e.g., Karra et al., 2006). Thus, the first purpose of this study explains how altruism and objectives (i.e., economic and non-economic) form within the family. The dissertation argues that family culture plays a major role in forming the value of altruism among family members. Particularly, the marriage rationale and love style between the family’s parents are key components of family culture that shapes the type of altruism and objectives among family members. As stated by Hoy and Verser (1994)
family members “internalize values and ethics throughout their lives from parents” (p. 15). Then, the second purpose of this study is to explain how different types of altruism, as consequences of different family cultures, create different types of family firms that differ in their performance.

In the second distinction, research discusses that family firms have non-economic objectives such as maintaining family ties and providing jobs for family members (Chrisman et al., 2003; Chua et al., 2003) as well as economic objectives such as wealth creation. Thus, the culture of family business encourages the pursuit of non-economic objectives where the culture of non-family firms normally focuses on economic objectives. On the other hand, societies include both economic objectives such as growth in gross national product (GNP) as well as non-economic objectives such as preserving the social system. Moreover, societies like family businesses differ in their objectives’ priorities. For example, non-economic objectives in some societies could have higher priority than economic objectives do. In that regard, family business could be seen in those societies as an appropriate vehicle to achieve societal non-economic objectives. Thus, the third purpose of this study explains the cultural conditions of societies that make family firms more preferable than non-family firms. Finally, Chrisman et al. (2005) report that empirical studies on family business have primarily focused on economic benefits. Non-economic benefits of family business have not yet received equal attention by empirical researchers. Thus, the fourth purpose of this study is to empirically test how the cultural values of a society determine when and why family involvement in the business is an appropriate choice to achieve a nation’s non-economic benefits. Focusing
only on non-economic performance does not mean that economic performance is not important in forming family business. In fact, there are two reasons why the dissertation focuses only on non-economic performance. First, economic objectives are not the only motives in forming family firms. Non-economic benefits are important reasons too, and they are often overlooked by family business researchers. Second, economic and non-economic objectives could be viewed as components of the utility function of a family firm. Maximizing the utility function of a family firm could be done through: (1) maximizing economic performance subject to a non-economic constraint, (2) maximizing non-economic performance subject to an economic performance constraint, or (3) maximizing both objectives simultaneously. Thus, this dissertation is limited to the second condition which is maximizing non-economic performance subject to an economic performance constraint.

Specifically, the primary research questions of this dissertation are as follows:

(1) Why and how do asset specificity, opportunism, and level of societal trust impact the marriage type (i.e. formal and informal union) among a society’s members? (Essay-1)

(2) Why and how does the marriage rationale and love style between married partners shape their altruism and objectives (i.e., economic and non-economic)? (Essay-1)

(3) Why and how do asset specificity and opportunism impact the decision of forming family and non-family firms? (Essay-2)
(4) How do altruism and agency costs impact the performance of family and non-family firms? (Essay-2)

(5) Why and how a difference between the culture of a family firm and the culture of the society that the family firm operates in impacts the desired outcomes of the society? (Essay-3)

(6) Why and how a difference between the culture of a non-family firm and the culture of the society that the non-family firm operates in impacts the desired outcomes of the society? (Essay-3)

(7) Do modes of governing firms (e.g., family, non-family, the state) impact nations’ capabilities of producing their societal products? (Essay-4)

(8) Does the implemented mode of governing firms by a nation competing in a specific society impacts the nation’s performance? (Essay-4)

1.5. Potential Contributions

This dissertation, as others in the strategic management field, attempts to contribute explanations of the determinants of organizational and national performance. Specifically, it attempts to explain why and how family and society impact the competitive advantage of organizations and nations. Central to such an explanation is the development of a theory of the family firm because that theory is a potential link between the four distinct systems, the family, organization, nation, and society.

Family business includes non-economic objectives, as well as economic objectives, as the result of involving a social entity – the family – in the business
Current research in family business uses two strategic management theories in explaining the variation in family business performance: agency theory and resource based theory. While those two theories help in explaining the economic performance of family business, they fall short of addressing non-economic performance of family business (Chrisman et al., 2005).

On the other hand, the cultural perspective – family and society – addresses non-economic objectives (e.g., providing jobs for family members, preserving societal social system) as well as economic objectives (e.g., wealth). This dissertation attempts to connect the culture of family and society to some strategic management theories, such as transaction cost theory, agency theory, and industrial organizational (IO) economics. Thus, the cultural perspective – which includes non-economic objectives – will complement and remedy the weakness of some strategic management theories – which mainly focus on economic objectives – that altogether help in explaining the distinctive behaviors and outcomes of family businesses. As a result, this dissertation has four potential contributions to the field of strategic management in family business.

The first contribution of this dissertation is to expand the framework of agency theory to include non-economic objectives of family firms. From the economic perspective of agency theory, family firms exist to minimize the costs associated with agency problems. However, agency theory researchers found that family involvement in owning and managing the family firm creates altruism among family owners and managers that could mitigate (e.g., Chrisman et al, 2004) or worsen (e.g., Schulze et al., 2001) the firm’s agency costs that ultimately influences firm performance. Accordingly,
altruism could enhance or reduce the economic performance of family businesses. On the other hand, while family business includes non-economic objectives, attaining those objectives could be obtained at the expense of economic performance. For example, Chrisman et al. (2005) call for determining the substitution rate between economic and non-economic performance. Thus, the situations where altruism reduces economic performance could be the situations where a family firm achieves its non-economic objectives. By incorporating family culture into agency theory through exploring the family marriage relationship and family love style, the family business field will be able to identify the situations where altruism influences economic or non-economic performance, or both. Accordingly, family firms would exist to minimize the costs associated with agency problems and/or attaining non-economic objectives.

The second contribution of this dissertation is its potential to expand our understanding of family firms by including non-economic objectives in a theoretical development. From an economic perspective, family firms exist to earn above normal rate of returns due to their possession of unique resources that result from family involvement or interaction. These unique resources are referred to as “familiness” (e.g., Habbershon and Williams, 1999). However, family involvement in the family firm could create competitive advantages or disadvantages (e.g., Sirmon and Hitt, 2003). Accordingly, familiness could enhance or reduce the economic performance of family businesses. Similar to the above argument, while family business includes non-economic objectives, attaining those objectives could be obtained at the expense of economic performance (Chrisman et al., 2005). Thus, the situations where familiness reduces
economic performance could be the situations where a family firm achieves its non-economic objectives. By exploring the cultural values of different families, the family business field will be able to identify the situations where familiness influences economic or non-economic performance, or both. Accordingly, family firms would exist to maximize economic performance subject to a non-economic constraint, or to maximize non-economic performance subject to an economic performance constraint.

The third contribution of this dissertation is to develop a theory of the family firm at the societal level. The current family business literature does not adequately explain the phenomenon of family and non-family firms at the societal level (e.g., Sharma, 2004). This dissertation will provide an explanation of that phenomenon at the societal level from a cultural perspective. That will include linking a cultural theory of the society to a cultural theory of the family and the non-family firm, and then expand Porter’s (1980, 1985) framework of industrial organizational (IO) Economics to explain the cultural competition among nations. By doing so, the family business field will be able to explain from a societal level why family and non-family firms exist and what are the limits of their scale and scope.

The fourth contribution of this dissertation, as a result of using transaction cost theory, is the ability to categorize family firms into different types. Thus, family firms are not seen as one type that can be compared in total to non-family firms. In fact, this dissertation classifies family firms into five different types that researchers need to distinguish in order to make comparison with non-family firms.
1.6. Organization of the Dissertation

The dissertation consists of an introduction, four related essays, and a conclusion. The introduction provides an overview of the topic through discussing the existing two approaches of defining family business, the importance of family business as a phenomenon of study, and why and how strategy researchers study family business. In addition, the introduction includes the dissertation purpose and research questions. Also, it shows the dissertation contributions and outline.

Figure 1.1: Relationships among the Dissertation’s Essays

Essay 1: A theoretical paper that focuses on the family entity of the family firm.
Essay 2: A theoretical paper that links a theory of the family to a theory of the firm.
Essay 3: A theoretical paper that links a theory of the family firm to a theory of the societal culture.
Essay 4: An empirical paper that examines the impact of modes of governing firms on the competitive advantage of nations.
The four essays are intended to be stand-alone manuscripts. Each has its own introduction, review of literature, arguments, and conclusion. However, the four essays revolve around one theme – the competitive advantage of family involvement at organizational and national levels – and are therefore interdependent, forming a coherent set of theoretical concepts that contribute to the development of a performance theory of organizations and nations; refer to Figure-1.1 for an overview of the relationships among the dissertation’s essays.

The first essay, a theoretical paper, focuses on the family – the social entity of family firm. It revolves around understanding the altruism and objectives (i.e., economic and non-economic) concepts among family members. The essay views objectives and altruism as part of family culture; understanding their rationales and types requires understanding the objectives and values of family key influencers. Sorenson and Lumpkin (2007) argue that family social capital is mainly shaped by marriage partners – the family core unit. Similarly, this study argues that understanding the marriage relationships and love style between married couples would enhance our understanding of altruism and objectives among family members. The study uses transaction cost theory and concept of societal trust to understand the marriage rationales between married couples and the love style formed between them. As a result, the essay argues that family marriage and love between couples create five distinctive types of altruism among family members. Each altruism type has its own characteristics that shape the behaviors and outcomes (e.g., economic and non-economic objectives) among the members of the social entity – the family. Then, the essay includes a measurement scale for each
discussed altruism type. It uses the developed scale of love styles (e.g., Hendrick et al., 1998) as a proxy for the type of formed altruism among family members. In summary, the first essay has two purposes. The first purpose is to develop a theory of family altruism and objectives through understanding and using concepts from family culture (i.e., marriage and love). The second purpose presents a measurement of altruism types that help to predict the behavior and performance of family firms.

*The second essay*, a theoretical paper, focuses on the business entity of the family firm. It uses the developed concepts out of the first essay to draw a similar analogy for types of family firms. First, the essay uses transaction cost theory to find rationales for having family owners and agents in a business firm. Such rationales for forming family firms instead of forming non-family firms resemble the rationales for forming traditional families by marriage instead of being individuals in a society. Then, the altruism types developed in the first essay is used in addition to agency concepts to develop a classification of different types of family firms. As a result, the essay argues that rationales for forming family firms and altruism types between family owners and agents create five distinctive types of family firms. Finally, the essay compares the expected performance of the five types of family firms and identifies their potential competitive advantages. In summary, the second essay has two purposes. The first purpose is to differentiate types of family firms according to the developed theory of altruism in the first essay. The second purpose is to compare the expected performance of family firms among themselves and with respect to non-family firms.
The third essay, a theoretical paper, focuses on non-economic objectives of family firms and nations. The essay’s arguments revolve around how societies differ in their cultural values which influence the priority they place on economic and non-economic objectives and how family business is an appropriate form of achieving non-economic objectives. First, the essay discusses the differences among three types of world societies: traditional, modern, and postmodern. Then, the essay focuses on societal non-economic objectives (e.g., maintaining social status) and shows how family firms outperform non-family firms in achieving those non-economic objectives because of their inclusion of non-economic objectives. Finally, non-family firms as well as the five types of family firms developed in the second essay are integrated with the three types of world societies to reveal a deeper view on how family culture interacts with societal culture to make family or non-family firms a more dominant form of conducting business in world societies. In summary, the third essay has two purposes. The essay first identifies non-economic objectives using societal cultural values and shows how family firms are suitable to achieve them. Secondly, it integrates the three types of world societies with the types of family and non-family firms that are developed in the second essay.

The fourth essay, an empirical paper, tests whether a family mode of governing firms is suitable to achieve nations’ non-economic objectives, and whether a non-family mode of governing firms is suitable to achieve nations’ economic objectives. The essay uses secondary databases about size of family and non-family businesses, national culture, income inequality, gross national income, corruption level, and well-being in different nations to test some of the developed research questions in the third essay.
Specifically, this essay tests whether the extent to which using family or non-family mode of governing firms in a nation impacts the nation’s capability of producing its societal economic and non-economic products. Also, this essay tests whether the implemented mode of governing firms by a nation competing in a cultural domain impacts its well-being. In summary, the purpose of this essay is to empirically test some of the generated research questions in the third essay.

Finally, the dissertation conclusion is a summary of the dissertation, taking the four essays developed previously as a whole.

In conclusion, the dissertation includes four essays. The purpose of the four essays is to develop the theory of the family firm more rigorously than has been done previously. The four essays are independent pieces and deal with strategic aspects of the family, firm, nation, and society. The first essay shows how family love and marriage culture shapes altruism and objectives among family members. The second essay shows how the formed altruism among family members influences the behavior and performance of the family firm. The third essay shows how the family and non-family firm culture fit into the culture of world societies. Finally, the fourth essay is an empirical test of how modes of governing firms (e.g., family, non-family) impact the competitive advantage of nations; refer to Table-1.1 for a summary about the content of the dissertation’s essays.
Table-1.1

Content of the Dissertation’s Essays

<table>
<thead>
<tr>
<th>Essay</th>
<th>Purpose</th>
<th>Theory</th>
<th>Authors</th>
<th>Dependent Variables</th>
<th>Independent Variables</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Theoretically explain how family marriage and love culture influence altruism and non-economic objectives within the family entity of family firms.</td>
<td>Family Marriage</td>
<td>Becker, 1973, 1974, 1976; Pollak, 1985; Bahr and Bahr, 2001; Mueller, 2002</td>
<td>Households’ objectives (i.e., consistent with objectives of family firms, consistent with objectives of non-family firms)</td>
<td>Asset specificity, opportunism, trust</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Family Love</td>
<td>Lee, 1973; Hendrick and Hendrick, 1998</td>
<td>Altruism style; Households objectives (i.e., economic, non-economic)</td>
<td>Love style (i.e., Eros, Ludus, Storge, Mania,Pragma, Agape)</td>
</tr>
<tr>
<td>2</td>
<td>Theoretically explain the behavior and performance of family firms by linking theory of the family developed in Essay 1 to theory of the firm.</td>
<td>Transaction Cost Theory and Family Marriage</td>
<td>Coase, 1937; Williamson, 1975; Chiles and McMackin, 1996; Pollak, 1985;</td>
<td>Transaction cost</td>
<td>Asset specificity, opportunism, trust</td>
</tr>
<tr>
<td>3</td>
<td>Provide a comprehensive theoretical understanding of family firms by linking societal culture to theory of the family firm developed in Essay 2.</td>
<td>Theory of Societal Cultures and Theory of the Family Firm</td>
<td>Inglehart and Baker, 2000; Pollak, 1985; Chiles and McMackin, 1996; Jensen and Meckling 1976; Lee, 1973</td>
<td>Societal objectives (i.e., economic, non-economic)</td>
<td>Societal cultural values; types of family involvement in the business</td>
</tr>
<tr>
<td>4</td>
<td>Empirically test some of the generated research questions in Essay 3; specifically, explain and empirically test how and why modes of governing businesses, including the family one, impact the competitive advantage of nations.</td>
<td>IO Economics</td>
<td>Porter (1980, 1985)</td>
<td>Societal product, Efficient well-being</td>
<td>Societal culture values; Governing modes of businesses</td>
</tr>
</tbody>
</table>
1.7. References


CHAPTER 2

TOWARDS A THEORY OF THE FAMILY FIRM: NON-ECONOMIC OBJECTIVES
AND ALTRUISM AS A REFLECTION OF FAMILY MARRIAGE AND
LOVE CULTURE (ESSAY-1)

Abstract: Family firms are characterized by the existence of altruism and non-economic objectives that distinguish them from non-family firms. Strategy researchers believe that such distinctiveness impact their performance. This essay argues that understanding this distinctiveness and hence the performance of family firms requires understanding the family culture that creates such distinctness. This essay proposes that family marriage rationale and love style play major roles in shaping the family culture that ultimately impacts the family firms’ performance.

2.1. Introduction

Family businesses – one form of organizing business activities – have dominated world economic activities since ancient civilization (Bird et al., 2002; Chrisman et al. 2005). Recent empirical research shows that family involvement in the business could positively or negatively impact the performance of organizations and nations (e.g., Anderson and Reeb, 2003; Eddleston et al., 2008; Morck and Yeung, 2004). The heart of
strategic management research is explaining and predicting the superior performance of business firms (e.g., Porter, 1980) and nations (e.g., Porter, 1990). An important question, thus, is how family involvement influences the performance of organizations and nations. One way strategy researchers (e.g., Chrisman et al., 2005) propose to answer this question is to find the distinctive nature of family firms, explain how it forms by family involvement and finally explain how it influences the performance of organizations and nations.

Researchers identify two critical distinctions of family businesses: (1) the presence of altruism and (2) the presence of non-economic objectives, both of which either do not exist, or are much less prevalent in non-family firms (Chrisman et al., 2005).1 Explaining how altruism and non-economic objectives influence the performance of organizations and nations requires explaining first how they form.2 Recent research in family business (e.g., Chrisman et al., 2005; Karra et al., 2006) highlights the lack of theories explaining how altruism and non-economic objectives form in family business. This essay contributes to the family business literature in explaining how altruism and non-economic objectives form within the family, the social entity of the family business. It attempts to develop a theory of altruism and non-economic objectives that could be used later to develop a theory of family firm performance. This essay argues that understanding the concepts of altruism and non-economic objectives in a family starts

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1 There could be more than two distinctions that distinguish family firms from non-family firms such as long-term orientation, but the essay focuses on the two very important and fundamental ones: altruism and non-economic objectives.
2 Altruism within a family means a sacrifice from one family member to another (Bahr and Bahr, 2001). Non-economic objectives of a family business are the ends of actions that may not have economic values to the firm, such as creating a family legacy and jobs for family members (Andersson et al., 2002).
from understanding family culture. Such the argument raises three key questions: (1)
what does family mean, (2) what is family culture, and (3) who establishes family
culture?

**What does family mean?** Laing (1972) defines family as “networks of people who
live together over periods of time, who have ties of marriage and kinship to one another”
(p. 3). The term family incorporates different arrangements among people. Galvin and
Brommel (1982) show five forms of families: (1) the natural family: two parents and the
children out of the union of these parents, (2) the single parent family: one parent with a
child or more, (3) the blended family: two parents and their children who may not be
from their current union, (4) the extended family: a group of relatives living close to each
other, and (5) the couple family: two partners without children. Those five forms of
family could be a result of formal or informal marriage. Formal marriage is a union that
starts with a contract or ceremony, such as traditional and civil marriages (e.g., Le
Bourdais and Lapierre-Adamcyk, 2004; Seltzer, 2000). It is “a privileged legal status that
receives substantial government protection and benefits, and is also defined by many
legally enforceable rights and obligations between the spouses” (Scott, 2004: p. 2).
Informal marriage is a union that does not start with a contract or ceremony, such as
cohabitation (e.g., Le Bourdais and Lapierre-Adamcyk, 2004; Seltzer, 2000). It is “a less
reliable family form because the behavioral expectations and financial obligations
between the parties are uncertain and legal enforcement is difficult” (Scott, 2004: p. 5).³

³ Smock (2000) reports that substantial generalizable facts about cohabitation did not emerge until the late
1980s. He adds that scholars explain the rise of cohabitation as a result of social changes towards the
culture of individualism and secularism. He states that “the meaning or significance of cohabitation in the
United States” is complex and ambiguous. Cohabitation could be viewed as a stage in the marriage process,
What is family culture? Nye and MacDougall (1960) view each family as “a social system structured by a family culture” (p. 313). They state that the greater similarities among members of the same family compared to unrelated individuals are an indication of the presence of family culture. They explain family culture by four elements: objectives, values, statuses, and roles. Goals provide the direction for family members’ efforts; values help family members in prioritizing their efforts; statuses define the duties and responsibilities of family members; and roles provide family members with “specific techniques for achieving goals and realizing values” (Nye and MacDougall, 1960: p. 315).

Who establishes family culture? The married partners, whether formally or informally, are the creator of the social system, the family. Thus, they set the basis for family culture whether the family consists of a couple without children, a single parent with children, or two parents with children. For example, Sorenson and Lumpkin (2007) acknowledge that married partners represent the family core unit that influences the family social capital (i.e., information channels; moral infrastructure; norms, obligations and expectations, reputation, identity, and collective trust; Hoffman et al., 2006). Moreover, Hoy and Verser (1994) state that family members “internalize values and ethics throughout their lives from parents” (p. 15).

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**Note:**

a substitute for marriage, or an alternative to singlehood (Smock, 2000). Accordingly, the classification of cohabitation (i.e., informal marriage) as a family, a household, or neither a family nor a household is a cultural matter, too. A household is a term used for related or unrelated individuals who live together in a housing unit (U.S. Census Bureau: http://quickfacts.census.gov/qfd/meta/long_71061.htm). The purpose of this essay is not to debate the legal, economic, and social matters of such classification, but rather to explain the extent to which formal and informal marriages result in the formation of family and non-family firms. Therefore, the essay uses the terms family and household interchangeable, as a form of partners’ arrangement (e.g., formal or informal marriage) regardless of their legal, economic, and social consequences.
This essay argues that the behavior and performance of a family firm is highly influenced by the culture of the family that creates that firm. Thus, this essay would explain the family culture through some of its elements: objectives and values (Nye and MacDougall, 1960). This essay argues that objectives and values in family culture could be explained by marriage rationales and love styles, respectively, of the married partners. Marriage rationales represent the objectives for creating the family, whether the objective is self-interest (economic objective) or other-interest (non-economic objective). Marriage rationales, as will be seen later in this essay, are determined by the degree of formality of a marriage (e.g., formal or informal union). The essay argues that family firms are likely a result of families focusing on other-interest objectives, and non-family firms are likely a result of families focusing on self-interest objectives. Any family form (e.g., a couple, single parent, or two parents) has the potential to have self-interest or other-interest objectives. Thus, the formed firm is not influenced by the form of family per se but by the objective of that family. The terms “partners”, “couples”, and “parents” are used interchangeable throughout the essay to indicate the founders of any family form. On the other hand, love styles represent the founders’ values embedded in the family. They characterize the orientation of relationships of one family founder to another; where the family founders may exist in the family as in the couple and two parents’ families, or they maybe separated due to death or divorce as in the single parent’s family. The essay argues that altruism, a sacrifice by one family member for the welfare of another, is shaped by the values (i.e., love styles) embedded in the family. Therefore, the purpose of
this essay is to build a theory of family altruism and objectives using family marriage and love styles. This essay mainly attempts to answer two questions:

(1) Why and how do asset specificity, opportunism, and level of societal trust impact the marriage type (i.e. formal and informal union) among a society’s members?

(2) Why and how does the marriage rationale and love style between married partners shape their altruism and objectives (i.e., economic and non-economic)?

In answering those two questions, the essay consists of four sections. First, the essay explains how family involvement influences the performance of business firms. Then, the essay uses transaction cost theory to classify families into two groups: families who engage in formal union and families who engage in informal union. The former group is likely to form family firms and the latter group is likely to form non-family firms. Then, the essay builds on that and identifies the dominant love (altruism) styles among each group and its consequences on family goals. Finally, the essay ends with a discussion and conclusion that summarizes the essay’s main points.

2.2. Family Firms: Distinctions and Performance

What distinguishes family firms from non-family firms is the existence of family involvement that shapes firm behaviors and performance (Chua et al., 1999; Chrisman et al., 2005). Moreover, family involvement is not considered as a constant factor that only distinguishes between family and non-family firms; but a variable that varies from family to family and distinguishes among family firms themselves. Researchers identify two
critical distinctions of family firms as a result of family involvement. The first distinction is the presence of altruism where research (e.g., Schulze et al., 2001) discusses that family involvement in owning and managing the family firm creates altruism among family owners and managers. The second distinction is the presence of non-economic objectives where research (e.g., Chrisman et al., 2003; Chua et al., 2003) discusses that family firms have non-economic objectives such as maintaining family ties and providing jobs for family members as well as economic objectives such as wealth creation.

An important question raised by strategy researchers, is how family involvement (i.e., the presence of altruism and non-economic objectives) influences firm performance. From the economic perspective of agency theory (e.g., Jensen and Meckling, 1976), family firms – a form of concentrated ownership – could mitigate the costs associated with agency problems (e.g., moral hazard) in comparison to public held firms. However, agency theory researchers (e.g., Lubatkin et al., 2005) argue that family involvement in the firm creates altruism among family owners and managers that could mitigate (e.g., Chrisman et al., 2004; Eaton et al., 2002) or worsen (e.g., Schulze et al., 2001, 2003) the firm’s agency costs that ultimately influence firm performance. On the other hand, attaining the non-economic objectives of family firms could come at the expense of economic performance.⁴ For example, Chrisman et al. (2005) call for determining the substitution rate between economic and non-economic performance.⁵ Thus, this essay argues that the situations where altruism reduces economic performance could be the

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⁴ The negative relationship between economic and non-economic objectives is one of the essay’s assumptions. This will be further discussed in a latter section, Model’s Main Arguments and Assumptions.

⁵ Substitution rate means the marginal rate of trading economic benefits for non-economic benefits, or vise versa (Chrisman et al., 2005).
situations where a family firm achieves its non-economic objectives. Moreover, this essay argues that family culture plays a major role in altruism and the objectives of family members. Particularly, the marriage rationale and love style between the family’s parents are key components of family culture that shapes the type of altruism among family members and the attainment level of economic and non-economic objectives of the family and hence the family firm. By incorporating family culture into agency theory through exploring the family marriage relationship and family love style, the family business field will be able to identify the situations where altruism influences economic or non-economic performance, or both. Accordingly, family firms would exist to minimize the costs associated with agency problems and/or attaining non-economic objectives. The subsequent paragraphs will provide examples for the two different views of altruism and the essay’s approach to combine them.

The proponents of the negative relationship between altruism and economic performance have convincing arguments. For example, Thaler and Shefrin, (1981) argue that difficulties in self-control are a problem that may reduce the attainment of individuals’ economic objectives. They suggest incentives and rules to overcome self-control problems and hence improve the attainment of the individual’s economic objectives. Building on that, Lubatkin et al. (2005) correlate self-control problems in firms with family ownership and control. They argue that self control problems – which are due to high levels of discretion as a result of combining ownership and control rights, lack of external discipline (i.e., labor and capital market competition), irrationality, and/or lack of complete foresight – could cause individuals to make decisions that negatively
influence the economic performance of their firms (Lubatkin et al., 2005). For example, parental altruism could de-motivate family agents if they perceive equal treatment of qualified, active family agents and nonqualified, non-active family agents as unjust; hence that would increase potential agency costs if family owners and managers can not align their interests (Bergstrom, 1989; Lubatkin et al., 2005). Moreover, Bernheim and Stark (1988) argue that altruism should not be taken for granted as a constructive social force. They show some examples where altruism is negatively correlated with both the efficiency of resource allocation and benefits of group interactions.

However, the proponents of the positive relationship between altruism and economic performance have convincing arguments, too. For example, Lubatkin et al. (2005) argue that when parents discipline their altruism, they will be able to raise their children with reciprocal and symmetrical altruism and hence attain the governance advantages that are advocated by agency theorists (i.e., Jensen and Meckling, 1976). Eaton et al. (2002) show if altruism is reciprocal and symmetric, it not only reduces agency costs but leads to firm competitive advantages in capitalizing on certain business opportunities (Chrisman et al., 2005). Also, Eddleston and Kellermanns (2007) found that altruism enhances the performance of a family firm through reducing the conflict among the firm’s family members and facilitating their participation in the firm’s strategy-making process. Moreover, Chrisman et al. (2004) found that strategic planning (one control mechanism for agency problems) improves the performance of both family and non-family firms. However, non-family firms gain more improvement than family firms. This is an indication that family involvement reduces agency costs by eliminating or
reducing the need for agency control mechanisms and hence decreasing the overall cost of running family firms.

While research shows that altruism could positively and negatively impact the economic performance of family firms, a call is raised to develop a theory of altruism to explain how and when altruism increases or decreases firm performance (e.g., Karra et al., 2006). Lubatkin et al. (2007), for example, propose a typology of family altruism consisting of five ‘parental altruistic archetypes’. Their typology is based on how an individual deduces his/her identity and values and whether the self or other-interests dominate. They show how those altruistic types may relate to the governance mechanisms of family firms (i.e., type of good allowance, control, enforcement, agents’ motivation, and family bond), and how those altruistic types may explain the governance efficiency in those family firms. Ultimately, their typology is a classification of family firms according to their governance mechanisms, and it is useful in explaining the variation of agency costs among family firms.

The current essay provides another typology that is based on the marriage rationale and love style between married partners to determine the attainment level of economic and non-economic objectives of family firms. Chrisman et al. (2005) state that “[w]e need to better understand the interests of family business owners, whatever they may be [i.e., economic and non-economic]. By doing so we will be in a better position to measure agency costs by the decisions and actions pursued in contravention of owners’ actual interests, and the activities, incentives, policies, and structures owners set up to prevent their interests from being contradicted” (p. 565). Accordingly, the essay’s
typology is helpful in determining the interests of family business owners and whether family altruism should be viewed as agency costs or not in the first place. In other words, this essay’s typology is a classification of family firms according to the interests of their owners (i.e., economic and non-economic). Thus, the Lubatkin’s et al. (2007) typology and this typology focus on two different and complementary aspects of family firms. For example, this essay’s typology could be viewed as part of the strategy formulation of family firms insofar as it involves determining the firms’ objectives. However, Lubatkin’s et al. (2007) typology could be viewed as part of strategy implementation since it involves the mechanisms used in governing those firms. Thus, a potential joint contribution of the two typologies is to better explain what researchers mean by agency costs. Because one of the typologies deals with the intentions of family firms while the second typology deals with the behaviors of those firms, the altruism discrepancy between a family firm’s intentions and behaviors should be part of agency costs.

The essay’s approach in developing its typology is that marriage rationales could be used to distinguish between households whose goals are more consistent with the development of family firms and those whose goals are more consistent with the development of non-family firms. Within the households whose goals are more consistent with the development of family firms, the essay then distinguishes among five family types according to the love style of their married partners. The essay argues that married partners play a major role in shaping the family culture that would influence the attitudes and behaviors of new family members. Specifically, the essay argues that the love style of married partners shapes their altruistic behaviors and the behaviors of other family
members. Therefore, this essay’s typology would help in explaining the behaviors and performance of family firms because a family firm is a function of the culture (i.e., marriage rational and love style) of the family that is involved in that firm.

Love and altruism are close synonyms that could be interchangeable in some contexts (Bahr and Bahr, 2001). While love describes the emotional, cognitive, and behavioral aspects of a person (Noller, 1996), altruism describes the behavioral aspects of a person. For example, Myers (1983) defines love as “one’s willingness to sacrifice for another” (Bahr and Bahr, 2001: p. 1233) while Becker (1976) defines altruism as one’s willingness “to reduce his own consumption in order to increase the consumption of others” (p. 818). Similarly, evolutionary theory defines altruism as a sacrifice of one’s fitness for the fitness of others (Simon, 1993). Thus, both love and altruism behaviorally mean sacrifice for another, and the word altruism and love are exchangeable in this context.

Based on the argument that the altruism type of family members reflects the dominant love style among family members, the essay compares the love (altruism) styles among households who likely to form family firms and the dominant love (altruism) style of households who likely to form non-family firms. The comparison among the love styles is with respect to the attainment level of economic and non-economic objectives. In other words, the essay distinguishes among family firms and between family and non-family firms according to the style of family altruism which shows the attainment level of economic and non-economic objectives. And the essay
argues that the love style within the family is a good proxy for the style of family altruism. Thus, the terms love and altruism are interchangeable in this essay.

2.3. Family as a Reflection of its Marriage Rationale

The family – the social component of a family firm – plays a major role in shaping the firm’s behaviors and performance. The important question is whether the marriage rationales, why people marry?, impact the formation of a family firm and if so how? This section attempts to investigate that issue. It consists of three subsections, each of which adds knowledge towards answering the proposed question. The first subsection explains the economic theories of marriage and why the essay focuses on them. Moreover, it compares two economic theories of marriage and explains their one shortcoming which is explaining human behaviors from only a self-interest motive. The second subsection explains the roots of the shortcoming and how to overcome it. Building on those two subsections, the third subsection shows the model that explains the marriage rationales. Specifically, it distinguishes between marriages that have a high probability to form family firms and marriages that have a low probability to form family firms.

2.3.1. Economic Theories of Marriage

Marriage is an important phenomenon that impacts the lives of a large number of people around the world. There are attempts from different disciplines, such as sociology, anthropology and economics, to develop theories explaining many aspects of marriage.
This essay will be limited to the economic theories of marriage because they “tend to be more general in the sense that they encompass a range of applications and a range of causal factors” (Grossbard-Shechtman, 1993: p. 1: 7). Also, because this essay is a step towards explaining the performance of family firms in a subsequent essay, economic theories appear to be more relevant because they have common factors with the strategic management field (Rumelt et al., 1991). There are two economic views on marriage: the resource allocation view (i.e., market theories) and the resource coordination view (i.e., transaction cost theory). Before proceeding in explaining the similarities, differences, and shortcomings of the two economic views of marriage, the marriage term needs to be clarified. Marriage is used in this essay to mean a union of two persons. Thus, the term marriage includes both formal unions such as traditional marriage and informal unions such as roommates and cohabiters (Grossbard-Shechtman, 1993; Rose, 2001; Friedman, 1990).

2.3.1.1. Comparing the Two Economic Views

Both economic views share the stance that marriage involves two persons who share the same household for positive gains (e.g., Becker, 1973; Pollak, 1985). Within the household, the two persons share their marriage resources (e.g., time, knowledge, money, social status, beauty, physical power) to produce household commodities such as meals, children, cleaning, recreation, companionship, prestige and love (Becker, 1973). In both views, sharing the same household should lead to positive gains, which means that the marriage benefits are greater than the marriage costs. For example, Becker (1973) states
that people marry when their expected net benefits of being married are greater than their net benefits of being single. There are many sources of marriage gains, such as specialization of resources or the production of a specific commodity (Friedman, 1990). Also, marriage gains could be a result of economies of scale in the production of household commodities or a result of institutional factors, such as tax laws and health insurance coverage (Rose, 2001). Moreover, marriage gains could be due to the partners’ relationship that insures loyalty between the two persons and includes exchange of supports and protection from harm (Pollak, 1985). In fact, the positive gains that each view shares stem from the rationality assumption of economics (e.g., Grossbard, 1978) that an individual seeks self-interest in the marriage decision. Accordingly, both views focus on the economic objectives of the marriage as will be explained later.

While both views share the rationality of positive gains in the marriage decision, they differ in the source of gains. The allocation view focuses on the optimal allocation of marriage resources as a source of the positive gains. It assumes opportunistic behaviors are somewhere irrelevant in the marriage decision and participants should focus on the value of the exchanged resources (e.g., money, social status, beauty). Thus, the allocation view does not distinguish between formal and informal unions (Grossbard-Shechtman, 1993) but it focuses on the sorting process and result of individuals seeking marriage based on the values of their resources (Grossbard-Shechtman, 2004: p. 5). Thus, Becker (1973, 1974a, 1981b) uses the economic theories of the market (i.e., supply and demand models) to explain the optimal allocation of marriage resources. For example, marriage is at an equilibrium point when individual men and women meet each other’s demand for
spousal service (Grossbard-Shechtman, 1993). Grossbard (1978) states that the “legal imposition of monogamy can be viewed as an interference in the marriage market curtailing the aggregate demand men have for wife services”; thus, “harm the welfare of women by reducing male competition for their services” (p. 35). He uses three pieces of evidence to support his argument: use of brideprice, age at marriage, and proportion of women married. Brideprice could be seen as compensation from the husband to his wife as the market value of her service exceeds the market value of his service (Grossbard, 1978; Grossbard-Shechtman, 1993). Thus, the presence of brideprice payments in a society is an indication of the relatively higher value of women’s services compared to men’s services. Grossbard (1978) found that “brideprice payments are higher in polygynous societies” (p. 36). Moreover, he argues that women are likely to marry earlier when they gain from their marriage. He found that polygon not only encourage women to marry younger but it leads “a larger proportion of women to marry at all ages” (p. 36).

However, the coordination view focuses on the optimal coordination of marriage resources as a source of the positive gains. It assumes opportunistic behaviors are important factors in the marriage decision, and hence participants put more importance on ways of organizing marriage resources than the optimal allocation of these resources. It uses transaction cost theory and distinguishes between formal unions, such as traditional marriage, and informal unions such as cohabiting. Formal unions are characterized by some type of authority between the couples according to their institutional system (i.e., legal, culture, ideological) compared to the contractual characteristics of informal unions (Grossbard-Shechtman, 1993; Aguirre, 2006; Pollak,
1985). For example, Grossbard-Shechtman, (1993) stated that traditional marriages tend to be more stable than informal unions. So, securing a stable environment for living and rearing children requires some cost, such as engaging in an authority relationship (Pollak, 1985). For example, Grossbard-Shechtman (1993) argues that the more importance partners place on children, the more they tend to favor formal marriage over informal marriage. Children require supplying more spousal services and for a longer time than having no children; thus, ensuring a stable relationship between partners is more important than the optimal allocation of individuals’ marriage resources. Similar to that reasoning, Grossbard-Shechtman (1993) hypothesizes that assuming compensation is kept constant, men with less desirable characteristics tend to engage in formal marriage rather than informal marriage. In summation, the coordination view, for some consideration such as opportunistic behaviors, emphasizes the value of managing the marriage resources rather than the value of the marriage resources themselves.

2.3.1.2. The Shortcoming of the Two Economic Views

The main criticism of the economic theories of marriage revolves around the rationality assumption of self-interest that focuses on materialistic dimensions of the marriage and love (e.g., Grossbard-Shechtman, 2003). Scholars disagree on the motivation for marriage and love, whether it is for self-interest or for other-interest. In other words, they ask whether the self or other is the focal beneficiary of a person action. Answering this question requires considering the cost and benefit of that action (i.e., marriage and love). Keep in mind that the person him/herself is the reference point; when
benefits are greater than costs, the action is considered as economic; when costs are
greater than benefits, the action is considered as non-economic.

The proponents of self-interest argue that self-interests are dominant in human
behaviors. For example, Becker (1976: 817) quoted Smith’s (1969, 1937) statements that
“[w]e are not ready to suspect any person of being defective in selfishness” (1969: p.
446), and “it is not from the benevolence of the butcher, the brewer, or the baker, that we
expect our dinner, but from their regard to their own interest” (1937: p. 14). Thus, Becker
(1974b, 1981a) argues that parents are altruistic to their children not simply because they
love them but also because that would increase parents’ utility which it is a function of
their children’s utility as well as a function of parents’ consumptions. Moreover, Becker
(1976) argues that while an altruist incurs cost due to his/her sacrifice, such as a reduction
in income, the altruist may get a benefit higher than the paid cost by discouraging the
beneficiaries of altruism from harming him/her. Accordingly, in addition to his/her level
of satisfaction and consumption, the altruist would benefit from his/her sacrifice through
increasing his/her level of satisfaction and/or prevent any harm to his/her current level of
satisfaction and consumption. Thus, the rationality of self-interests means that a sacrifice
should lead to benefits that are greater than the costs of that action. In other words, self-
interests intend to achieve a person’s economic objectives; a person’s satisfaction and
consumption are the targets of his/her behaviors. In summation, the essay considers
economic objectives of an altruist as not only financial, but anything (i.e., tangible,
intangible) that benefits the altruist such as an increase in his/her consumption and
satisfaction. Moreover, the essay considers a sacrifice action that aims to achieve an
altruist’s economic objectives as the one that is done for a positive return, whether it is realized or not.

The proponents of other-interest, such as Myers (1983), argue that one’s willingness to sacrifice is a moral value and has nothing to do with profit. Bahr and Bahr (2001) restate Myers (1983) point of view that the “morality of kinship was willingness to not ‘count the cost’ in sacrificing for ones’ own, in contrast to the market, which involved contracts, exchange, and profit motive” (p. 1233-1234). Moreover, Morse (2001) argues that “the ‘key elements of marriage’ are ‘commitment and self-giving to another person’” (Aguirre, 2006: p. 440). Self-giving to another person (or other-interest motivation) means that marriage costs could be greater than marriage benefits. For example, marriages occur in some societies for the sake of other-interest, such as raising a relative’s children in case of one parent’s death. This action represents a big sacrifice because in many situations it is not the optimal mate or the mate that the altruist dreams of, but is a response to a situation in the family that requires one member of a family to sacrifice self-interests for other-interests. Bahr and Bahr (2001) criticize the contemporary family theory of neglecting concepts such as love and sacrifice, and they state that “it is time for a complementary model that includes them” (p. 1235). For example, there are people who marry not to increase their self gain but to increase the gain of others, such as selecting a mate only because he/she is poor to support the mate and his/her family. Such sacrifice that usually comes at the expense of the altruistic person may not be dominant, but it is one of the cases that are not covered by the existing economic marriage theory. As Monroe (1996: p.236) states, that as “unfortunate as it is to
misunderstand altruism, it is far worse to allow a theory to so intensely focus our attention on the selfish aspect of human behavior that it distorts and limits our understanding of what it means to be a human being” (Bahr and Bahr, 1996: p. 1239). Accordingly, the rationality of other-interests means that a sacrifice action does not lead to benefits greater than the costs of that action. In most situations, a sacrifice action may lead to negative gains. Put differently, a focus on other-interests intends to achieve a person’s non-economic objectives: the satisfaction and consumption of others are the target of a person’s behaviors. In summation, the essay considers non-economic objectives of an altruist to be anything (i.e., tangible, intangible) that intend to benefit others at his/her expense such as an increase in their consumptions and satisfactions. Moreover, the essay considers a sacrifice action that aims to achieve an altruist’s non-economic objectives as the one that is done for no or negative return, whether it is realized or not. In other words, the distinction among altruists is not their acts but the intentions of their acts. Altruists who seek non-economic objectives act with intentions that their sacrifices are not for the purposes of generating positive returns, whether in current or future periods. However, altruists who seek economic objectives act with the intention that their sacrifices will generate positive returns. While the two types of altruists have different intentions, the outcomes of their sacrifices (e.g., returns) could (or could not) match their expectations. Altruists may not (may) expect positive returns for their actions but they may (may not) realize those returns. Thus, the key criterion to distinguish between the two types of altruists is not their acts nor their returns but their intentions.
The essay argues that resolving the above criticism by accommodating the second view “other-interests” is important in developing a theory of the family firm. A family business is an entity that is shaped by the interaction of two different components: a social component – the family, and an economic component – the business. Moreover, a family business in general has non-economic objectives such as maintaining family ties and providing jobs for family members as well as economic objectives such as wealth creation (Chrisman et al., 2003; Chua et al., 2003). Andersson et al. (2002) explained that the non-economic objectives of a family business (i.e., creating a family legacy and job for family members) are more related to its social component – the family, while the economic objectives of a family business (i.e., growth, development, and profit) are more related to its economic component – the business. Accordingly, the two motivations: other-interests and self-interests are important in the context of family businesses. For example, the motivation of other-interests could be seen as a way of expressing the non-economic objectives of a family business while the motivation of self-interests could be seen as a way of expressing the economic objectives of a family business.

In summation, there is a relationship between altruism and both economic and non-economic objectives where altruism could be viewed as a means to achieve the objectives of the family, business, or both. For example, altruism could be seen as sacrifice of economic objectives of the individual (or business) for non-economic objectives of the family. Moreover, altruism could be seen as a sacrifice (or exchange) of one set of economic objectives of the business (or employee) for a bigger set of economic objectives of the business (or employee). The following section explains the self-interest
school of thought and its developed concepts, compares it with the competing other-interest school of thought, and shows how family business research advances by combining both schools rather than adhering to one or the other.

2.3.2. Economics as Optimal Choices of Means and Ends

Robbins (1935) defined economics as “the science which studies human behavior as a relationship between ends and scarce means which have alternate uses” (p. 16). According to Mueller (2002a), Robbins’s definition of economics represents a classic and famous definition that has been misquoted by many modern economists as ‘the science which studies the allocation of scarce resources which have alternate uses’ (p. 29). Mueller added that ignoring the choice of ends and focusing on the choice of means will not help researchers to explain all human behaviors.

Economics has four elements in describing human behaviors. Three of these elements are ‘irreducible aspects inherent’ in all human behaviors: utility, production, and distribution. Utility is “the value of any thing considered, not in itself, but as a means to some other end intended by the evaluating person” (Mueller, 2002a: p. 34). Thus, it is “the choice of means” (Mueller, 2002b: p. 8). Production is “a description of how valued goods are produced” (Mueller, 2002a: p. 35). Thus, it is “the production of those means” in a person’s utility. Distribution is “the choice of persons who are the ultimate ends or purposes” of human behaviors. The fourth element is the equilibrium conditions where the three elements are unified (Mueller, 2002b: p. 8).
Focusing on a specific element and ignoring another is what creates schools of thoughts in economics. Mueller (2002b: p.15) explained that economics has had four schools of thought. The first school is scholastic economics (1250-1775), which introduced the four elements of human behaviors. The second school is classic economics (1776-1870), which developed the theory of production (e.g., Smith, 1937). The third school is neo-classic economics (1871-), which developed the theory of utility (e.g., Becker, 1976). The fourth school is neo-scholastic (2000-), which recently emerged and focuses on developing a theory of distribution (e.g., Mueller, 2002a, 2002b). For example, the difference between the third and fourth school is that the third school does not consider persons other than the self as means; thus, it views the utility function as sufficient to explain human behaviors. However, the fourth school considers all persons, including the self as possible ends; thus, it differentiates between utility and distribution functions (Mueller, 2002a: p. 34).

2.3.2.1. Modern Economists and the Ignorance of Ends

The concern that Mueller (2002b) raises is that modern economists are taught to be acquainted with and utilize three elements of economics out of four: utility, production, and equilibrium. He added that most of those economists “have never heard or thought about the distribution function as a separate function. Yet if we understand its logic, a large part of economic theory, including the ‘economic approach to human behavior,’ need to be fundamentally revised” (Mueller, 2002a: p. 37).
While most modern economists ignore the distribution function or assume it to be constant, each person should have a distribution function that shows his/her relative ranking of persons including the self. Theoretically, ignoring the distribution function by modern economists means that they assume that the distribution function includes only one person, which is the self; thus, the end of any human behavior is the self that is consistent with their rationality assumption – self profit maximization. This makes modern economists like Becker explain all human behaviors including love and altruism as the maximization of utility (Mueller, 2002a).

Such assumption of the constant distribution function should be considered as one case of human behaviors, but it should not be generalized because it falls short of explaining all human behaviors. For example, altruistic acts are not always intended to gain some compensation, including the increase in the utility of an altruistic person. Altruism always involves sacrifice regardless of the altruistic person’s feeling whether it is happiness or sadness, enthusiasm or reluctance, or all of these. In fact, altruism is expressed by an action rather than feeling, and often feelings follow actions, not the other way (Mueller, 2002a: p.20). Thus, by ignoring the distribution function (or making it constant), modern economists, such as Becker, explain altruism with respect to economic objectives, which does not represent all cases of human behaviors. To remedy this shortcoming, the following subsection will expand the domain of altruism to include non-economic objectives by considering the distributive function as a variable, not a constant as in Becker’s mathematical equations.
2.3.2.2. Accommodating Both Means and Ends

To revise one view of economic theory pertaining to human altruism as called by Mueller (2002), assume that there are two persons who will engage in a marriage relationship as a husband and wife. The marriage relationship requires that the two persons share all (or some) of their resources with each other, hereafter marriage resources, whether or not their motivation is self-interest, or other-interest. Thus, each will have (1) a utility function that shows each person’s means (resources) and his/her ranking of those means; and (2) a distributive function that shows each person’s ends (people) and his/her ranking of those ends. In the utility function of each person, assume that it has only one shared resource. Similarly, in the distribution function of each person, it has two persons: the self and the other partner.

As with Robbins’s (1935) definition that economics is the relationship between ends and means; the rationality is to maximize both utility and distribution functions. In other words, rationality is finding the optimal choices of both means and ends that simultaneously maximize both utility and distribution functions. Following the economics’ approach of maximizing a given function subject to constraints, the procedure will start with the general form in which both utility and distribution functions contain variables and conclude with the special case where the utility function contains variables and the distribution function is constant – the case of Becker’s (1976) discussion.

The utility function of an individual \( (U_i) \) is a way of representing his/her value of different commodities and/or services \( (Z_i) \), not in their self, but as means to some other
end intended by him/her. For example, the utility could show the consumption of available commodities and services such as \( U_i = U_i(Z_1, Z_2, \ldots, Z_{n-1}, Z_n) \). Focusing on one commodity or service, the utility of a husband (h) and a wife (w) could be represented as follow: \(^6\)

\[
U_h = U_h(Z_h, Z_w) \quad \text{Equation-2.1a}
\]

\[
U_w = U_w(Z_w, Z_h) \quad \text{Equation-2.1b}
\]

\( U_h \) and \( U_w \) represent the utility function of a husband and a wife respectively; \( Z_h \) and \( Z_w \) represent the consumption of a commodity or service by a husband and a wife respectively. The above equation means that when two persons engage in a marriage relationship, both will have access to the shared resources and both have the choice of selecting the appropriate consumption and transfer level of each shared resource.

According to calculus laws (e.g., Stewart, 1999), finding the maximum point of a function occurs when the function first derivative equals zero. Thus, the maximum allocation of consumption between a couple occurs when the first derivative of both the husband and the wife’s utility equals zero as follows:

\[
dU_h = 0 \quad \text{Equation-2.2a}
\]

\[
dU_w = 0 \quad \text{Equation-2.2b}
\]

The first derivatives of the utility functions in Equation-2.1a and Equation-2.1b are:

\[
dU_h = (dU_h/dZ_h)*dZ_h + (dU_h/dZ_w)*dZ_w \quad \text{Equation-2.3a}
\]

\[
dU_w = (dU_w/dZ_w)*dZ_w + (dU_w/dZ_h)*dZ_h \quad \text{Equation-2.3b}
\]

\(^6\) The essay follows Becker’s standard in the formulation of altruism such as using one commodity. Thus, the developed equations are prone to the same critiques by Bergstrom (1989) pertaining to Becker’s altruism equations, which have difficulty when a second commodity is included.
Equating Equation-2.3a and Equation-2.3b with zero according to Equation-2.2a and Equation-2.2b respectively, then rearranging the equation yields the following:

\[
\frac{dU_h}{dZ_w} / \frac{dU_h}{dZ_h} = - \frac{dZ_h}{dZ_w} \quad \text{Equation-2.4a}
\]

\[
\frac{dU_w}{dZ_h} / \frac{dU_w}{dZ_w} = - \frac{dZ_w}{dZ_h} \quad \text{Equation-2.4b}
\]

The left sides of Equation-2.4a and Equation-2.4b represent substitution rate between an individual’s altruism and his/her consumption; the right sides of Equation-2.4a and Equation-2.4b represent the substitution rate between the partners’ resources. Finding the substitution rate between the partners’ resources requires considering the constraints of partners’ distributed income.

The distribution function of an individual \(D_i\) is a way of representing his/her relative ranking or weight of different persons \(P_i\) including him/herself. Thus, \(D_i = D_i(P_1, P_2, \ldots, P_{n-1}, P_n)\), and the summation of all relative weights should equal 1.0. Limited to two persons, the distribution of a husband \((h)\) and wife \((w)\) could be represented as follow:

\[
D_h = D_h(P_{hh}, P_{hw}) \quad \text{Equation-2.5a}
\]

\[
D_w = D_w(P_{ww}, P_{wh}) \quad \text{Equation-2.5b}
\]

\(D_h\) and \(D_w\) represent the distribution function of a husband and a wife respectively; \(P_{hh}\) and \(P_{hw}\) represent the husband’s ranking of himself and his wife respectively; \(P_{ww}\) and \(P_{wh}\) represent the wife’s ranking of herself and her husband respectively. Because the distribution function is limited to two persons (i.e., the husband and wife) who might not be all of the persons in the distribution function, \(D \leq 1.0\). Moreover, consumptions are constrained by each partner’s income that is completely
devoted to provide the marriage shared resources. Thus, the income of each partner is represented as follows:

\[ I_h = Z_h \quad \text{Equation-2.6a} \]
\[ I_w = Z_w \quad \text{Equation-2.6b} \]

\( I_h \) and \( I_w \) represent the income of a husband and a wife respectively; \( Z_h \) and \( Z_w \) represent the consumption by a husband and a wife respectively if they are single. But engaging in a marriage relationship requires distributing the available resources for each of them according to their distributive function. This occurs when the distribution equation is multiplied by the income as follows:

\[ D_{I_h} = P_{hh}Z_h + P_{hw}Z_h \quad \text{Equation-2.7a} \]
\[ D_{I_w} = P_{ww}Z_w + P_{wh}Z_w \quad \text{Equation-2.7b} \]

\( D_{I_h} \) and \( D_{I_w} \) represent the distribution of a husband and a wife’s income respectively, according to their distribution functions; \( P_{hh}Z_h \) and \( P_{hw}Z_h \) represent the husband’s consumed resource by himself and his wife respectively; \( P_{ww}Z_w \) and \( P_{wh}Z_w \) represent the wife’s consumed resource by herself and her husband respectively.

Moreover, the consumed resource by each partner will be a function of his/her income and the income transferred by the other partner as follows:

\[ Z_h = P_{hh}Z_h + P_{wh}Z_w \quad \text{Equation-2.8a} \]
\[ Z_w = P_{ww}Z_w + P_{hw}Z_h \quad \text{Equation-2.8b} \]

Thus, the total marriage income or consumption will be found by adding the distributed income of the partners or by adding the consumptions of both partners as follows:
Shw = DIh + DIw = Zh + Zw \hspace{1cm} \text{Equation-2.9}

Shw is the total couple’s income and/or consumption. Substitute Equation-2.7a, Equation-2.7b, Equation-2.8a, and Equation-2.8b into Equation-2.9; then rearrange the variables yield the following:

Shw = (Phh + Phw)\*Zh + (Pww + Pwh)\*Zw \hspace{1cm} \text{Equation-2.10}

Rearranging Equation-2.10 to have Zh at one side of the equation and the other terms at the other side, and repeat for Zw yields the following:

Zh = \left( \frac{1}{(Phh + Phw)} \right) \cdot Shw - \left( \frac{(Pww + Pwh)}{(Phh + Phw)} \right) \cdot Zw \hspace{1cm} \text{Equation-2.11a}

Zw = \left( \frac{1}{(Pww + Pwh)} \right) \cdot Shw - \left( \frac{(Phh + Phw)}{(Pww + Pwh)} \right) \cdot Zh \hspace{1cm} \text{Equation-2.11b}

Differentiating Zh with respect to Zw in Equation-2.11a and the other way in Equation-2.11b yields the followings:

\frac{dZh}{dZw} = - \frac{(Pww + Pwh)}{(Phh + Phw)} \hspace{1cm} \text{Equation-2.12a}

\frac{dZw}{dZh} = - \frac{(Phh + Phw)}{(Pww + Pwh)} \hspace{1cm} \text{Equation-2.12b}

\frac{dZh}{dZw} is the derivative of a husband’s resource with respect to a wife’s resource; \frac{dZw}{dZh} is the derivative of a wife’s resource with respect to a husband’s resource. Equation-2.12a and Equation-2.12b represent the substitution rate between the partners’ resources according to the constraint of their total distributed income.

Substituting Equation-2.12a and Equation-2.12b into Equation-2.4a and Equation-2.4b respectively yields the following:

\frac{(dU_h/dZ_w)/(dU_h/dZ_h)}{(dU_w/dZ_h)/(dU_w/dZ_w)} = \frac{(Pww + Pwh)}{(Phh + Phw)} \hspace{1cm} \text{Equation-2.13a}

\frac{(dU_h/dZ_w)/(dU_h/dZ_h)}{(dU_w/dZ_h)/(dU_w/dZ_w)} = \frac{(Phh + Phw)}{(Pww + Pwh)} \hspace{1cm} \text{Equation-2.13b}
Equation-2.13a and Equation-2.13b represent the substitution rate between an individual’s altruism and his/her consumption; the sacrifice rate; or the substitution rate between his/her non-economic objective and his/her economic objective. Thus, the general form of maximizing economic and non-economic objectives occur at the point of marginal utility equal to the relative rank of people. Equation-2.13a and Equation-2.13b represent the maximization of a husband’s and wife’s utility functions subject to the distributed family’s resource constraint. To find the Becker’s (1976, 1981a) case, which is where both partners use a distribution function with one person in it – that is the self, substitute \( P_{hh} \) and \( P_{ww} \) with 1.0, and substitute \( P_{hw} \) and \( P_{wh} \) with 0.0 on Equation-2.13a and Equation-2.13b yields the following:

\[
\frac{dU_h}{dZ_w} / \frac{dU_h}{dZ_h} = 1.0 \quad \text{Equation-2.14a}
\]

\[
\frac{dU_w}{dZ_h} / \frac{dU_w}{dZ_w} = 1.0 \quad \text{Equation-2.14b}
\]

Thus, Equation-2.14a and Equation-2.14b are Becker’s finding in the case of selfishness and they represent a special case of the general form. In that special case, the sacrifice is a means to achieve an economic end, which is self-benefit. By contrast, the general form in Equation-2.13a and Equation-2.13b shows that sacrifice could achieve economic and non-economic ends that ultimately depend on the relative ranking of persons in the distributive function.

In summation, accommodating the motivation of “other-interests” is important in developing a theory of the family firm. As shown above, the difference between the motivation of self-interests and other-interests is that the former considers no other person but the self as ends; thus, it views utility function is sufficient to explain human
behaviors. However, the later considers other persons as well as the self as ends; thus, it differentiates between utility and distribution functions (Mueller, 2002a: p. 34). This difference is important in differentiating between exchange in family and non-family firms. In family firms, exchange could be seen as giving up the economic objectives of the individual (or business) for the non-economic objectives of the family. In non-family firms, exchange could be seen as a giving up of one set of economic objectives of the business (or employee) for a bigger set of economic objectives of the business (or employee). Thus, the above Equation-2.13a and Equation-2.13b are helpful in finding the optimal substitution rate between economic and non-economic benefits in family firms, and Equation-2.14a and Equation-2.14b are helpful in finding the optimal substitution rate among sets of economic benefits in non-family firms. The subsequent subsection explores the marriage rationales among households. That helps in distinguishing between households whose goals are more consistent with the development of family firms and those whose goals are more consistent with the development of non-family firms. Households likely to form family firms are motivated by other-interests as well as self-interests, and Equation-2.13a and Equation-2.13b are more applicable to them. However, households which likely to form non-family firms are motivated only by self-interests, and Equation-2.14a and Equation-2.14b are more applicable to them.

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7 This could also occur in family firms. However, the essay deals with cases that emphasize the contrast between the two types of firms.
2.3.3. Family Marriage Model

The objective of this section is to develop explanations of household formation according to their motivations, which could be self-interests, or other-interests, or both. As it is discussed above, there are two economic views of marriage: optimal allocation of marriage resources (i.e., market theories) and optimal coordination of marriage resources (i.e., transaction cost theory). This subsection will use the second view to achieve its objective. The main reason for focusing on the second view, optimal coordination of marriage resources, is that altruism has more to do with the coordination than the allocation view. The common factor between the coordination view and altruism is their focus on the governing structure of the entity (i.e., the family, the family firm). The coordination view emphasizes that the governing structure of marriage resources plays a major role in realizing the objective of the marriage decision. Similarly, altruism influences the effectiveness and efficiency of the governing structure of both the family and family firm. Thus, this subsection uses the resource coordination view. Accordingly, this subsection consists of two parts; the first part briefly discusses the main ideas of the resource coordination view using transaction cost theory. The second part explains the rationales of marriage using concepts from transaction cost theory.

2.3.3.1. Transaction Cost Theory

Transaction cost theory (Coase, 1937; Williamson, 1975, 1985) states that markets and organizations are alternate structures for conducting business transactions. The decision to select one structure over the other depends on its governance cost.
Rational decision makers choose the structure that minimizes the transaction costs of their business activities. Williamson (1975, 1985) explains situations in which the market’s transaction costs would be higher than those within the firm as a result of some conditions such as asset specificity, bounded rationality, and opportunism. Asset specificity means specialized investments or assets (e.g., site specificity, physical asset specificity, human asset specificity, dedicated assets) that “cannot be redeployed without sacrifice of productive value if contracts should be interrupted or prematurely terminated” (Williamson, 1985: 54-55). If a business transaction requires a specific asset that the buyer and seller depend on, the cost of the business transaction will be lowered if the contractors form a firm. Specific assets are difficult to use for other purposes in case of contract termination; thus, their redeployment costs will be higher when market contracts are used. Bounded rationality means that contractors are assumed to be “intendedly rational, but only limitedly so” (Simon, 1961: xxiv; Williamson, 1985: 44). In reality, contractors are not able to predict and incorporate all possible circumstances in their contracts. Opportunism is defined as “self-interest seeking with guile” (Williamson, 1985: 30). As part of human nature, some contractors may not fulfill their promises. Accordingly, the central idea of Williamson (1975, 1985) is that firms exist when conditions such as asset specificity, bounded rationality, and opportunism make the costs of business transactions lower than when conducted through market contracting.

While asset specificity, bounded rationality, and opportunism are central to the transaction cost theorists, the assumption of risk neutrality has been neglected from their focus (Chiles and McMackin, 1996). Chiles and McMackin (1996) show that the
inclusion of the risk factor (risk aversion, risk neutral, risk seeking) helps to explain the anomalies found in the empirical findings of transaction cost theory. Moreover, they argue that the separate treatment of the three behavioral assumptions in the theory reduces its explanation power. So, they introduce individual trust as a unifying construct for the bounded rationality, opportunism, and risk assumptions. They define trust as “the expectation that an exchange partner will not engage in opportunistic behavior” (Chiles and McMackin, 1996: 85). The theme of their article is that the choice of market or organization structure in a business transaction is also a function of a person’s risk preference and his/her trust level in the transaction’s partner(s). Specifically, the choice of market structure – over organization structure – will be more likely for those who are risk seekers than for those who are risk averse and risk neutral all else equal. Similarly, the choice of market structure – over organization structure – will be more likely for the ones who are risk neutral than the others who are risk averse. Moreover, the choice of market structure – over organization structure – will be more likely for the ones who trust each other than those who do not.

2.3.3.2. Marriage Rationales

This section attempts to explain the marriage rationale for couples engaged in marriage relationships by using transaction cost theory (Coase, 1937; Williamson, 1975, 1985; Pollak 1985) and the insightful contribution to it by Chiles and McMackin (1996). The previous section explained that individuals engage in a hierarchical relationship if such relationship is more profitable than trading individually in the market. The decision
of selecting one form over the other depends on the transaction cost. Transaction costs, or more appropriately perceptions of transaction costs are a function of factors such as asset specificity and trust. This theory provides an explanation for engagement in business transactions that targets economic benefits. Similar to Pollak (1985), this paper argues that transaction cost theory could also provide an explanation for engagement in social transactions, such as marriage, that include both economic and non-economic benefits.

Figure-2.1, 2, and 3 show the model, with some variations, that will be used in this explanation. The model attempts to explain how a couple decides to engage in a marriage relationship and the rationale of this relationship, whether they are economic benefits and/or non-economic benefits. Specifically, this essay attempts to answer the question of “Why and how do asset specificity, opportunism, and level of societal trust impact the marriage type (i.e. formal and informal union) among a society’s members?” This question will be answered using three figures: Figure-2.1 deals with one component of asset specificity – human capital, Figure-2.2 deals with the other component of asset specificity – marriage specific capital, and Figure-2.3 deals with societal trust.

The hierarchical form in this model (Figure-2.1) represents couples engaging in formal union relationships (i.e., traditional marriage) to run their life affairs. The market form represents individuals who prefer to run their life affairs through informal union relationships (i.e., roommates, cohabiters). Governance costs represent the costs of running life affairs. In this essay, the phrase “governance costs” is exchangeable with the phrase “transaction costs”. Transaction cost theory revolves around two governing systems of business transactions: contracts (i.e., takes place in markets) and authority
Marriage Rationales Using Transaction Cost Theory

(i.e., takes place in organizations). It states that markets and organizations are two alternative governing structures for conducting business transactions (Coase, 1937; Williamson, 1975, 1985). Transaction costs include, but are not limited to, the costs of searching and verifying information, contracting with and controlling individuals, and terminating contracts before their end. Thus, rational individuals select the governance structure (i.e., contract, authority) that they believe will minimize the costs of their business transactions. Accordingly, the two phrases are exchangeable, and transaction costs mean the costs related to governing those transactions. In the case of household economics, governance (transaction) costs are costs associated with searching for a mate,
verifying his/her information, contracting with him/her, controlling his/her behaviors (e.g., no relationship with other than the contracted mate), and terminating the contract (if it occurs before its end). There are two different cost functions, one cost function for the market form (informal marriage), and another for the hierarchical form (formal marriage). Both cost functions intersect at the switchover point (SWP) where both yield equal costs, and individuals should be indifferent between them. Economic benefits occur when the function cost decreases. Non-economic benefits usually occur at the expense of economic benefits, thus, non-economic benefits occur when the function cost increases.

Asset specificity could be defined in this model as acquiring marriage specific capital and/or having low human capital (Pollak, 1985). Marriage specific capital is skills and experiences that have high value within the household production and less value in the market, such as the production and rearing of children, companionship, and love. On the other hand, human capital is skills and experiences that have high value in the market and less value within the household production, such as a high level of education and job skills. Because marriage specific capital and human capital are two independent constructs, the model will not vary them simultaneously. The model will use human capital as a variable representing asset specificity on the x-axis while holding marriage specific capital constant at one level (i.e., low, medium, high). Choosing human capital instead of marriage specific capital to be on the x-axis is arbitrary; that is, no specific arguments or findings support either one over the other. Pollak (1985) states that “[i]t is an unresolved and virtually unexplored empirical issue whether working exclusively in the nonmarket sector increases marital stability primarily by increasing marriage-specific
capital, thus increasing the married payoff, or primarily by failing to increase market
capital, thus decreasing the divorced payoff” (p. 602). Moreover, the model is intended to
be equally applicable to men and women. For example, there are many husbands and
wives who acquire high human capital compared to their spouses who may have high
marriage specific capital and/or low market human capital. Thus, the model itself does
not differentiate between gender roles, but it is applicable in different societies that may
have different gender roles.

While focusing on medium trust societies and people having medium marriage
specific capital as a starting point, Figure-2.1 shows that a person from those societies
should select the formal relationship over the informal relationship when his/her level of
asset specificity exceeds the switchover level, $SL_{MTS/MMSC}$, (i.e., high asset specificity).\(^8\)
In other words, the person selects to engage in formal relationship when his/her human
capital level is below the switchover level, $SL_{MTS/MMSC}$, (i.e., low human capital). The
rationale for this decision is that the governance cost of running his/her life affairs (e.g.,
controlling a partner behaviors) at the hierarchal form (formal marriage) is less than that
of the market form (informal marriage). Because of their high asset specificity (at area
above the $SL_{MTS/MMSC}$), a person could be exposed to a high probability of opportunism
if they select the market form to run their life affairs. Pollak (1985) explained that formal
marriage provides marital stability that is a required condition to lessen the threat of low

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\(^8\) Asset specificity means a specialized asset that cannot be easily used in purposes other than what it
intends for, without losing some of its value. From that perspective, low human capital could be seen as
high asset specificity where it has low potential to be used in many purposes in comparison to high human
capital. Keep in mind that asset specificity in the model increases in the right direction while human capital
decreases in the right direction. Accordingly, high asset specificity and low human capital mean the same
thing, but they differ in the direction where each increases.
market human capital. Martial stability provides an insurance condition for a person who has low human capital. Engaging in market transactions with such weakness may increase the transaction cost incurred in the case of contract termination, such as difficulty in finding a new mate after investing a part of marriage resources (i.e., beauty, age) in the terminated relationship. As stated by Pollak (1985), formal marriage protects “the parties against the hazards of unconstrained bilateral bargaining” (p. 603). Thus, engaging in formal marriage is a decision made to avoid opportunism in the case of having low market human capital. That case makes the formal marriage more profitable than informal marriage by reducing the union cost. Therefore, a person engaging in a hierarchal form at an asset specificity level higher than \( SL_{MTS\_MMSC} \) is mainly led to economic gains. Stated as a proposition:

**P1: There is a positive relationship between high asset specificity (i.e., low human capital) and formal marriage.**

Below the switchover level \( SL_{MTS\_MMSC} \) (i.e., low asset specificity), in which an individual has more human capital, the person faces two alternatives. The first alternative is for the person to select the market form (i.e., informal marriage) in which he/she is able to optimally allocate his/her resources using efficient market mechanisms and gain high rewards without the fear of market opportunistic behaviors because resources such as high human capital could be redeployed without sacrifice in their productive value in case of any contract termination. In that case, a person engaging in an informal union at a level of asset specificity lower than \( SL_{MTS\_MMSC} \) (i.e., high asset specificity) is mainly led by economic gains. The second alternative is for the person to select the hierarchical form
(i.e., formal marriage) in which he/she incurs an extra cost (the cost differences between the hierarchical and the market form) in order to achieve non-economic objectives such as real love. Gouldner (1960) indicates in his norm of reciprocity perspective that individuals are obligated to respond positively to favorable treatment received from others. In that context, spouses are obligated to love their partners, who incur a higher cost - of running their life affairs - by selecting the hierarchical form over the economic rational decision (e.g., profit maximization) in selecting the market form. In that case, reciprocal love is created by persons with asset specificity that is less than the switchover level (e.g., $SL_{MTS_{MMSC}}$) and engages in a hierarchal form instead of the market form. However, if a person engages in such a relationship and does not obtain reciprocal love, the economic rational decision will be separation and returning back to the market form.

Stated as propositions:

**P2:** There is a positive relationship between low asset specificity (high human capital) and informal marriage for partners who are below the switchover level ($SL_{MTS_{MMSC}}$) and focus on economic gains.

**P3:** There is a positive relationship between low asset specificity and formal marriage for partners who are below the switchover level ($SL_{MTS_{MMSC}}$) and focus on non-economic gains such as real love.

Figure-2.2 shows the same model in Figure-2.1. However, in Figure-2.2 marriage specific capital (e.g., the production and rearing of children, companionship, and love) is allowed to vary and is depicted as low, medium, and high. Pollak (1985) explained that formal marriage provides marital stability that is a required condition
Marriage Rationales Using Transaction Cost Theory – Varying Marriage Specific Capital

to capitalize on high marriage specific capital. Martial stability provides an insurance condition for a person who wants to accumulate marriage specific capital. The accumulation of marriage specific assets will enhance the household productivity due to the specialization that ultimately leads to the increase of union benefits. Thus, engaging in formal marriage is a decision made to avoid opportunism in the case of accumulating marriage specific capital. This case makes the formal marriage more profitable than informal marriage by increasing the union payoff. For example, keeping asset specificity (i.e., human capital) level constant at SL-\text{MTS-MMSC} in Figure-2.2, individuals with high marriage capital are better off to engage in formal union.
than individuals with medium marriage capital who are indifferent (i.e., at SWPM), or
individuals with low marriage capital who to marry must trade-off economic
objectives to achieve non-economic objectives as explained in P2 and P3. Stated as a
proposition:

**P4**: The switchover levels for asset specificity are higher for people who have
low marriage specific capital than those of high and medium marriage specific
capital.

**P5**: The switchover levels for asset specificity are higher for people who have
medium marriage specific capital than those who have high marriage specific
capital.

Figure-2.3 shows the same model in Figure-2.2. However, in Figure-2.3 but
with varying societal trust – low, medium, and high – is shown. Societies differ in
their levels of trust among their people. The trust that this model discusses is the trust
of individuals in their society to protect them against opportunistic behaviors.
Individuals in each society develop their levels of trust in their societies and behave
accordingly. This essay uses societal trust as an indicator of the perceived risk of
opportunism by people in a society. Accordingly, the above explanations and
propositions are applicable for all societies that have different trust levels. The only
difference is that people in low trust societies are more prone to opportunistic risk
than those in other societies. For example, keeping asset specificity (i.e., human
capital) level constant at SL<sub>MTS_MMSC</sub> in Figure-2.3, individuals living in low trust
Figure 2.3

Marriage Rationales Using Transaction Cost Theory – Varying Societal Trust

Societies are better off economically by engaging in formal union than individuals living in medium trust societies who are indifferent (i.e., at SWP_M), or individuals living in high trust societies who must sacrifice economic objectives to achieve non-economic objectives (P2 and P3). Stated as a proposition:

**P6: The switchover levels for asset specificity are higher for high trusted societies than those of medium and low trusted societies.**

**P7: The switchover levels for asset specificity are higher for medium trusted societies than those of low trusted societies.**
Based on the above, it can be generally concluded that the two curves in Figure-2.1 represent two groups of households. The first group of households is those who are in informal marriage (i.e., cohabiters) and located on the curve MK1-SWP-MK2. Altruism between the group couples could be explained by Becker’s Equation-2.14a and Equation-2.14b. Those households are seen as motivated by market values (i.e., self-interests, individualism). Accordingly, this essay considers those households as ones whose goals are more consistent with the development of non-family firms.

The second group of households is those who are in formal marriage (i.e., traditional marriage) and located on the curve TM1-SWP-TM2. Altruism between the group couples could be explained by Equation-2.13a and Equation-2.13b. Those households are seen as motivated by family values (i.e., other-interests, collectivism).

Accordingly, this essay considers those households as ones whose goals are more consistent with the development of family firms. The following section explores the dominant love styles among the households of the two groups and how love styles impact their attainment level of economic and non-economic objectives. Specifically, the next section builds on Figure-2.1 and differentiates among households whose goals are more consistent with the development of family firms.

2.4. Family as a Reflection of its Love Style

The previous section divides households into two groups according to their motivations: self-interests and other-interests. While this could help in differentiating between households who likely to form family firms and households who likely to form
non-family firms, family firms could not be considered as one category. Researchers (Chrisman et al., 2004; Eaton et al., 2002; Schulze et al., 2001, 2003) found differences among family firms. Accordingly, there should be differences among the households who likely to form family firms. Figure-2.1 shows the households who are likely to form family firms (i.e., traditional marriages) are located on the curve TM1-SWP and the curve SWP-TM2. However, there are traditional marriages that are not located on those two curves.

Figure-2.4 shows six possible situations for traditional marriages, including those two of Figure-2.1. The first situation is traditional marriages located on the curve TM1-SWP; it represents the minimum governance cost situation of traditional marriages achieved in the area below the switchover level of asset specificity. The second situation is traditional marriages located on the curve SWP-TM2; it represents the minimum governance cost situation of traditional marriages achieved in the area above the switchover level of asset specificity. The third situation is traditional marriages located between the curve SWP-TM2 and SWP-MK2; it represents a situation of traditional marriages whose governance cost is between those of traditional marriages located on the curve SWP-TM2 and those of market unions located on the curve SWP-MK2. The fourth situation is traditional marriages located on the curve SWP-MK2; it represents a situation of traditional marriages whose governance cost is equal to those of market unions located on the curve SWP-MK2. The fifth situation is traditional marriages located above the curve SWP-MK2; it represents a situation of traditional marriages whose governance cost is greater than those of market unions located on the curve SWP-MK2. The last situation
is traditional marriages located above the curve TM1-SWP; it represents a situation of traditional marriages whose governance cost is greater than those of traditional marriages located on the curve TM1-SWP.

This section attempts to find differences among households using love styles by proposing a model based on the above two groups of households (i.e., traditional marriages, market unions). It consists of four subsections. The first subsection discusses the concept of love and love styles. The second subsection shows the main arguments and assumptions of the proposed model. The third subsection shows numerical examples for
households’ economic and non-economic objectives as an introduction to the section’s propositions. The last subsection relates households’ love styles to their economic and non-economic objectives.

2.4.1. Love Styles

There is no agreement on what love is (Noller, 1996). While there are taxonomies that show types of love, Regan (2003) states that two taxonomies are more common: the color theory of love (Lee, 1973) and the triangular theory of love (Sternberg, 1986). Although scales to measure love styles have been developed for both taxonomies, the Love Attitude Scale (LAS) developed by the Hendricks and their colleagues (Hendrick and Hendrick, 1986; Hendrick et al., 1998) based on Lee’s color theory of love has received more widespread use in social literature than the Triangular Love Scale (Regan, 2003). Accordingly, this essay uses Lee’s theory of love and its developed scale in explaining the behaviors of the family and hence the behaviors and performance of family firms in subsequent essays.

Lee uses the color typology to find love styles among adults. In colors, there are three primary colors (red, blue, and yellow) that stand by themselves and are not a result of color mixing. Other colors are a mix of more than one color. For example, secondary colors (violet, orange, and green) are a mix of two primary colors. Similarly, Lee identifies three primary love styles (i.e., Eros, Ludus, and Storge) and three secondary love styles (i.e., Pragma, Mania, and Agape) that each is a mix of two primary love styles. He states that “secondary does not imply inferior but simply, constructed out of a
combination of primaries” (Lee, 1977: 174). Thus, Lee (1973) shows six styles of love, each of which represents a different orientation toward what he calls partnering relationships: (1) Eros (passionate or romantic) love involves powerful attraction to the partner, both physically and emotionally; (2) Ludus (game-playing) love is a playful, distant, noncommittal style that treats love as a game and may involve simultaneous relationships with several partners; (3) Storge (friendship) love develops slowly and lacks strong emotion, but is based on affection; (4) Pragma (practical) love involves looking for someone who can meet the criteria one is searching for in a partner; (5) Mania (dependent) love is often possessive and jealous, based on the fear that one's lover will leave; and (6) Agape (selfless or altruistic) love gives more than it receives in return (Lee, 1973, 1974; Hendrick and Hendrick, 1986; Hendrick, 1988; McCutcheon, 2002; Montgomery and Sorell, 1997). Thus, each love style represents an exclusive style from the other. For a layman, any love style could be considered romantic love. For example, Hendrick and Hendrick (1993) found that romantic relationships among college students mostly revolve around Storge (friendship) love (Noller, 1996).

Lee (1974) explained that Mania is a mix of Eros and Ludus, Agape is a mix of Eros and Storge, and Pragma is a mix of Ludus and Storge. Thus, romantic love, for example, could be the only love style as in Eros or be mixed with other love styles as in Mania and Agape. Thus, while romantic relationship could mean any style of love for a layman, scientifically it is related to Eros, Mania, and Agape. In differentiating among love styles, Lee uses colloquialisms (e.g., playful, romantic, dependent) in general publications and Latin and Greek terminology in scientific publications (Lee, 1974).
Accordingly, the essay follows Lee in his use of Latin and Greek terminology in scientific writings.

2.4.2. Model’s Main Arguments and Assumptions

This essay proposes a model that explains the situations where altruism in a family targets economic objectives, non-economic objectives, or both. Because the family is a key entity in shaping the behaviors and performance of family firms, the proposed model that deals with family culture is expected to enhance our understanding of the performance phenomenon of family firms. As in every model, the proposed model has three key arguments. Two of those arguments are based on some assumptions that need to be explicitly declared in a separate subsection.

2.4.2.1. Key Arguments

There are three key arguments. The first argument is that altruism is a means to achieve economic and non-economic objectives of the family; it depends whether the end of an action (i.e., altruism) is the self or the other. The previous sections (1) explains the difference between the two cases, (2) argues that Becker’s explanation of altruism represents the case of self-interest, and (3) complements Becker’s work by incorporating the case of other-interest in the explanation of altruism.

The second argument is that the altruism type found in a family is a reflection of its family love style. The previous sections argue that both love and altruism behaviorally mean sacrifice for another. Hence, the word altruism and love are exchangeable in this
context; if researchers are able to understand love within the family, they will be able to understand altruism within the family. Put differently, love is used as a proxy for altruism.

Assuming that the married partners and/or their offspring form a family firm, the third argument is that the love style of a married partner is the key factor in shaping the behavior of the family and hence the behavior and performance of the family firm. There are two reasons for that. The first reason is that marriage partners by themselves represent the family core unit (Sorenson and Lumpkin, 2007). Assuming that married partners form a family firm, their attitudes (love style or altruism type) will be directly transferred to the family firm through their way of controlling the firm. The second reason is that marriage partners shape the attitudes and hence the behaviors of their children. For example, Hoy and Verser (1994) state that family members “internalize values and ethics throughout their lives from parents” (p. 15). Assuming that the children of a married partner are involved in a family firm, the love style (or altruism type) of the married partner will indirectly influence the family firm through their children. In fact, the literature has two views regarding the transmission of attitudes (Inman-Amos et al., 1994). The cohort view (e.g., Bengston and Cutler, 1976) states that peers rather than parents have the biggest influence on the attitudes and values of young adults. The lineage view states that parents influence the attitudes of their children across their lifespan (e.g., Bengston and Black, 1973). This essay is aligned with the latter view and supports the probability that “[c]ohort differences may disappear as the younger generation matures” and “[p]erhaps we ‘become our parents’ at a later time in our lives” (Inman-Amos et al., 1994: p. 460).
According to those three arguments, this essay attempts to theorize a link between love (altruism) style and the economic and non-economic objectives of the family – the social entity of the family firm. The essay capitalizes on the developed theory and scale of love (e.g., Lee, 1973; Hendrick et al., 1998) and sets the first stage by proposing relationships between love styles of married partners and their economic and non-economic objectives.

2.4.2.2. Key Assumptions

The proposed model has four key assumptions. The first assumption is relevant to the first argument, and the remaining three assumptions are relevant to the second argument. Because the model’s target is to explain the performance of family firms, the proposed assumptions and model configuration are focused on the conditions relevant to family firms. Thus, the explanation and justification used in the model are directed toward the family business’s arguments. In other words, the model may answer some research questions raised by other fields (i.e., economics, sociology, psychology) but the model attempts to solve (or focus on) the research questions raised by family business.

The model’s first assumption regards the relationship between economic and non-economic objectives. There are three possibilities for such a relationship: a negative relationship, no relationship, and a positive relationship. This essay assumes that the achievement of economic and non-economic objectives is negatively correlated. In the context of family firms, their objectives differ from those of non-family firms in that they include non-economic objectives as well as economic objectives (Chrisman et al., 2003; Chua et al., 2003). Andersson et al. (2002) explained that the economic objectives of any
business revolve around business growth, development, and profit, while non-economic objectives of a family business include creating a family legacy and jobs for family members, which are sometimes achieved at the expense of business objectives. While there are possibilities that achieving non-economic objectives could enhance the economic performance of a family firm, such as hiring a well-qualified family member, the historical view of the concept of non-economic objectives by economics is that non-economic objectives are attained at the expense of economic objectives. For example, Harry Johnson was the first in formally defining non-economic objectives in economics (Maneschi, 2004). Johnson (1964: p. 6-7) states that “[t]he distinguishing characteristic of non-economic as distinct from economic arguments for protection is that – at least if they are honestly advocated – they involve the willingness to forego potential real income in order to achieve other objectives of national policy” (Maneschi, 2004: p. 912). Similarly, Elmslie (2004) defined a non-economic objective with respect to the economy as “an objective of the government that puts a constraint on the results of the competitive outcome” (p. 897). Accordingly, the essay assumes that the attainment of non-economic objectives implies a trade-off against economic objectives.

The model’s second assumption pertains to the distribution of love styles among households (i.e., formal and informal union). The essay relates five love styles (i.e., Eros, Ludus, Mania, Pragma, Agape) to formal union marriage and one love style (i.e., Storge) to informal union marriage. Such distribution may raise three concerns. The first concern, do those love styles exist equally in formal and informal union marriage? The second concern, why the essay explores the case of formal marriage more than the case of
informal marriage? The third concern, what is the logic of relating certain love styles to a certain type of union? Regarding the first concern, Lee (1974, 1977) distinguishes among different styles of love but he argues that they exist among adults and represent a legitimate way of loving. Thus, this essay does not argue that formal union marriage contains five love styles and informal union marriage contains one love style, but this essay specifically limits itself to five love styles of formal union marriage and one love style of informal union marriage. Regarding the second concern, this essay correlates formal unions and the forming of family business. Thus, because this essay is interested in developing a theory of the family firm, the essay focuses on the love styles of formal union marriage more than the love styles of informal union marriage.

Regarding the third concern of the model’s second assumption, the essay argues that romantic love (i.e., Eros, Mania, Agape), Pargma, and Ludus love could be found among partners engaged in formal marriages, while Storge love is the most dominant style among partners engaged in informal marriage. There could be a couple of justifications for that but the justification used in this essay comes from an economic-cultural perspective. Generally, the essay argues that wealthy-individualistic people tend to engage in formal marriage if they gain emotional benefits such as romantic love. Romantic love “constitutes a human universal” (Jankowiak and Fischer, 1992: p. 154) and represents a key criterion for many people to engage in a marriage. For example, Burgess and Wallin (1953) wrote that “[t]he expected, approved, and sanctioned precondition to marriage in American society is falling in love” (Levine et al., 1995: 554). In two investigations, Simpson et al. (1986) found that romantic love is viewed by
United States respondents as a prerequisite for establishing and maintaining a marriage. Moreover, Willi (1997) found among a sample of Swiss and Austrian people that 42% of respondents get married with their great love while 10% of respondents live with their great love without being married and the rest (48%) either do not get into a relationship or do not live together. As family business researchers, the interest is in the first and second category where the majority of romantic lovers (80%) tend to engage in formal union rather than being in informal union.

If romantic love is not foreseen or achieved, Storge love (i.e., informal union) could be seen as the optimal love for wealthy-individualistic people. Hendrick and Hendrick (1993) found that romantic relationships among college students mostly revolve around Storge love (Noller, 1996). Regan (2003) reported that “Americans tend to endorse a more storgic and manic approach to love than do the French, who in turn tend to demonstrate higher levels of agape” (p. 13). Dion and Dion (1996) stated that “heightened individualism has contributed to increasing rates of marriage failure and divorce in United States and Canada in recent decades” (p. 15). Kim and Hatfield (2004) found that life satisfaction in the United States is more strongly related to companionate (Storge) love than by passionate (Eros) love.

In contrast, the essay argues that less prosperous, collectivistic people tend to accept Paragma and Ludus love in their formal unions. Romantic love is relatively less important for people who have economic suffering, or where cultural considerations such as achieving family objectives override individual objectives. Levine et al. (1995) found that there are cross-cultural differences in the perceived importance of love as a
prerequisite for establishing and maintaining a marriage. They found that individualistic nations (i.e., the United States and England) place a higher importance on love than collectivistic nations (i.e., India, and Pakistan). Neto (2007) found that Indian respondents (i.e., participants from a collectivistic nation) score higher on Pragma, Mania, and Agape love than British respondents (i.e., participants from an individualistic nation). The reason for that is expressed by Simpson et al. (1986) that the improvement of economic and social conditions makes “positive emotional experience and personal, intrinsic factors” (p. 371), such as romantic love, important determinates to enter in a marriage relationship.

The model’s third assumption pertains to whether households exchange similar or different love styles. While a similar or different love style could exist between married partners, the essay focuses on similar love styles. The reason is that a similar love style is an important aspect in the survival of married partners. Inman-Amos et al. (1994) found that married partners show similarity in love styles. They reported that most of these partners have been married for many years. They argue for a possible reciprocal relationship between love style and marriage longevity, that, either the marriage longevity leads to similar love style or the similarity in love style leads to the stability and longevity of marriage. Accordingly, it is assumed that the survival of a family is a function of the marriage survival of partners. Because the survival of the family is a prerequisite for the definition of a family business (Chrisman et al, 2005), the essay limits its analysis and discussion to similar love styles between married couples. However, one way to analyze different love styles could be through the interpolation between the two
different love styles and their consequences (i.e., level of achieving economic and non-economic objectives). Such interpolation should be weighted to the power of each partner.

*The model’s fourth assumption* regards what constitutes asymmetrical love and reciprocal love. While the discussion is limited to a similar love style between partners, the question is which love styles are considered reciprocal and which love styles are considered asymmetrical. Focusing on the love styles whose partners have potential to form a family firm (i.e., Eros, Ludus, Mania, Pragma, Agape), two love styles are considered reciprocal and the remaining three are asymmetrical. The essay considers romantic loves: Eros and Mania as reciprocal love, where Eros would probably be endorsed by economically independent partners and Mania would probably be endorsed by economically dependent partners. The essay argues that partners who endorsed similar Eros or similar Mania love have similar distribution functions of their marriage resources (i.e. similar number and rank of persons). On the other hand, Ludus, Pragma, and Agape love are seen as asymmetrical love styles. Ludus is noncommittal love between married partners where another (third) loved person may share the marriage resources as in the polygamous marriages that occur in some societies. Pragma love is practical love where factors other than the loved person contribute to the marriage and may influence the distribution of marriage resources. For example, finding a partner who considers one’s family may require higher compensation. Accordingly, the marriage resources are not distributed evenly where one partner gets more than he/she gives to the other. Agape love is selfless love where the sacrifice value held by that love’s partners probably is not
limited to themselves. Partners who endorse Agape love may use their marriage resources to help other people. Thus, marriage resources may not be distributed equally between the married partners. In summation, these three styles, Ludus, Pragma, and Agape, are believed to represent non-reciprocal love between partners, in which their distribution functions differ in the number and/or rank of persons.

2.4.3. Numerical Examples on Family’s Economic and Non-Economic Objectives

Figure-2.5 is an attempt to locate the six love styles with respect to the marriage view by transaction cost theory. To understand the rationale of assigning each love style to certain points on the diagram’s curves or area, numerical examples are necessary. Assume that there are two persons that individually have one unit of a marriage resource (e.g., time, knowledge, money, social status, beauty, physical power). Also, each person has some objectives that could be all economic, all non-economic, or a combination of economic and non-economic objectives. As explained in the previous sections, economic objectives of a person are not meant to be only financial, but they could be anything (i.e., tangible, intangible) that will benefit the person such as an increase in his/her consumption and satisfaction. On the other hand, non-economic objectives of a person could be anything (i.e., tangible, intangible) that will benefit others at his/her expense such as an increase in their consumptions and satisfactions. Moreover, each person allocates his/her marriage resources according to his/her objectives. Allocation that aims to achieve a person’s economic objectives is the one that is done for a positive return whether it is realized or not. However, allocation that aims to achieve a person’s non-
economic objectives is the one that is done for no or negative economic return whether it is realized or not. The issue is that each person has to select the form of marriage that maximizes the allocation of his/her marriage resources according to his/her objectives.

Figure-2.5 shows two axes and two curves that intersect at a switchover point (indifference point). The horizontal axis represents the marriage asset specificity in which low asset specificity (i.e., high human capital) makes one less vulnerable to opportunistic behaviors, and high asset specificity (i.e., low human capital) makes one more vulnerable to opportunistic behaviors. The vertical axis represents the marriage governance cost in
which low governance costs represent high economic benefits, and high governance costs represent low economic benefits. Moreover, high economic benefits correspond to low non-economic benefits, and low economic benefits correspond to high non-economic benefits.

The first curve (TM1-SWP-TM2) represents traditional marriages that may occur at any level of asset specificity. Any point on this curve (TM1-SWP-TM2) represents the maximization of economic and non-economic objectives of both partners that meet Equation-2.13a and Equation-2.13b of the previous section. This analysis considers this curve as a model’s base line where each person devotes to his/her partner 50% of his/her marriage resources. According to this reciprocal sacrifice, the optimal maximization of marriage resource allocation (one unit owned by each partner) will lead to a total of one unit of marriage resource (half from each partner) devoted to economic objectives (i.e., self consumptions and/or satisfactions) and a total of one unit of marriage resource (half from each partner) devoted to non-economic objectives (i.e., other consumptions and/or satisfactions). In mathematical terms: \( H_{ERTM1-SWP} = H_{ERSWP-TM2} = 1.0, \ H_{NRTM1-SWP} = H_{NRSWP-TM2} = 1.0; \) where \( H_{ERTM1-SWP}, \) and \( H_{ERSWP-TM2} \) are the household economic consumptions/satisfactions located on the curves TM1-SWP, and SWP-TM2 respectively; and \( H_{NRTM1-SWP}, \) and \( H_{NRSWP-TM2} \) are the household non-economic consumptions/satisfactions located on the curves TM1-SWP, and SWP-TM2 respectively.

The second curve (MK1-SWP-MK2) represents market unions (i.e., informal marriage) that may occur at any level of asset specificity. Any point on this curve (MK1-
SWP-MK2) represents the maximization of economic objectives of both partners that meet Equation-2.14a and Equation-2.14b of the previous section. Thus, the objectives of each partner are exclusively economic where any sacrifice to the other partner is derived from self-interest. Explaining this curve with respect to the base line curve (TM1-SWP-TM2) requires dividing this curve into two portions. The curve’s first portion (MK1-SWP) is located at places where opportunistic behaviors are inherently controlled through a low asset specificity of each person. Accordingly, the optimal maximization of the marriage resource allocation (one unit owned by each partner) will lead to a total of two units of marriage resource (one from each partner) devoted to economic objectives, and a total of zero unit of marriage resource (zero from each partner) devoted to non-economic objectives. In mathematical terms: $HER_{MK1-SWP} = 2.0$, $HNR_{MK1-SWP} = 0.0$; where $HER_{MK1-SWP}$ is the household economic consumption/satisfaction located on the curve MK1-SWP, and $HNR_{MK1-SWP}$ is the household non-economic consumption/satisfaction located on the curve MK1-SWP. Thus, households located on the curve MK-1-SWP are economically better off than households located on the curve TM1-TM2 ($HER_{MK1-SWP} = 2.0 > HER_{TM1-SWP} = 1.0$).

The curve’s second portion (SWP-MK2) is located at places where opportunistic behaviors are not inherently controlled because of a high asset specificity of each person. Thus, the curve SWP-MK2 has a higher governance cost than curve SWP-TM2. The reason is that there are some resources used in (1) controlling present opportunistic behaviors, and (2) smoothing the future union payoff due to the probability of ineffective controlling mechanisms. Thus, curve SWP-MK2 represents households that are
economically lower than those that are on the curve SWP-TM2. Similar to MK1-SWP, SWP-MK2 represents households that have zero non-economic consumption/satisfaction. In mathematical terms: \( \text{HER}_{SWP-MK2} < 1.0, \text{HNR}_{SWP-MK2} = 0.0, \text{CSC}_{SWP-MK2} > 0; \) where \( \text{HER}_{SWP-MK2} \) is the household economic consumption/satisfaction located on the curve SWP-MK2, \( \text{HNR}_{SWP-MK2} \) is the household non-economic consumption/satisfaction located on the curve SWP-MK2, and \( \text{CSC}_{SWP-MK2} \) is the household controlling and smoothing cost located on the SWP-MK2. For simple representation on the diagram, assume that \( \text{HER}_{SWP-MK2} = 0.5, \text{CSC}_{SWP-MK2} = 1.5. \)

Theoretically, point MNE on the top of the switchover point represents a situation of individuals who sacrifice all their marriage resources. This point could be considered as a hypothetical case; or, it includes individuals who sacrifice their lives for one reason or another, such as protecting the lives of ones they love; thus, nothing is left for their consumption/satisfaction, but they devote all they have, including their lives, for other-interests. Accordingly, the optimal maximization of marriage resource allocation (one unit owned by each partner) will lead to a total of two units of marriage resource (one

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9 Households on the curve SWP-MK2 have zero non-economic consumptions/satisfactions (i.e., HNR=0.0) because of their self-interest motivation. While there are many possible values for their economic consumptions/satisfactions, the essay selects 0.5 to represent their average economic consumptions/satisfactions (i.e., HER=0.5). From Figure-2.5, households on the curve SWP-MK2 should not have economic consumptions/satisfactions that are greater than those of households on the curve SWP-TM2. Thus, a possible maximum value for their HER is 1.0. However, households on this curve are not insured against opportunism (i.e., termination of the relationship); thus, they need to devote some of their resources to monitor the behaviors and align the interests of their partners. One of the techniques to align the interests of a partner is to de-motivate him/her from pursuing a new interest. That could be done through wasting his/her resources so that he/she does not have enough resources to start a new relationship and terminate the existing one – wasting a household resource is different from increasing the household economic consumptions/satisfactions. Thus, all non-economic consumptions/satisfactions could be used as a control mechanism for household behaviors (i.e., Control=1.0). However, a household may not succeed in controlling the behaviors of his/her partner. Thus, there are two possible outcomes: succeed (i.e., HER=1.0) or fail (i.e., HER=0.0). Smoothing the two outcomes by taking the average yields HER=0.5. Adding the smoothing cost to the control cost yields CSC=1.5.
from each partner) devoted to non-economic objectives, and a total of zero units of
marriage resource (zero from each partner) devoted to economic objectives. In
mathematical terms: $\text{HER}_{\text{MNE}} = 0.0$, $\text{HNR}_{\text{MNE}} = 2.0$; where $\text{HER}_{\text{MNE}}$ is the household
economic consumption/satisfaction located at point MNE on the diagram, and $\text{HNR}_{\text{MNE}}$ is
the household non-economic consumption/satisfaction located at point MNE on the
diagram.

Finally, there are four additional cases to cover all possible situations of
traditional marriages on the diagram. The first case is a traditional marriage that falls on
the SWP-MK2 where all controlling and smoothing costs are transferred to non-
economic consumption/satisfaction. In other words, this case represents traditional
marriages that have economic consumptions or satisfactions that equal to those of market
unions, and use the controlling and smoothing costs of market unions as non-economic
consumptions/satisfactions. The second case is traditional marriages located on the area
between SWP-TM2 and SWP-MK2 curves where the household
consumption/satisfaction on this area could be any point between the
consumption/satisfaction of case-1 and the consumption/satisfaction on SWP-TM2 curve.
The third case is traditional marriages located on the area between case-1 and MNE point
where the household consumption/satisfaction on this area could be any point between
the consumption/satisfaction of case-1 and the consumption/satisfaction at MNE point.
The last case is traditional marriages located on the area between TM1-SWP curve and
MNE point where the household consumption/satisfaction on this area could be any point
between the consumption/satisfaction on TM1-SWP curve and the
consumption/satisfaction at MNE point. All values of household economic and non-economic consumptions/satisfactions for all four cases are found on Figure-2.5.

2.4.4. Relationship between Family’s Love Style and Objectives

This section discusses the love styles in marriage relationships and how those styles influence a person’s economic and non-economic objectives. As explained above, love is defined as sacrifice to others with two motivations: self-interest or other-interest. Love has many types and philosphies. Lee's (1973) concept of different ways of loving provides a useful framework for understanding this concept with respect to the two motivations.

Storge Love. Starting with market unions (MK1-SWP-MK2), this curve represents the Storge love where partners’ love develops slowly and lacks strong emotion. This is probably the case of informal unions (i.e., roommates, cohabiters) where economic objectives such as personal achievement and self-interest are more prevailing. Thus, altruism on this curve is derived by gaining a benefit higher than the paid cost in sacrificing for the other partner. While this is consistent on all the curve points, the economic gains differ on this curve. Storge love at low asset specificity is expected to achieve the household’s economic objectives (i.e., HER=2.0 HNR=0.0). However, Storge love at a high asset specificity is expected not to achieve the household’s economic objectives because some of the household’s resources are used to insure against opportunistic behaviors (i.e., HER=0.5, HNR=0.0, CSC=1.5). Stated as propositions:
P8a: Individuals who have solely a self-interested motivation engage in Storge love.

P8b: Individuals who have low asset specificity and engage in Storge love maximize their household’s economic objectives.

P8c: Individuals who have high asset specificity and engage in Storge love spend some of their resources to insure against opportunistic behaviors.

Eros Love. Curve TM1-SWP represents individuals who are in Eros love where they reciprocally sacrifice some of their economic gains to be in this state (e.g., Gouldner, 1960). Eros love involves a powerful physical and emotional attraction to the partner. Individuals engaged in Eros love view their partners as ideals (Hendrick et al., 1998; Dion and Dion, 1996), and sacrifice is made for their partners’ interest regardless of self-feelings. As stated by Mueller (2002a: p.20) “love always involves sacrifice, regardless of how the person loving feels about it: she may be happy or sad, willing or resentful, or all of these alternatively” (p. 20). Thus, it is expected that individuals who have high human capital and engage in traditional marriage are seeking Eros love in which they sacrifice some of their economic objectives to achieve their non-economic objectives. Stated as propositions:

P9a: Individuals who have low asset specificity and other-interest motivation engage in Eros love.

P9b: Individuals who have low asset specificity and engage in Eros love maximize their household’s economic and non-economic objectives.
Mania Love. Curve SWP-TM2 represents individuals who are in Mania love. While those individuals have high asset specificity and hence are vulnerable to opportunism’s threat, they engage in formal unions and depend on each other to minimize that threat. In other words, dependence on each other creates an insurance net against opportunism; hence, partners do not need to invest in opportunistic control mechanisms (i.e., CSC=0.0). Accordingly, partners need to trust each other in managing their life affairs. However, Morse (2001) explains that “[t]rust is not something that individuals are born with”, but partners need to give each other unconditional love (Aguirre, 2006: p. 447). Every partner should be so important to the other that he/she does anything to keep him/her (Hendrick et al., 1998). Thus, it is expected that partners on this curve are so important to each other that they provide each other with real sacrifice and simultaneously fear to lose each other. Accordingly, the love style of those individuals on this curve is seen as Mania love that is often possessive and jealous, based on the fear that one's lover will leave (McCutcheon, 2002). Mania love has some similarities and differences with Eros love. It is expected that Eros love and Mania love lead to the same outcome which is maximizing economic and non-economic objectives because both love styles include real sacrifice and that sacrifice is reciprocal. But, the difference is that they have two different mechanisms. Eros love occurs at a low asset specificity where there is self-insurance against opportunism; thus both lovers exchange some of their economic resources to get this real love. However, Mania love occurs at areas of high asset specificity where there is no insurance against opportunism, thus, both economic gain and
real love are tied to each other. This means individuals either get both or lose both. Stated as propositions:

**P10a:** Individuals who have high asset specificity and other-interest motivation engage in Mania love.

**P10b:** Individuals who have high asset specificity and engage in Mania love maximize their household’s economic and non-economic objectives.

The analysis, up to this point, does not cover all possible union cases. There are cases that do not fall on any point of the two curves: MK1-SWP-MK2, and TM1-SWP-TM2. There are three additional cases at the area over the switchover level (i.e., high asset specificity), and the fourth case at the area below the switchover level (i.e., low asset specificity). As discussed above, individuals at the area over the switchover level could engage in formal marriage and be in Mania love or engage in informal marriage and be in Storge love. However, there are three possible cases that individuals may engage in formal marriage and be in love that is (1) between Mania and Storge, (2) equivalent to Storge, or (3) above Storge. Moreover, individuals at the area below the switchover level could engage in informal marriage and be in Storge love or engage in formal marriage and be in Eros love. However, there is a possible fourth case that individuals may engage in formal marriage and be in love that is above Eros (TM1-SWP curve). These four cases represent non-reciprocal love between partners in which their distribution functions differ in the number and/or rank of persons. Discussing those non-reciprocal cases is important from the family business perspective. Research (e.g., Schulze et al., 2001, 2003; Eaton et al., 2002) found that performance of family firms is
influenced by the type of altruism in the firm whether it is reciprocal or non-reciprocal. Thus, non-reciprocal love (altruism) in the family is a key factor in shaping the altruism type in the family firm. The following are discussions about those four cases.

Pragma Love. The first possible case is the area between Mania and Storge love. Individuals in this area could be seen as partners engaged in formal marriage and in Pragma love. Pragma love looks for someone who can meet the criteria one is searching for, such as how the partner would reflect on the one’s family and career (Hendrick et al., 1998); this may increase the marriage cost. For example, searching for a partner that meets specific criteria may take longer and may require higher compensations. Thus, it is expected that there will be no reciprocal sacrifice between relationships in which one partner gets more than he/she gives to the other. From an economic perspective, individuals in this area are in a lower position than individuals engaging in Mania love. Partners endorse Mania love are so important to each other that they provide each other with real sacrifice and simultaneously fear to lose each other. Thus, they have a reciprocal sacrifice, and they would not incur extra costs as those in Pragma love. Moreover, partners endorse Pragma love are in a better position than those engaging in Storge love because they do not need to insure against opportunistic behaviors as those who endorse Storge love. Partners endorse Storge love at an area of a high asset specificity represent households engage in informal unions, and require to invest some of their resources in opportunistic control mechanisms. By doing this, they may succeed or fail in controlling the opportunistic behaviors of their partners (i.e., HER = 0.5, HNR = 0.0, CSC = 1.5). However, partners endorse Pragma love represent households engage in
formal unions, and do not need to invest in opportunistic control mechanisms (i.e.,
0.5<HER<1.0, 1.0<HNR<1.5, CSC=0.0); thus, they are economically better than partners
who endorse Storge love. Stated as propositions:

P11a: Individuals who engage in Pragma love are economically lower than
individuals who are in Mania love.

P11b: Individuals who engage in Pragma love are economically better than
individuals who are in Storge love.

Ludus Love. The second possible case is individuals engaged in formal marriage
and is located at the SWP-MK2 curve. Those individuals could be seen as partners who
are in Ludus love. Ludus love is a playful, distant, noncommittal style that treats love as a
game and may involve simultaneous relationships with several partners. Thus, it is
considered a non-reciprocal sacrifice too. From an economic perspective, they are
equivalent to individuals engaged in Storge love at the SWP-MK2 curve. Partners who
endorse Storge love – at that curve – use some of their marriage resources to insure
against opportunistic behaviors. Similarly, individuals who endorse Ludus love may
share their marriage resources with several partners. Thus, some of their marriage
resources are consumed outside the designated relationship. Therefore, it is expected that
the final economic outcome of both love styles, Ludus and Storge, is the same, but the
process of achieving the economic outcome is different. Some household economic gains
are used in controlling opportunism in the case of Storge love while they are used outside
the designated relationship in the case of Ludus love. Stated as a proposition:
**P12: Individuals who engage in Ludus love are economically similar to individuals who are in Storge love.**

*Agape Love.* The third and fourth possible cases are individuals engaged in formal marriage and are located above the SWP-MK2 or TM1-SWP curve (cases of high or low asset specificity, respectively). Those individuals could be seen as partners who are in Agape love and who give more than they receive in return. They would rather suffer themselves than let their partners suffer (Hendrick et al., 1998). Thus, people who are in Agape love maximize their non-economic objectives at the expense of their economic objectives. Stated as propositions:

- **P13a:** *Individuals who engage in Agape love are the best compared to others in achieving household non-economic objectives.*

- **P13b:** *Individuals who engage in Agape love are the worst compared to others in achieving household economic objectives.*

In sum, this section shows that the attainment level of family economic and non-economic objectives is a function of the love (altruism) style among family members. While Storge altruism maximizes the attainment of family economic objectives, Agape altruism maximizes the attainment of family non-economic objectives. Moreover, Eros and Mania represent types of reciprocal altruism that jointly maximize the trade-off between families’ economic and non economic objectives. Pragma and Ludus represent types of asymmetric altruism that include different combinations of families’ economic and non-economic objectives.
2.5. Discussion and Conclusion

The essay conceptualizes the family as an entity that is shaped by its marriage and love culture. The marriage partners are seen as the core unit of the family in which they influence the family culture and transfer their values to their family members as well (e.g., Sorenson and Lumpkin, 2007; Hoy and Verser, 1994). The essay argues that the altruism type found in a family is a reflection of its family love style. For example, Smith (2006) in his recent survey found that Agape (selfless) love in US families is highly correlated with their altruistic values. The implication of such conceptualization is that family involvement in the business differs according to the family culture, and different family cultures lead to different behaviors and outcomes.

To differentiate among family cultures, the essay proposes a two-step model based on transaction cost theory (Coase, 1937; Williamson, 1975, 1985; Pollak, 1985). The first-step model uses marriage rationales to distinguish among households whose goals are more consistent with the development of family firms from those whose goals are more consistent with the development of non-family firms. Reviewing the literature on family marriage reveals that the phenomenon should be viewed from both utility and distribution functions of households. Becker’s (1973, 1974a, 1976, 1981a) great works on family marriage and altruism explains one side of the phenomenon in which he uses the utility function as a variable and the distribution function as a constant. This view is believed to enhance our understanding of households who are likely to form non-family firms that mainly focus on business’s economic objectives. Using insightful ideas from Mueller (2002a, 2002b), this essay complements the work of Becker by exploring the
other side of the phenomenon, which uses the utility and distribution functions as variables. This view is believed to enhance our understanding of households who are likely to form family firms that have both economic and non-economic objectives. Thus, both views provide powerful explanations for the household phenomenon.

The second-step model uses the color typology of love (Lee, 1973) – as a proxy for altruism type – to distinguish among six types of household cultures: one for households which may form or work in non-family firms and five for households which may form family firms. The essay argues that partners who endorse Storge love focus on economic benefits, which makes them more inclined toward non-family firms. Moreover, the essay argues that parents who endorse Eros, Mania, Pragma, Ludus, or Agape love attain non-economic benefits as well as economic benefits, which make them more inclined toward forming family firms. Moreover, the essay shows that Eros and Mania love represent reciprocal love that induces reciprocal altruism among family members. Also, Pragma, Ludus, and Agape love represent asymmetric love that induces asymmetric altruism among family members. An example of the scale used to differentiate among love styles is the Love Attitude Scale (LAS) developed by Hendrick et al. (1998). Specifically, this essay argues that Storge love maximizes households’ economic objectives; Agape love maximizes households’ non-economic objectives; Eros and Mania loves jointly maximize the trade-off between households’ economic and non economic objectives; and Pragma and Ludus loves include combinations of households’ economic and non-economic objectives that are between those of Mania and Agape loves.
Thus, the performance of family firms will differ according to the type of family involved in the business. Families differ in the type of altruism (i.e., reciprocal, asymmetric) among their members, and their attainment level of economic and non-economic objectives. Strategy researchers of family business found that altruism could enhance (e.g., Chrisman et al., 2004) or reduce (e.g., Schulze et al., 2001) the economic performance of family firms. Thus, the situations in which altruism reduces economic performance could be the situations in which a family firm achieves its non-economic objectives. By incorporating family culture into agency theory through exploring the family marriage rationale and love (altruism) style, researchers will be able to identify the situations where altruism influences economic or non-economic performance, or both. Accordingly, family firms would exist to minimize the costs associated with business transactions and/or attain non-economic objectives. The key contribution of this essay is to provide a theoretical model about family culture and its relationship to family behavior and performance. Thus, the cultural perspective of the family, in addition to the agency theory and resource based view of the firm, is believed to enrich our understanding of the behavior and performance of family firms.

This essay offers a conceptualization of the family firm distinctiveness: altruism and non-economic objectives. That forms the first step towards explaining the performance and behavior of family firms. As with every conceptualization, the essay propositions need verification. This is essential in confirming or modifying the relationships among the proposed concepts. One implication of such conceptualization is comparing the probability of forming family firms and their performance at a national
level. If researchers know that a country has a dominate love style, they may know the probability of forming family firms and the performance of those formed firms in that country. For example, research shows that the French tend to endorse Agape love more than the Americans, who are more on Storge and Mania love (Regan, 2003). Do these differences influence their probability of forming family firms, and how do these differences influence the performance of the firms formed?

In conclusion, this essay suggests some theoretical and empirical areas that need further research. Theoretically, the areas between the diagram’s two curves need to be explained using economics’ techniques and equations. Also, how and to what degree does the love (altruism) style of parents transfer to their family members? This essay is limited to the view that altruism transfers from parents to their family members. However, this should not negate the possibility of altruistic transfers from family members to their parents. Thus, exploring the degree and direction of altruistic transfers are a possible area of future research. Empirically, the essay capitalizes on the developed theory and scale of love (e.g., Lee, 1973; Hendrick et al., 1998) and proposes that love styles could be proxies for altruism types. Thus, the next step in advancing our knowledge in the family firm is to develop a scale for economic and non-economic objectives/performance in the family/family firm, then test the proposed relationships and modify them as needed.
2.6. References


CHAPTER 3

THEORY OF THE FAMILY FIRM: LINKING THEORY OF THE FAMILY TO THEORY OF THE FIRM (ESSAY-2)

Abstract: Family firms are distinguished from non-family firms by the existence of family involvement that shapes firm behaviors and performance. The current theorizing about family firms depends mainly on firm theories (i.e., resource based view, agency theory) which are not sufficient to explain a phenomenon that consists of both the family and the firm. This essay attempts to link some theories of the family (i.e., marriage theory, love theory) developed in Essay-1 to some theories of the firm (i.e., transaction cost theory, agency theory). The contribution of this essay is to develop a more rigorously theory of the family firm by using theories of the family and theories of the firm simultaneously.

3.1. Introduction

This essay attempts to develop a theory of the family firm. A family firm is viewed as the interaction of the family (the social entity of the family firm) with the firm (the economic entity of the family firm). Reviewing the literature of family business reveals that researchers attempt to develop a theory of the family firm using mainly firm-
level theories such as agency theory and resource based view. This approach falls short in providing a sufficient explanation for the behavior and performance of family firms because it does not incorporate theories of the family. The contribution of this essay is to provide a better explanation for the phenomenon of family firms using theories of the family and theories of the firm simultaneously. Specifically, this essay follows Chrisman’s et al. (2005) recommendations that the development of a theory of the family firm requires: (1) identifying the distinctive nature of family firms, (2) explaining how it forms by family involvement, and (3) explaining how such distinction influences the behavior and performance of family firms.

Family business researchers reported that family firms are characterized by the existence of non-economic objectives and altruism that distinguish them from non-family firms. They believe that such distinctiveness impacts the behaviors and performance of family firms (Chrisman et al., 2005). Essay-1 provides a theoretical explanation of how non-economic objectives and altruism are formed within the family culture, and it argues that family marriage rationales and love styles can be used to classify families who are likely to form family firms into five types that each differs in its altruism style and attainment level of family economic and non-economic objectives. Thus, the purpose of this essay is to carry out the last recommendation of Chrisman et al. (2005) by explaining how such classification influences the behavior and performance of family firms. In other words, this essay attempts to provide an explanation of the phenomenon of family firms using family culture.

1 Non-economic objectives of a family business are the ends of actions that may not have economic value to the firm, such as creating a family legacy and jobs for family members (Andersson et al., 2002). Altruism within a family means a sacrifice from one family member to another (Bahr and Bahr, 2001).
The essay’s approach to achieve its purpose is accomplished in the following sections. The second section discusses some concepts pertaining to theories of the firm (i.e., opportunism, agency problems) that are relevant to family firms. The third section discusses some concepts pertaining to theories of the family (i.e., marriage rationales, love styles) that are relevant to family firms as well. The fourth section links the discussed concepts to each other and to build on them a theory of the family firm.² Finally, the essay ends with a discussion and conclusion that summarizes the essay’s main points.

3.2. The Firm

Parsons (1956a, 1956b) describes the firm as a social system (i.e., including owners and agents) oriented towards adding economic value. A theory of the firm explains the firm’s added economic value through addressing two questions: why do firms exist (i.e., type of added economic value), and what are the limits of their scale and scope (i.e., boundary of added economic value) (Coase, 1937). A theory of the firm was initially used to differentiate firm organization from market contracting such as transaction cost theory (i.e., Coase, 1937), but more recently it has been used to differentiate among firms themselves using firm theories such as resource based view (i.e., Conner, 1991).

Strategic management research is interested in explaining and predicting the superior performance of business firms (e.g., Porter, 1980; Barney, 1991). While defining

² The proposed link depends heavily on Essay-1’s developed models. While this essay summarizes the main ideas of those models, it is recommended that readers of this essay refer to Essay-1 for more clarification.
and measuring organizational performance are controversial issues (e.g., Kanter and Brinkerhoff, 1981; Ford and Schellenberg, 1982; Venkatraman and Ramanujam, 1986), this essay follows Parsons (1956a, 1956b) and defines firm performance as the attainment level of its ultimate goal (i.e., adding economic value) because that definition goes well together with a theory of the firm and incorporates both organizational effectiveness (i.e., “doing the right thing”) and efficiency (i.e., “doing things right”). This section explains the firm’s added economic value using transaction cost theory and agency theory, and this section consists of two subsections. The first subsection briefly discusses transaction cost theory, and the second addresses key elements of agency theory.

3.2.1. Transaction Cost Theory

Transaction cost theory (Coase, 1937; Williamson, 1975, 1985) states that markets and organizations are alternate structures for conducting business transactions. The decision to select one structure over the other depends on its governance cost. Rational decision makers choose the structure that minimizes the transaction costs of their business activities. Williamson (1975, 1985) explains situations in which the market’s transaction costs would be higher than those within the firm as a result of conditions such as asset specificity, bounded rationality, and opportunism. Asset specificity means specialized investments or assets (e.g., site specificity, physical asset specificity, human asset specificity, dedicated assets) that “cannot be redeployed without sacrifice of productive value if contracts should be interrupted or prematurely terminated” (Williamson, 1985: 54-55). If a business transaction requires a specific asset
that the buyer and seller depend on, the cost of the business transaction will be lowered if the contractors form a firm. Specific assets are difficult to use for other purposes in case of contract termination; thus, their costs will be higher when market contracts are used owing to the vulnerability engendered by small numbers bargaining. Bounded rationality means that contractors are assumed to be “intendedly rational, but only limitedly so” (Simon, 1961: xxiv; Williamson, 1985: 44). In reality, contractors are not able to predict and incorporate all possible circumstances in their contracts. Opportunism is defined as “self-interest seeking with guile” (Williamson, 1985: 30). As part of human nature, some contractors may not fulfill their promises. Accordingly, the central idea of Williamson (1975, 1985) is that firms exist when conditions such as asset specificity, bounded rationality, and opportunism make the costs of business transactions lower than when conducted through market contracting.

3.2.2. Agency Theory

Modern corporations have been characterized by separating ownership from control (Berle and Means, 1932). Such separation is claimed to enhance corporation effectiveness (i.e., through specialization of management) if corporation managers are hired according to their managerial talents rather than their financial or political power (Fama and Jensen, 1983b; Butler, 1989; Lupia, 2001; Cheffins, 2003). However, the benefit of separating ownership from control is not without problems. Agency theory (e.g., Ross 1973; Jensen and Meckling, 1976; Eisenhardt, 1989) is directed to describe, explain, and resolve the problems associated with the delegation of control from business
owners (principles) to contracted managers (agents). These problems are called agency problems and mainly revolve around adverse selection, such as contracting with an unqualified manager, and moral hazard, such as the presence of manager’s incentive to free-ride and shirk (e.g., Lubatkin et al., 2005). Accordingly, separating ownership from control may negatively impact the performance of business firms by the creation of agency costs (e.g., Fama and Jensen, 1983a), which are the costs related to directing the decision and acts of agents to benefit principles, monitoring the decisions and acts of agents, and any loss due to agency problems (Chrisman et al., 2005; Lubatkin et al., 2005).

Agency problems are mainly the results of two factors (Lupia and McCubbins, 2000; Chrisman et al., 2005). The first factor is divergent goals between principles and agents; for example, a principal wants his/her agent to act in a way that enhances the firm economic position while the agent acts in a self-interested way that weakens the principal power over him/her. The second factor is asymmetric information between principles and agents; for example, a principal may not be aware that his/her agent promotes an employee because of friendship rather than qualification. Therefore, Lupia (2001) stated that agency costs would be minimized when two statements are true: (1) principals and their agents have similar goals, and (2) principles are well informed about their agents’ decisions and acts.
3.3. The Family

Family is defined as “networks of people who live together over periods of time, who have ties of marriage and kinship to one another” (Laing, 1972: p. 3). People create families because they believe that doing so adds value to their lives (e.g., Becker, 1973; Pollak, 1985). A theory of the family explains this added value through the explanation of why families differ (cf., Coase, 1937; Conner and Prahalad, 1996). Nye and MacDougall (1960) assert that the greater similarities among members of the same family compared to unrelated individuals are an indication of the presence of family culture. Thus, family culture is a key ingredient in explaining why families differ.

Nye and MacDougall (1960) state that family culture could be described by four elements: (1) objectives which provide the direction for family members’ efforts, (2) values which help family members in prioritizing their efforts, (3) statuses which define the duties and responsibilities of family members, and (4) roles which provide family members with “specific techniques for achieving goals and realizing values” (p. 315). Essay-1 uses Nye and MacDougall’s view and explains the family culture through two of its four elements: objectives (i.e., economic, non-economic) and values (i.e., altruism). Specifically, Essay-1 uses marriage rationales to distinguish between families whose objectives are primarily economic and families whose objectives involve economic as well as non-economic. Also, it uses love (altruism) styles to determine the mix of economic and non-economic objectives in families.

Essay-1 argues that the married partners are the creator of the social system, the family. They set the basis for family culture and influence the attitudes of their children.
over their lifespan (e.g., Bengston and Black, 1973; Inman-Amos et al., 1994; Hoy and Verser, 1994; Sorenson and Lumpkin, 2007). Thus, Essay-1 uses the marriage rationale and love style of a married partner to distinguish among family types, and hence explain the added value by each family type, whether the added value is economic and/or non-economic in nature. This section summarizes the family theory developed in Essay-1, and it consists of two subsections. The first subsection briefly discusses the marriage theory developed in Essay-1, and the second subsection highlights some aspects of the love theory developed in Essay-1.

3.3.1. Marriage Theory

One element of family culture is family objectives, which provide the direction for family members’ efforts. Essay-1 argues that family objectives could be explained by marriage rationales of the married partners. Marriage rationales represent the objectives for creating the family, whether the objective is self-interest (e.g., Becker, 1973, 1974, 1976, 1981) or other-interest (e.g., Bahr and Bahr, 2001; Mueller, 2002a, 2002b). Essay-1 argues that marriage rationales could be determined by the degree of formality of a marriage (i.e., formal or informal). Families who engage in informal marriage are seen as motivated by market values (i.e., self-interests, individualism), and their altruism can be explained by Becker’s argument that the utility of a person is the focal target of his/her sacrifice. Families who engage in formal marriage are seen as motivated by family values.

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3 Formal marriage is a union that starts with a contract or ceremony, such as traditional and civil marriages. However, informal marriage is a union that does not start with a contract or ceremony, such as cohabitation (e.g., Le Bourdais and Lapière-Adamcyk, 2004; Seltzer, 2000).
(i.e., other-interests, collectivism), and their altruism can be explained by Mueller’s argument that the utility of others could be the focal target of a person sacrifice too.

Moreover, Essay-1 demonstrates that self-interests intend to achieve a family’s economic objectives, while other-interests intend to achieve a family’s non-economic objectives. Then, it uses transaction cost theory and shows that rational partners engage in informal marriage in order to maximize their attainment of economic objectives. However, rational partners engage in formal marriages in order to maximize their attainment of both economic and non-economic objectives. A key distinction between family firms and non-family firms is the presence of non-economic objectives in family firms (Chrisman et al., 2005). Accordingly, Essay-1 concludes that non-family firms resemble families that focus on self-interest objectives, and family firms resemble families that focus on other-interest objectives.

3.3.2. Love Theory

Another element of family culture is family values, which help family members in prioritizing their efforts. Essay-1 argues that family values can be explained by love styles of the married partners. Love styles characterize the orientation of relationships of married partners to each other. Lee (1973) shows six styles of love: (1) Eros (passionate or romantic) love involves powerful attraction to the partner, both physically and emotionally; (2) Ludus (game-playing) love is a playful, distant, noncommittal style that treats love as a game and may involve simultaneous relationships with several partners;

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4 In fact, what is being maximized is the utility of attaining an objective rather than attaining the objective per se. In mathematical terms: \( U = f(O) \), where: ‘\( U \)’ represents the utility function of a person, ‘\( f \)’ means a function of, and ‘\( O \)’ represents an objective. This essay eliminates the word ‘utility’ for simplicity.
(3) Storge (friendship) love develops slowly and lacks strong emotion, but is based on affection; (4) Pragma (practical) love involves looking for someone who can meet the criteria one is searching for in a partner; (5) Mania (dependent) love is often possessive and jealous, based on the fear that one's lover will leave; and (6) Agape (selfless) love gives more than it receives in return (Lee, 1973, 1974; Hendrick and Hendrick, 1986; Hendrick, 1988; McCutcheon, 2002; Montgomery and Sorell, 1997).

The analysis and discussion in Essay-1 is limited to similar love styles because a similar love style is an important aspect in the survival of a marriage (Inman-Amos et al., 1994), the survival of a family depends on the survival of the marriage (a key assumption in Essay-1), and the survival of the family is a prerequisite for the definition of a family business (Chrisman et al., 2005). Altruism is a sacrifice by one family member for the welfare of another, and it is a means to achieve economic and non-economic objectives of the family. Essay-1 argues that an altruism type found in a family is a reflection of its family love style. Therefore, love is used as a proxy for altruism. Essay-1 builds on the marriage classification of families (i.e., families engage in formal and informal marriages) and identifies the dominant love (altruism) styles among each family group and its consequences on family goals. Essay-1 classifies families who are likely to form family firms into five types (e.g., Eros, Mania, Pragma, Ludus, and Agape) that each differs in its altruism style and attainment level of family economic and non-economic objectives. Because Essay-1 is interested in the families who are likely to form family firms, its classification of families whose members are likely to form non-family firms is limited to the most dominant type, Storge.
Families who are likely to form family firms (i.e., formal marriage): Families whose Eros and Mania love are dominant among their members are characterized by the existence of reciprocal altruism that jointly maximizes the trade-off between families’ economic and non-economic objectives. While both Eros and Mania families have the same outcome, which is maximizing economic and non-economic objectives, the mechanism to achieve that outcome is different. Eros families are results of partners having low asset specificity. Their low level of asset specificity means that Eros partners have choices. Thus, any sacrifice is of economic objectives in order to achieve some of their non-economic objectives. A key characteristic of the Eros relationship is that it is based on a rationale sacrifice, which means that if objectives are not met, the relationship will lose its appeal (Lee, 1974). Thus, reciprocity of altruism is important in the survival of Eros relationship. However, Mania families are results of partners having high asset specificity. Their high level of asset specificity makes Mania partners depend on each other; they have fewer choices. Lee (1974) describes “the obsessiveness of mania as a search for the qualities in a partner that the lover feels lacking in himself” (p. 49). So, family members who endorse Mania love are characterized by less ability to depend on themselves. They worry about losing their difficult-to-replace partners because there are some gains out of their current relationships. Thus, the survival and gained value of Mania partners depend on the reciprocal altruism of their partners (Lee, 1974).

Families whose Pragma, Ludus, and Agape love are dominant among their members are characterized by the existence of asymmetric altruism among their family members. However, the asymmetric level of altruism differs among these three types of
families. The decision of a Pragma individual to engage in a formal marriage is based on finding a partner who meets certain criteria (Lee, 1974). Such a partner requires some compensation in order to be retained, but that compensation seems to be inexpensive. Hence, the Pragma relationship is seen as a relationship with a low level of asymmetric altruism. Partners who endorse Ludus love are characterized by a noncommittal relationship to the beloved. They may be involved in simultaneous relationships with multiple partners too (Lee, 1974). Thus, the Ludus relationship is seen as a relationship with a middle level of asymmetric altruism. Partners who endorse Agape love are more interested in others than the self. As stated by Lee (1974), “the matter of reciprocity was almost irrelevant” for Agape lovers (p. 50). In fact, Agape partners may have uncontrollable objectives that lay outside their family boundary. Accordingly, the Agape relationship is seen as a relationship with high level of asymmetric altruism.

*Individuals who are likely to form non-family firms (i.e., informal marriage):* Individuals who endorse Storge love and have low asset specificity are characterized by the existence of self-interest altruism that will maximize the attainment of their economic objectives. However, individuals who endorse Storge love and have high asset specificity are characterized by the existence of self-interest altruism that will not achieve all their economic objectives because some of their resources are used to insure against opportunistic behaviors.
3.4. The Family Firm

The family firm is considered as the interaction of two entities: family and firm. It is defined as “a business governed and/or managed with the intention to shape and pursue the vision of the business held by a dominant coalition controlled by members of the same family or a small number of families in a manner that is potentially sustainable across generations of the family or families” (Chua et al., 1999: p. 25). A theory of the family firm is an explanation of how family involvement differentiates family firms from non-family firms and differentiates family firms among themselves. For a better explanation of the family firms’ phenomenon, researchers need to explain that phenomenon by the joint using of family and firm theories.

This section aims to link the ideas discussed in the two previous sections with each other in order to provide a better explanation for why family firms exist, and it consists of two subsections. In the first subsection, marriage theory is linked to transaction cost theory in order to answer the question of why and how asset specificity and opportunism impact the decision of forming a family firm. Specifically, the link answers the question of how those concepts (i.e., asset specificity, opportunism) influence the decision of owners to hire family members rather than non-family members and to maintain control within the family. In the second subsection, love theory is linked to agency theory in order to answer the question of why and how the type of altruism between family owners and employees shapes the performance of family firms. Thus, an explanation of why family firms exist will be realized by explaining how the components of the two entities, the family (i.e., marriage, love) and the firm (i.e., transaction cost,
agency), interact with each other and impact the behavior and performance of business firms.

An important remark before discussing the interaction between the family and the firm pertains to the meaning of business governance costs and the relationship of those costs to business performance. Cadbury (2002: p. 11) defines corporate governance as “the system by which companies are directed and controlled” (Mallin et al., 2005: p. 532). Thus, the governance costs of a business could be defined as the costs related to directing and controlling the business to achieve its objective(s). Businesses can be directed and controlled through multiple forms of governance systems: market, non-family, and family mode of governing system. Each governing mode of a business has its own characteristics and costs that distinguish that business from others of same or different governing modes. The performance of a business is a function of business governance costs; the performance of a business increases as governance costs of that business decrease, and visa versa. Thus, an important issue for strategy research, which is interested in developing a theory of business performance, is to explain the situations that decrease and increase business governance costs. This essay proposes an equation that (1) helps in understanding the components of business governance costs, and (2) represents the backbone of this essay discussion. This essay argues that the governance costs of a business consist from three components as follows:

\[ GC = TRC + AGC + ALC \]  

Where GC represents the total governance costs of a business; TRC represents the transaction costs of that business; AGC represents the agency costs of that business; and
ALC represents the altruism costs of that business. This equation has five points worthy of notice. The first point is that this equation of business governance costs is in its general form. That is, not all the components of this equation are valid for all the modes of governing businesses (e.g., market, non-family, family). Any component which is not valid for a governing mode should be equated to zero. The second point is that there are some similarities among the three components of this equation that making a clear-cut definition for each component is difficult. For example, transaction and agency costs are results of the interaction between the attributes of both a business and its agents.\(^5\) Moreover, altruism and agency costs are results of the interaction between the attributes of both a business’s owners and agents. Nevertheless, this essay defines (1) transactions costs as costs that are mainly driven by the attributes of a business such as its asset specificity and knowledge type (i.e., tacit, explicit), (2) agency costs as the costs that are mainly driven by the attributes of agents such as their values and behaviors, and (3) altruism costs as the costs that are mainly driven by the attributes of owners such as their values and behaviors.\(^6\) Thus, this essay views the governance costs of a business as the sum of costs related to directing and controlling the business to achieve its objective(s) which are generated from the attributes of that business (i.e., asset specificity, knowledge type), the attributes of the business’s agents (i.e., values, behaviors), and/or the attributes of the business’s owners (i.e., values, behaviors). All over again, this essay does not

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\(^5\) An agent is a general term used here to represent any business partner who could be a contractor in a market, a non-family employee/manager in a non-family firm, or a family employee/manager in a family firm.

\(^6\) Chrisman and McMullan (2004) define tacit knowledge as “knowledge that is experientially based and is difficult to codify, to replicate, and to transmit” and define explicit knowledge as “knowledge based on facts and theories that can be codified, replicated, and transmitted to others more easily” (p. 231).
eliminate the key role of agents in the three components of governance costs. However, this essay stresses that governance costs are generated from agents taking advantage of their attributes (i.e., agency costs), the attributes of the business for which they work (i.e., transaction costs), and/or the attributes of business owners who they work for (i.e., altruism costs).

The third point is that the performance of a business should not be analyzed using only one component of governance costs. For example, assume some businesses have high altruism costs and low transaction costs; these businesses may perform better economically than other businesses which have zero altruism costs and high transaction costs because the total governance costs of the former is lower than the latter. If a business analyst investigates the relationship between altruism and performance, this analyst may conclude that the presence of altruism enhances the business performance if he/she excludes transaction costs from his/her analysis. However, if that analyst controls for transaction costs, he/she may find that altruism has a negative relationship with performance because altruism has some economic costs. Thus, analyzing the performance of some businesses requires incorporating all the components of governance costs. Focusing only on one component and ignoring the other may lead to incorrect conclusion.

The forth point is that enhancing the performance of a business requires minimizing its governance costs which is minimizing Equation-3.1 as follows:

\[ \text{Min } GC = \text{Min } (TRC + AGC + ALC) \]  

Equation-3.2

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7 More elaborations on the relationship between altruism and business economic performance (i.e., negative, positive, and no relationship) will be in the next subsections.
Equation-3.2 states that minimizing its left term ‘GC’ requires minimizing all the terms on its right side ‘TRC’, ‘AGC’, and ‘ALC’. Therefore, an efficient business is the one that is able to minimize TRC, AGC, and ALC. The remaining of this essay revolves around these three terms by explaining how these terms influence the decision makers of businesses to form family or non-family firms. The first subsection deals with only TRC assuming that AGC and ALC are at their minimum values. Put another way, the first subsection explains the rationales for forming family and non-family firms and which form economically outperforms the other by varying TRC and keeping AGC and ALC constant at their minimum values. The second subsection continues the explanation started in the first subsection by exploring the cases where AGC and ALC are different from their minimum values. In other words, the second subsection discusses the performance of family and non-family firms when all the TRC, AGC, and ALC are variables.

A final point in the discussion of the governance costs of firms is the applicability of the three terms, TRC, AGC, and ALC to family and non-family firms. This essay argues that the equation of governance costs for family and non-family firms as follows:

For Family Firms: \[ GC_{FF} = TRC_{FF} + AGC_{FF} + ALC_{FF} \] \hspace{1cm} \text{Equation-3.3a}

For Non-Family Firms: \[ GC_{NF} = TRC_{NF} + AGC_{NF} \] \hspace{1cm} \text{Equation-3.3b}

Where the subscript ‘FF’ indicates costs related to family firms; and the subscript ‘NF’ indicates costs related to non-family firms. Equation-3.3a and Equation-3.3b show that family and non-family firms have some costs that are related to the attributes of their businesses and their agents (i.e., TRC_{FF}, TCR_{NF}, AGC_{FF}, and AGC_{NF}). However, altruism
costs that are related to the attributes of firm owners appear only on the governance costs of family firms. A key question that is likely to be raised: does this essay argue that altruism does not exist at all in non-family firms? The answer is no. This essay as well as Essay-1 argues that the type of altruism in non-family firms, if exist, is self-interest altruism which is different from the one that should exist in family firms (e.g., Chrisman et al., 2005) which is other-interest altruism. The next subsections will have more discussions on the two types of altruism. However, for the time being, the key difference between the two altruisms is related to the place of discussing each type. This essay argues that self-interest altruism should be discussed in the income equations of non-family firms because self-interested altruism is a kind of investment that enhances the firm’s income. However, other-interest altruism is a kind of cost that is incurred as a result of family involvement in the business that should be discussed in the governance cost equations of family firms. The income equations of firms and their components (e.g., self-interest altruism) are out of this essay scope. This essay focuses only on the governance cost equations of firms and their components, such as other-interest altruism, and shows cases where firms can minimize their governance costs. For example, this essay will argue that other-interest altruism always causes family firms to incur costs associated with achieving family objectives (e.g., creating a family legacy and/or jobs for family members, Andersson et al., 2002) and these costs will be at their minimum when that altruism by the firm owner(s) is reciprocated by the firm agent(s).
3.4.1. Linking Marriage Theory to Transaction Cost Theory

This subsection attempts to explain why family and non-family firms are formed using transaction cost theory (Coase, 1937; Williamson, 1975, 1985) and the marriage theory developed in Essay-1. Transaction cost theory states that individuals engage in a hierarchical relationship if such relationship is more profitable than trading individually in the market. The decision of selecting one form over the other depends on the transaction cost. Transaction costs, or more appropriately perceptions of transaction costs are a function of factors such as asset specificity and opportunism. This theory provides an explanation for engagement in business transactions that targets economic benefits. On the other hand, the marriage theory developed in Essay-1 states that the formality of marriage (i.e., formal, informal) is a function of partners’ objectives. Rational partners engage in formal marriages in order to minimize their life costs and/or attain their non-economic objectives. However, rational partners engage in informal marriage in order to attain their economic objectives. In other words, marriage theory provides an explanation for engagement in social transactions that targets economic and non-economic benefits. Thus, this subsection combines the two theories (i.e., transaction cost and marriage theories) to explain the conditions that lead to the creation of family businesses. The main concern here is not to explain why a family hierarchy exists compared to the market. However, within the hierarchy form, this subsection explains why the family hierarchy is selected compared to the non-family one. Figure-3.1 shows the model that will be used in
Rationales for Creating Family and Non-Family Firms – Varying Transaction Costs

this explanation. The model attempts to explain the rationale of forming a family business, whether the rationale is for economic benefits and/or non-economic benefits.\(^8\)

The main objective of a business firm is to create and sustain economic value for its stakeholders (Parsons, 1956a, 1956b; Varaiya et al., 1987). A firm’s stakeholders can be defined as “any group or individual who is affected by or can affect the achievement of” a firm’s objectives (Freeman and McVea, 2001: p. 189). The owners and agents of business firms represent two key stakeholders who compete for their firms’ rents. Coff

\(^8\) The organization of this subsection is to start with the economic rationale of forming a family firm, then, to conclude with the non-economic rationale.
(1999) states that explaining the economic performance of firms should take into account rent appropriation as well as rent generation. He draws attention to the discrepancy between what strategy researchers discuss – which is a firm’s generated rent by the firm’s factors of production – and what those researchers actually measure – which is a firm’s appropriated rent by the firm’s owners. For example, a firm’s agents may have a major role in generating and administrating the firm rent; hence, they have high bargaining power to appropriate a major portion of the firm’s generated rent. However, the firm performance that researchers observe is the firm’s residual rent which owners are able to appropriate (Coff, 1999). Chrisman et al. (2005) suggest that the rent-appropriation concept could be useful in developing a theory of the family firm performance.

Accordingly, this essay capitalizes on this concept and argues that one rationale to form family firms by family owners is to increase their residual rent.

The hierarchical form in this model (Figure-3.1) represents business owners who prefer to form a family firm. The market form represents business owners who prefer to form a non-family firm. The terms hierarchical form and market form are rich in meanings. For example, one widely used meaning is that a hierarchical form implies authority governance between involved parties while a market form implies contract governance between involved parties (e.g., Coase, 1937; Williamson, 1975). While the hierarchical form is distinguished by the existence of authority, such authority is

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9 Transaction cost theory was initially used to explain the creation of business firms in comparison to conducting business through market contracting. Researchers attempt to use transaction cost theory in different contexts such as explaining families and marriages (e.g., Pollak, 1985). This essay uses transaction cost theory to explain the creation of family firms in comparison to the creation of non-family firms. For current and forthcoming capitalization on the accumulated knowledge in the literature of transaction cost theory, this essay continues using the same terms of transaction cost theory (e.g., hierarchical form, market form) but with some variations in meanings.
governed by a contract, too. This essay uses those two terms differently to reflect an implicit meaning. In this essay, a hierarchical form means a family business while a market form means a non-family business. While both family and non-family business forms are characterized by the existence of authority relationships, a hierarchical form is selected to represent a family mode of governing businesses in order to indicate a close, strong authority relationship (i.e., based on family values), and a market form is selected to represent a non-family mode of governing businesses in order to indicate a distant, loose authority relationship (i.e., based on non-family or market values).

The y-axis represents the economic performance of firms in terms of a firm’s transaction costs. The economic performance of firms in this essay stands for the residual claim of a firm’s owner(s). An important determinant of firm performance is the mode of governing firms. As the costs of the used governing mode increase, the firm performance decreases. Figure-3.1 focuses on one component of firms’ governance costs which is transaction costs and shows some factors which influence the transaction costs. As discussed in the introduction of this section, the transaction costs of a firm are the costs that are mainly driven by the attributes of that firm such as its asset specificity and knowledge type (i.e., tacit, explicit). Specifically, this essay defines the transaction costs of a firm as costs that are generated from agents taking advantage of the attributes of the business for which they work. The x-axis represents agents’ power in firms. The reason of selecting agent’s power in this model is the importance of agents in appropriating firms’ generated rents (Coff, 1999). Agent’s power is defined in this essay as the ability of a firm’s agent to achieve his/her objectives in the presence of rivals (cf., Hirshleifer,
such as the firm’s owner(s). An agent’s power, in Figure-3.1, is a function of the attributes of the firm that the agent works in. The power of agents, relative to the power of owners, increases as the firm they work in contains some vulnerable attributes, such as high asset specificity and explicit knowledge; and the power of agents decreases as the firm they work in contains invulnerable attributes, such as low asset specificity and tacit knowledge.\(^{10}\) There are two different cost functions, one cost function for the non-family business, and another for the family business. Both cost functions intersect at the switchover point (SWP) where both yield equal costs, and firms’ owners should be indifferent between them.

Figure-3.1 shows that a firm’s owner should select the family business form over the non-family business form when the risk of the appropriation of rents by agents exceeds the switchover level (SL) owing to agent power. The rationale for this decision is that the transaction costs of running a business using the family mode of governance is less than that of the non-family mode of governance. At a level higher than the switchover, the power of agents is high due to the vulnerable attributes of the business for

\(^{10}\) This essay is interested in exploring cases that expose a business to opportunistic behaviors and ways to lessen the threat of these behaviors. Williamson (1975) argues that the probability of opportunistic behaviors in a business increases as that business contains high asset specificity. He adds that conducting business transactions through a firm rather than a market is a way to lessen the threat of high asset specificity. Similarly, Alvarez and Barney (2004) argue that the probability of opportunistic behaviors in a business increases as that business is built on explicit knowledge. They add that conducting business transactions through a firm rather than a market is a way to lessen the threat of explicit knowledge. The reason in both cases is that commitment to the business’s benefits is higher within the firm (i.e., authority relationship) than the market (i.e., contract relationship). Conducting business transactions through the firm will maintain the value of high asset specificity and protect explicit knowledge against knowledge dissemination. This essay extends the two arguments of Williamson (1975) and Alvarez and Barney (2004) to the domain of family and non-family firms. This essay argues that the probability of opportunistic behaviors – in the cases of high asset specificity and explicit knowledge – will be lower if business transactions are conducted through a family firm rather than a non-family firm. The reason is that the addition of kin relationships in family firms is expected to lower the threat of opportunistic behaviors within firms in comparison to the mere authority relationship in non-family firms.
which they work. Because of the high power of firms’ agents (at area above the SL), firms’ owners could be exposed to a high probability of opportunism if they select the non-family mode of governance to run their businesses. While agent’s power increases as the firm contains vulnerable attributes, the firm’s owner perceives that a family agent is less likely to take advantage of the firm’s weakness than a non-family agent. Thus, employing non-family agents may increase the transaction costs incurred in the case of agents exercising their high level of power. For example, if a business is built on explicit knowledge, the business may be exposed to opportunism behaviors if it does not employee family members. As stated by Alvarez and Barney (2004), a hierarchical governance (i.e., a family mode of governance) “can be used to prevent the expropriation of explicit knowledge and to reduce its observability, thereby protecting against knowledge diffusion” (p. 627). However, if a business is built on tacit knowledge, the business may employee non-family members because it has self protection. Tacit knowledge, “by its nature, is less likely to rapidly diffuse among a set of economic actors [than] explicit knowledge” (Alvarez and Barney, 2004: p. 627). Another example of the vulnerable attributes of a business is the presence of high asset specificity. Asset specificity, from the perspective of firms’ owners, means specialized investments or assets that are difficult to acquire and/or maintain within the firm without incurring high costs. For example, if a firm invests in a specific location (e.g., an unattractive place for many agents) or depends on agents having uncommon skills (e.g., specialty in modeling clay, rearing special animals, or making distinctive food), that firm is seen as containing high asset specificity. If a firm contains high asset specificity, the firm’s agents may take
advantage of such weakness by appropriating a large portion of the firm’s generated rent. Thus, depending on family agents is a decision made by business owners to lessen the threat of opportunism in the case of businesses having vulnerable attributes. That case makes the family mode of governing firms more profitable than the non-family mode of governing firms by reducing the transaction costs. Therefore, firms’ owners forming family firms when agents’ power level is higher than the switchover level (SL) is mainly a congruence of the possibility of high economic gains. Stated as a proposition:

**P1: There is a positive relationship between high agent’s power and the formation of a family firm by a business owner.**

Below the switchover level (SL), a firm’s agents have low bargaining power because the firm they work in has invulnerable attributes such as low asset specificity and tacit knowledge. Accordingly, the firm’s owner faces two alternatives. The first alternative is for the business’s owner to select the non-family mode of governance in which he/she has high bargaining power over non-family agents and appropriates a large portion of the firm’s generated rent.\(^{11}\) In that case, a business’s owner selecting a non-family mode of governance at a level of agent’s power lower than the switchover level (SL) is mainly led by economic gains. The second alternative is for the business’s owner to select the family mode of governance in which he/she does not exercise his/her high bargaining power over family agents because of the kin relationship. Accordingly, the owner of a family business incurs an extra cost (the cost differences between the family

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\(^{11}\) As mentioned earlier, the discussion of agents’ power in this subsection is limited to the power generated from agents taking advantage of the attributes of the business for which they work. However, agents may generate their power from other resources. The discussion of the next subsection will include two of these resources, agents taking advantage of their attributes and agents taking advantage of the attributes of their businesses’ owners.
and non-family mode of governance) in order to achieve some of the non-economic objectives of the family by family altruism (e.g., creating a family legacy, providing jobs for the family members, maintaining the unity of the family). For example, a family owner hires a family member for the primary purpose of supporting the family and its members. The family owner may be aware of the ability of the family agent for handling specific business activities. The issue is not whether the family agent is able to manage these activities but that the agent is a member of the owner’s family. Gouldner (1960) indicates in his norm of reciprocity perspective that individuals are obligated to respond positively to favorable treatment received from others. In that context, family agents, for example, are obligated to be altruistic to their family owners, who incur a higher cost - of running their business - by selecting the family mode of governance over the economically rational decision (e.g., profit maximization) in selecting the non-family mode of governance. For example, altruistic family agents may not be as likely to free-ride or shirk. In that case, family altruism is created by family owners who do not exercise their high bargaining power over family agents because of the kin relationship. In other words, firms’ owners who have higher bargaining power than the firms’ agents – as results of the invulnerable attributes of their firms (i.e., low asset specificity, tacit knowledge) – and prefer to hire family agents are likely to be more interested in achieving some family objectives. As those family owners do not take advantage of the invulnerable attributes of their firms, they sacrifice some of their economic benefits – to their family agents – in order to gain some of their non-economic benefits. Stated as propositions:
P2: There is a positive relationship between low agent’s power and the formation of a non-family firm by a business owner who focus on economic gains.

P3: There is a positive relationship between low agent’s power and the formation of a family firm by a business owner who focus on non-economic gains achieved by family altruism.

Two final remarks remain before summarizing this subsection. The first remark is that family firms created when agent’s power is greater than the switchover level (SL) contain both economic and non-economic objectives. However, the economic objectives are more apparent than the non-economic objectives in the area above the switchover level. The second remark pertains to the equation of governance costs for the discussed firms. This essay argues that the equation of governance costs for family and non-family firms of Figure-3.1 as follows:

For Family Firms below the SL: \[ GC_{FFB} = TRC_{FFB} + ALC_{FFB} \]  
Equation-3.4a

For Family Firms above the SL: \[ GC_{FFA} = TRC_{FFA} + ALC_{FFA} \]  
Equation-3.4b

For Non-Family Firms below the SL: \[ GC_{NFB} = TRC_{NFB} \]  
Equation-3.5a

For Non-Family Firms above the SL: \[ GC_{NFA} = TRC_{NFA} \]  
Equation-3.5b

Where the subscript ‘FFB’ and ‘FFA’ indicate costs related to family firms located below and above the switchover (SL), respectively; the subscript ‘NFB’ and ‘NFA’ indicate costs related to non-family firms located below and above the switchover (SL), respectively. \( ALC_{FFB} \) and \( ALC_{FFA} \) of Equation-3.4a and Equation-3.4b, respectively, represent the lowest altruism costs possible for family firms because
altruism in these family firms is a reciprocal type.\textsuperscript{12} Moreover, Equation-3.4a, Equation-3.4b, Equation-3.5a, and Equation-3.5b show zero agency costs. Therefore, these four equations represent the lowest attainable governance costs. Thus, this essay considers the firms located on each of the four curves of Figure-3.1 (i.e., TM1-SWP, MK1-SWP, SWP-TM2, and SWP-MK2) are efficient firms within their categories.

In summation, marriage theory distinguishes among families whose objectives are exclusively economic, or consist of equally economic and non-economic objectives. Transaction cost theory recognizes situations where forming firms may increase or decrease economic gains. Combining marriage theory and transaction cost theory indicates that non-family firms (i.e., located on the curve MK1-SWP-MK2 of Figure-3.1) intend to maximize the attainment of economic gains while family firms (i.e., located on the curve TM1-SWP-TM2 of Figure-3.1) intend to jointly maximize the attainment of economic and non-economic gains. Keeping in mind that the above discussion is limited to efficient family and non-family firms, the link between the two theories (i.e., transaction cost theory and marriage theory) results in three conclusions.\textsuperscript{13} The first conclusion is that family firms located on the curves TM1-SWP and SWP-TM2 maximize both economic and non-economic gains. The difference between them is that the agents of family firms located on the curve SWP-TM2 have more bargaining power

\textsuperscript{12} The next subsection will discuss the types of altruism in more detail.

\textsuperscript{13} This subsection compares four groups of firms: (1) family firms on the curve TM1-SWP, (2) family firms on the curve SWP-TM2, (3) non-family firms on the curves MK1-SWP, and (4) non-family firms on the curve SWP-MK2. At this stage, the essay does not differentiate among firms within each group. Differentiating among firms within each group is the theme of the next subsection. Thus, the four curves represent baselines and firms located on these curves are the efficient ones of its category.
than the agents of family firms located on the curve TM1-SWP.\footnote{The implication of such difference will be discussed later.} The second conclusion is that non-family firms located on the curve MK1-SWP attain more economic gains than family firms located on the curve TM1-SWP. The third conclusion is that non-family firms located on the curve SWP-MK2 attain less economic gains than family firms located on the curve SWP-TM2.

3.4.2. Linking Love Theory to Agency Theory

The discussion of the previous subsection is limited to the comparison between efficient family and non-family firms. In reality, there are performance differences among family firms (e.g., Chrisman et al., 2004) as well as performance differences among non-family firms (e.g., Fama and Jensen, 1983a). The purpose of this subsection is to extend the above comparison between family and non-family firms to include non-efficient as well as efficient firms. While efficiency could be influenced by many factors, this subsection is limited to two factors: altruism costs in family firms and agency costs in non-family firms. In other words, the economic performance difference between efficient and non-efficient firms is with respect to those two factors, all else equal. The approach to achieve the purpose of this subsection is accomplished in five subsections. The first subsection briefly discusses researchers’ views of non-economic gains and agency costs and the adopted views in this essay. The second subsection shows the difference between reciprocal and asymmetric altruism. The third subsection elaborates more on non-economic objectives and categorizes family firms into five types according
to altruism costs. The fourth subsection elaborates more on economic objectives and shows in general some cases of non-family firms that vary with respect to agency costs. The fifth subsection compares the performance of the developed firm types with each other.

3.4.2.1. Non-Economic Gains and Agency Costs

The historical view of the concept of non-economic objectives by economics is that non-economic objectives are attained at the expense of economic objectives. For example, Harry Johnson was the first in formally defining non-economic objectives in economics (Maneschi, 2004). Johnson (1964: p. 6-7) states that “[t]he distinguishing characteristic of non-economic as distinct from economic arguments for protection is that – at least if they are honestly advocated – they involve the willingness to forego potential real income in order to achieve other objectives of national policy” (Maneschi, 2004: p. 912). Similarly, Elmslie (2004) defined a non-economic objective with respect to the economy as “an objective of the government that puts a constraint on the results of the competitive outcome” (p. 897). Accordingly, the essay assumes that the attainment of non-economic objectives implies a trade-off against economic objectives. In other words, this essay adheres to the view that there is a negative relationship between the attainment of non-economic objectives and the attainment of economic objectives. However, adopting this general view of a negative relationship does not negate the existence of special cases where the relationship is positive or neutral between the

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15 The trade-off between economic and non-economic objectives is not necessarily linear. For example, the gaining of one unit of non-economic objectives may trade-off less than one, one, or more than one unit of economic objectives.
attainment of non-economic objectives and the attainment of economic objectives. That is, cases where obtaining non-economic benefits do not impact or enhance the economic performance of family firms. More elaborations on the general view and special cases of that relationship will be in a later subsection.

Agency costs are economic losses which are associated with the separation of ownership and control in modern corporations. There are three views for agency costs in family firms. The first view argues that there are no agency costs in family firms because there is no separation between ownership and control in these firms (e.g., Jensen and Meckling, 1976). The second view argues that family firms have agency costs that are related to different types of agency problems (e.g., Schulze et al., 2001). The third view is in the middle between these two views. For example, Chrisman et al. (2005) explain that managers in non-family firms are supposed to pursue goals that enhance the economic gains of their firms’ owners. Deviating from these goals is considered as agency costs in non-family firms and will reduce the economic gains of the firms’ owners. On the other hand, family firms include both economic and non-economic objectives. While pursuing non-economic objectives in family firms may reduce the economic gains of the firms’ owners, attaining these non-economic objectives should not be considered per se as agency costs. However, the pursuit by agents of non-economic objectives that exceed the level set by the firms’ owners should be considered as agency costs in family firms. Therefore, this essay follows the third view that family firms may or may not have agency costs. The common factor between agency costs and non-economic gains is the reduction in economic gains of firms’ owners. While agency costs are results of
deviations from the goals of non-family firms’ owners, some non-economic gains are within the goals of family firms’ owners.

In summation, non-family firms are firms that mainly focus on economic objectives. Family firms pursue a combination of economic and non-economic objectives. Non-economic objectives generally are achieved at the expense of economic objectives. Agency costs are results of deviations from the owners’ objectives. Thus, it can be concluded that: (1) deviations in pursuing the owners’ goals of non-family firms that reduce the firm economic performance should be considered as agency costs, (2) pursuing non-economic objectives which are within the owners’ goals of family firms and hence reduce the firm economic performance should not be considered as agency costs, (3) pursuing non-economic objectives which are not within the owners’ goals of family firms and hence reduces the firm economic performance should be considered as agency costs, and (4) pursuing economic objectives that are at odds with the non-economic objectives of the owners of family firms should be considered as agency costs, too. The remaining discussion and comparison in the following subsections are limited to the agency costs in non-family firms (1st conclusion) and non-economic gains that are not agency costs in family firms (2nd conclusion). Non-economic and economic gains that are agency costs in family firms (3rd and 4th conclusions) are out of this essay scope and could be an area for future research.
3.4.2.2. Reciprocal and Asymmetric Altruism

Altruism, as previously discussed, is a sacrifice from one person to another (or others). Among the attributes that can describe altruism are its rationale and net outcome. The next subsection will address the rationale of altruism whether to achieve the economic or non-economic objectives of an altruist. This subsection focuses on the net outcome of altruism whether reciprocal or asymmetric and the relationship between that net outcome and agency costs. The discussion mainly revolves around altruism in family firms. However, non-family firms will be brought into the picture in order to clarify certain aspects of family firms’ altruism.

Essay-1 distinguishes among five styles of altruism in family firms: Eros, Mania, Pragma, Ludus, and Agape altruism. The key issue in this classification is the distribution of an individual’s sacrifice. Mueller (2002a, 2002b) argues that the utility function of an

Table-3.1
Altruism Exchange between an Owner and Agent of a Firm

<table>
<thead>
<tr>
<th>Altruism</th>
<th>Firm Owner (FO)</th>
<th>Firm Agent (FA)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Given</td>
<td>$O_{Gn}$</td>
<td>$A_{Gn}$</td>
</tr>
<tr>
<td>Received (Expected)</td>
<td>$O_{RE}$</td>
<td>$A_{RE}$</td>
</tr>
<tr>
<td>Received (Actual)</td>
<td>$O_{RA}$</td>
<td>$A_{RA}$</td>
</tr>
</tbody>
</table>

Note: (1) If an owner and agent of a firm are relative, the firm is a family firm. If an owner and agent of a firm are not relative, the firm is a non-family firm. (2) $O_{Gn}$ is the altruism given by a firm owner to a firm agent; $A_{Gn}$ is the altruism given by a firm agent to a firm owner; $O_{RE}$ and $O_{RA}$ are the actual and expected altruism received by a firm owner from a firm agent; $A_{RA}$ and $A_{RE}$ are the actual and expected altruism received by a firm agent from a firm owner. (3) The altruism given by an owner is the altruism received by an agent, and vice versa (i.e., $O_{Gn} = A_{RA}$ and $A_{Gn} = O_{RA}$).
individual, which shows his/her means (resources) and his/her ranking of those means, is not sufficient to explain all human behaviors. Researchers need to include the distribution function of an individual, which shows the target of his/her ends (people) and his/her ranking of those ends, in their analysis of human behaviors as well. Essay-1 argues that the distribution functions of humans are important elements to distinguish between family and non-family firms and among family firms themselves. Non-family firms are likely to be formed by individuals who have the self as the only person in their distribution functions. On the other hand, family firms are likely to be formed by individuals who have at least two persons, including the self, in their distribution functions. Table-3.1 shows, as an example, the interaction between a firm owner (FO) and a firm agent (FA), whether the firm owner and agent are relatives or not. The first row represents the altruism given by each of the FO and FA to the other. The second row represents the expected altruism received by each of the FO and FA from the other. The third row represents the actual altruism received by each of the FO and FA from the other. If an owner and agent of a firm are related, the firm is a family firm. If an owner and agent of a firm are not relatives, the firm is a non-family firm.

Table-3.2 shows the types of altruism: self-interest, and other-interest. As mentioned earlier, the key difference between self-interest altruism and other-interest altruism is that the former is a kind of investment that aims to increase the altruist’s utility while the latter is a kind of cost that eventually decreases the altruist’s utility. The association of investment to self-interest altruism yields that the expectation of a self-

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16 Essay-1 does not negate the presence of altruism among individuals who have the self as the only person in their distribution functions. However, Essay-1 argues that their altruism is classified as self-interest altruism (e.g., Becker, 1976). The next subsection provides more elaboration on this type of altruism.
interested altruist is to get a return from a receiver of his/her sacrifice that at least equal to or greater than the altruist’s sacrifice (i.e., $O_{RE} \geq O_{Gn}$, $A_{RE} \geq A_{Gn}$). The association of cost to other-interest altruism yields two key features for other-interest altruism. The first feature is that the altruist’s expectation about the reaction of a receiver of his/her sacrifice and the actual reaction of that receiver do not influence the altruist’s reaction. The second feature is that the altruist’s expectation about the return from a receiver of his/her sacrifice is less than the altruist’s sacrifice (i.e., $O_{RE} < O_{Gn}$, $A_{RE} < A_{Gn}$). Moreover, Table-3.2 shows that the total altruism in a firm is the sum of self-interest altruism and other-interest altruism. Other-interest altruism does not exist in a non-family firm. While self-interest altruism may have a value greater than or equal to zero, other-interest altruism should be greater than zero in order to consider the firm as a family firm. The next subsection will elaborate more on the difference between a family and non-family firm with respect to self and other-interest altruism.

Focusing on individuals who form family firms, the below discussion of altruism types (i.e., reciprocal, asymmetric) is related to the total altruism that consists of only

Table-3.2

<table>
<thead>
<tr>
<th>Altruism Type</th>
<th>Self-interest Altruism ($ALT_s$)</th>
<th>Other-interest Altruism ($ALT_o$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rationale</td>
<td>Investment: $O_{RE} \geq O_{Gn}$, $A_{RE} \geq A_{Gn}$</td>
<td>Cost: $O_{RE} &lt; O_{Gn}$, $A_{RE} &lt; A_{Gn}$</td>
</tr>
<tr>
<td>Non-Family Firm</td>
<td>$ALT_s = ALT_T$</td>
<td>$ALT_o = 0$</td>
</tr>
<tr>
<td>Family Firm</td>
<td>$0 \leq ALT_s &lt; ALT_T$</td>
<td>$0 &lt; ALT_o \leq ALT_T$</td>
</tr>
</tbody>
</table>

Note: $ALT_T$ is the total altruism (sacrifice) of a person; $ALT_T = ALT_s + ALT_o$; assuming that a person owns one unit of a resource, $0 \leq ALT_T \leq 1.0$. 

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other-interest altruism or a combination of self and other-interest altruism. Reciprocal altruism occurs when the distribution functions of both FO and FA are similar. Similar distribution functions for FO and FA mean that each has the same number of persons in his/her distribution function, includes the other in his/her distribution function, and rank him/her in an equivalent way; thus, the FO’s actual altruism received from FA is equal to the FA’s actual received altruism from FO (i.e., $O_{RA} = A_{RA}$). Essay-1 argues that two altruism styles, Eros and Mania, belong to this category of reciprocal altruism. While Eros and Mania are reciprocal altruism, the difference between them, as explained in Essay-1, is that Eros altruism occurs among family members who have many choices and Mania altruism occurs among family members who have few choices. Asymmetric altruism occurs when the distribution functions of both FO and FA are different. Different distribution functions for FO and FA mean that each may have a different number of persons in his/her distribution function, may not include the other in his/her distribution function, and/or may rank the other differently; thus, the FO’s actual received altruism from FA is not equal to the FA’s actual received altruism from FO (i.e., $O_{RA} \neq A_{RA}$). Essay-1 argues that three altruism styles of family firms, Pragma, Ludus, and Agape, belong to this category of asymmetric altruism. While Pragma, Ludus, and Agape are asymmetric altruism, the difference among them is in the level of difference between a person’s sacrifice and the return of his/her sacrifice. Pargma, Ludus, and Agape represent asymmetric altruisms that show a low, medium, and high level difference of exchanged sacrifices, respectively.
Logically, agency costs do not exist in interactions that contain reciprocal altruism. It is stated earlier that the altruist’s expectation about the return from a receiver of his/her sacrifice is less than the altruist’s sacrifice (i.e., $O_{RE} < O_{Gn}$ and $A_{RE} < A_{Gn}$ ...... Equation-3.6a). Reciprocal altruism is defined as an interaction that characterized by the equality of exchanged sacrifices (i.e., $O_{RA} = A_{RA}$ ...... Equation-3.6b). Table-3.1 shows that the altruism given by an owner is the altruism received by an agent, and vice versa (i.e., $O_{Gn} = A_{RA}$ and $A_{Gn} = O_{RA}$ ...... Equation-3.6c). Substituting Equation-3.6b and Equation-3.6c into Equation-3.6a yields that the actual altruism received by each of FO and FA is greater than his/her expectation (i.e., $O_{RA} > O_{RE}$ and $A_{RA} > A_{RE}$ ...... Equation-3.6d). Thus, reciprocal altruism, by definition, can not hold agency costs because agency costs occur when the actual altruism received by FO and FA are below their expectations. However, agency costs have potential to exist in interactions that contain asymmetric altruism because of the inequality of exchanged sacrifices. That potential of existence is a function of the relationship between actual and expected received altruism. For example, if each of the FO and FA received altruism from the other as per his/her expectation, there are no agency costs in that interaction (i.e., $O_{RA} = O_{RE}$ and $A_{RA} = A_{RE}$). The reason is that while there are no equality in the altruism received by each of the FO and FA, the altruism received by each one meets his/her expectation; thus, there are zero agency costs. However, if each of the FO and FA does not receive altruism from the other as per his/her expectation, agency costs do exist in that interaction (i.e., $O_{RA} < O_{RE}$ and/or $A_{RA} < A_{RE}$). Refer to Table-3.3 for a summary of the net outcome of altruism whether reciprocal
Table-3.3

Reciprocal and Asymmetric Altruism in Family Firms

<table>
<thead>
<tr>
<th>Type of Exchange</th>
<th>Total Altruism ((ALT_T))</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Reciprocal</td>
</tr>
<tr>
<td>Equality of Exchange ((O_{RA} = A_{RA}), and no</td>
<td>(O_{RA} &gt; O_{RE}) and (A_{RA} &gt; A_{RE})</td>
</tr>
<tr>
<td>Agency Costs)</td>
<td></td>
</tr>
<tr>
<td>Inequality of Exchange ((O_{RA} \neq A_{RA}), and</td>
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<td>without Agency Costs)</td>
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<tr>
<td>Inequality of Exchange ((O_{RA} \neq A_{RA}), and</td>
<td>-</td>
</tr>
<tr>
<td>with Agency Costs)</td>
<td></td>
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</tbody>
</table>

Note: \(ALT_T\) is the total altruism of a person that could be self-interest altruism (\(ALT_S\)), other-interest altruism (\(ALT_O\)), or a combination of them.

or asymmetric and the relationship between that net outcome and agency costs in family firms.

In summation, Eros and Mania altruism are reciprocal altruism that results from similar distribution functions of the family members involved in an interaction. Eros altruism occurs among family members who have many choices while Mania altruism occurs among family members who have few choices. Moreover, agency costs do not exist in reciprocal altruism because of the equality of exchanged sacrifice. Pragma, Ludus, and Agape altruism are asymmetric altruism that results from different distribution functions of the family members involved in an interaction. Asymmetric altruism is characterized by the inequality of exchanged sacrifices. The differences among Pragma, Ludus, and Agape altruisms lie in the inequality level of exchanged sacrifices. Pragma, Ludus, and Agape represent interactions that contain a low, medium, and high inequality level of exchanged sacrifices, respectively. Moreover, agency costs
may or may not exist in asymmetric altruism. Inequality of exchange (i.e., asymmetric altruism) that meets the expectations of involved family members should be considered as the one that is free of agency costs. However, inequality of exchange (i.e., asymmetric altruism) that does not meet the expectations of involved family members should be considered as the one that has agency costs. Thus, Pragma, Ludus, and Agape are asymmetric altruisms that may or may not have agency costs.17

3.4.2.3. Types of Family Firms

The previous section discusses the rationales for forming family firms assuming that the formed firms are efficient; however, efficiency does not always obtain. Thus, this subsection relaxes that assumption and explores types of family firms by addressing three key points. Firstly, how family firms are distinguished from non-family firms as a starting point. Secondly, what is meant by efficient family firms and how they can be identified? Lastly, what is meant by non-efficient family firms and how they can be identified?

*Family Firms:* Researchers identify two factors, non-economic objectives and altruism, which are more likely to prevail in family firms than in non-family firms (Chrisman et al., 2005). Essay-1 argues that altruism, which is as a sacrifice from a person to another, is a means to achieve the economic and non-economic objectives of a person. Keep in mind that the person him/herself is the reference point; when benefits are greater than costs, the sacrifice is viewed as achieving the economic objectives of a

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17 As mentioned in the previous subsection, the scope of this essay is limited to reciprocal altruism and asymmetric altruism in family firms that has zero agency costs. Asymmetric altruism in family firms that has positive agency costs is out of this essay’s scope.
person; when costs are greater than benefits, the sacrifice is viewed as achieving the non-economic objectives of a person. Economic objectives of a person are defined as anything, tangible or intangible, that benefits the person such as an increase in his/her wealth and consumption. Non-economic objectives of a person are defined as anything, tangible, or intangible, that intends to benefit others at his/her expense such as an increase in their wealth, consumption, and satisfaction. Then, Essay-1 distinguishes between two types of altruists: (1) self-interest altruists, and (2) other-interest altruists. Self-interest altruists intend to achieve their economic objectives while other-interest altruists intend to achieve their non-economic objectives. The key criterion to distinguish between the two types of altruists is not their acts nor their returns but their intentions. Altruists who seek non-economic objectives act with intentions that their sacrifices are not for the purposes of generating positive returns for themselves, whether in current or future periods. However, altruists who seek economic objectives act with the intention that their sacrifices will generate positive returns for themselves, whether in current or future periods. While the two types of altruists have different intentions, the returns of their sacrifices could or could not match their expectations.\textsuperscript{18}

\textsuperscript{18} Each altruist has some objectives that could be all economic, all non-economic, or a combination of economic and non-economic objectives. The type of objectives that an altruist hopes to achieve determines the type of altruism to be used. Pure economic objectives require self-interest altruism, pure non-economic objectives require other-interest altruism, and a combination of economic and non-economic objectives require a combination of self and other-interest altruism to achieve. Altruist’s intention is important to distinguish between self-interest and other-interest altruism. Other-interest altruist is the one whose intention is to sacrifice for someone for no return or a return that is less than the altruist’s sacrifice. In other words, the expectations of that altruist about the reaction of a receiver of his/her sacrifice and the actual reaction of that receiver do not influence the altruist’s sacrifice. However, if other-interest altruist receives a return that is equivalent to his/her sacrifice, that interaction is called reciprocal altruism. If other-interest receives a return that is not equivalent to his/her sacrifice, that interaction is called asymmetric altruism. There are two cases within the category of asymmetric altruism. The first case is called asymmetric altruism with zero agency costs where other-interest altruist receives a return that meets his/her expectation.
Chrisman et al. (2005) affirm that “there is likely to be more substantial variations in the noneconomic goals of different family firms than in their economic goals” (p. 565). In fact, a family firm is a function of the family involved in that firm. Essay-1 shows that different families have different altruistic values that determine the attainment level of economic and non-economic objectives. Essay-1 argues that the love style between the founders of a family could be used as a proxy for the altruism prevailing in that family. Because a key criterion of family firms is the presence of non-economic objectives, family firms are likely to be formed by families whose altruism incorporates some level of other-interest.\textsuperscript{19} Thus, family firms could be categorized according to their types of other-interest altruism. Essay-1 argues that other-interest altruism could be classified into five types: Eros, Mania, Pragma, Ludus, and Agape. Two of other-interest altruism, Eros and Mania, represent reciprocal altruism while the remaining three, Pragma, Ludus, and Agape, represent asymmetric altruism.

Efficient Family Firms: Figure-3.1 shows that family firms are located on the curve TM1-SWP-TM2. This curve represents efficient family firms. This essay defines efficient family firms as family firms that (1) have the lowest altruism costs, and (2) have zero agency costs. Essay-1 argues that families located on the curve TM1-SWP are the ones who endorse Eros altruism while families located on the curve SWP-TM2 are the ones who endorse Mania altruism. Therefore, family firms located on the curve TM1-

\textsuperscript{19} The second case is called asymmetric altruism with positive agency costs where other-interest altruist receives a return that does not meet his/her expectation. For both cases, as mentioned above, the expected and actual return does not influence the altruist’s action in order to consider that action as other-interest altruism.

\textsuperscript{19} The total altruism in a family firm is the sum of self-interest altruism and other-interest altruism. While self-interest altruism may have a value of zero, other-interest altruism should be greater than zero in order to consider the firm as a family firm, refer to Table-3.2.
SWP are the results of Eros families, and hereafter called Eros family firms. Also, family firms located on the curve SWP-TM2 are the results of Mania families, and hereafter called Mania family firms. As a consequence of the interaction of the family and the firm, Eros and Mania family firms are characterized by the presence of reciprocal altruism that have the lowest altruism costs. Moreover, this essay mentioned earlier that reciprocal altruism does not have agency costs because of the equality of exchanged sacrifice.

Stated as mathematical equations:

Eros Family Firms: \[ GC_{Ero} = TRC_{FFB} + ALC_{Ero} \] \text{Equation-3.7a}

Mania Family Firms: \[ GC_{Man} = TRC_{FFA} + ALC_{Man} \] \text{Equation-3.7b}

Where the subscript ‘Ero’ and ‘Man’ indicate costs related to Eros and Mania family firms, respectively. Therefore, Eros and Mania family firms represent the efficient family firms because they have the lowest altruism costs (i.e., ALC\textsubscript{Ero}, ALC\textsubscript{Man}) and zero agency costs.

*Non-efficient Family Firms:* Any family firm located away from the curve TM1-SWP-TM2 are seen as a non-efficient family firm because it violates one or more of the set conditions for efficient family firms. The following discussion will be limited to one category of non-efficient family firms which is family firms that violate only the first condition; that is family firms that do not have the lowest altruism costs.

Figure-3.2 is similar to Figure-3.1 but with some variations. The y-axis of Figure-3.2 represents the economic performance of firms in terms of a firm’s altruism costs. As the costs of altruism increase, the firm performance (i.e., the residual claim of a firm’s
Efficient and Non-Efficient Family Firms – Varying Altruism Costs

owner) decreases. As discussed in the introduction of this section, the altruism costs of a firm are the costs that are mainly driven by the attributes of that firm’s owners such as their values and behaviors. Specifically, this essay defines the altruism costs of a firm as costs that are generated from agents taking advantage of the altruism of the business owners who the agents work for. This essay distinguishes between two altruism costs, absolute and relative. Generally, achieving any goal whether economic or non-economic includes some paid costs. People need to allocate some of their time, physical-psychological effort, and/or resources to achieve their desired goals. It is difficult to
imagine that a goal could be achieved by only wishing and without incurring some costs. This essay uses the term altruism costs to indicate the costs required to achieve the non-economic objectives of the family. However, that altruism costs can be seen from two angles, absolute and relative. Here, absolute altruism costs mean the total costs to achieve a non-economic objective; relative altruism costs mean the distribution of the total altruism costs among involved parties. Reciprocal and asymmetric altruism are terms used to describe the state of relative altruism costs. Reciprocal altruism means that altruism costs are equally divided among involved parties. It represents the lowest altruism costs that a family owner (i.e., an altruist) may pay to achieve his/her non-economic objective. Asymmetric altruism means that altruism costs are not equally divided among involved parties. That inequality of cost distribution may range from a low inequality to a high inequality that a family owner (i.e., an altruist) may be incurred to achieve his/her non-economic objective. The term of altruism costs and its definition used here in Figure-3.2 pertain to relative altruism costs. In that definition, the words ‘taking advantage’ by an agent may range from zero (i.e., in the case of reciprocal altruism where a family agent and owner have equal portions of paid costs) to some positive values (i.e., in the case of asymmetric altruism where a family agent has a lower portion of paid costs than the one of a family owner).

Figure-3.2 shows four additional situations for family firms to those two of Figure-3.1. As discussed above, efficient family firms are located on the curves TM1-SWP and SWP-TM2. All family firms located on these two curves are characterized by having zero agency costs and the lowest altruism costs. However, family firms located on
the curve TM1-SWP represent a situation that family firms’ owners have higher bargaining power than the firms’ agents, and family firms located on the curve SWP-TM2 represent a situation that family firms’ agents have higher bargaining power than the firms’ owners. The remaining four situations are non-efficient family firms where firms do not have the lowest altruism costs.

The first situation is family firms located on the curve SWP-MK2; it represents a situation of family firms whose governance costs are equal to those of non-family firms located on the curve SWP-MK2. Essay-1 argues that formally engaged families – whose economic gains equal to those of informally engage families located on the curve SWP-MK2 – are the ones who endorse Ludus altruism. Therefore, family firms located on the curve SWP-MK2 are the results of Ludus families, and hereafter called Ludus family firms. As mentioned earlier, Ludus represents asymmetric altruism that shows a medium level difference of exchanged sacrifices. Thus, Ludus family firms are like Mania family firms but with medium altruism costs. Stated as mathematical equations:

\[
\text{Ludus Family Firms: } \quad G_{\text{Lud}} = G_{\text{NFA}} \quad \text{Equation-3.8a}
\]

\[
\text{Ludus Family Firms: } \quad G_{\text{Lud}} > G_{\text{Man}} \quad \text{Equation-3.8b}
\]

Where the subscript ‘Lud’ indicates costs related to Ludus family firms. Thus, while the economic performance of family firms located on the curve SWP-MK2 is similar to that of non-family firms located on the same curve, the causes for lower performance, in a comparison to Mania family firms, are different. The low performance in non-family firms, in the area of high agent’s power, is due to increases in transaction costs but the low performance in Ludus family firms is due to increases in altruism costs.
The second situation is family firms located between the curve SWP-TM2 and SWP-MK2; it represents a situation of family firms whose governance costs are between those of Mania family firms located on the curve SWP-TM2 and those of Ludus family firms located on the curve SWP-MK2. Essay-1 argues that families located on that area are the ones who endorse Pragma altruism. Therefore, family firms located on that area are the results of Pragma families, and hereafter called Pragma family firms. As discussed above, Pragma represents asymmetric altruism that shows a low level difference of exchanged sacrifices. Thus, Pragma family firms are Mania family firms, but with some altruism costs. Stated as a mathematical equation:

Pragma Family Firms: \( GC_{Man} < GC_{Pra} < GC_{Lud} \) \hspace{1cm} \text{Equation-3.9}

Where the subscript ‘Pra’ indicates costs related to Pragma family firms. The third and fourth situations are family firms located above the curves SWP-MK2 and TM1-SWP respectively. They represent situations of family firms whose governance costs are the highest among family firms. Essay-1 argues that families in these two areas are the ones who endorse Agape altruism. Therefore, family firms located in these two areas are the results of Agape families, and hereafter called Agape family firms. As mentioned earlier, Agape represents asymmetric altruism that shows a high level difference of exchanged sacrifices. Thus, Agape family firms are family firms that have the highest altruism costs. Stated as mathematical equations:

Agape Family Firms: \( GC_{Aga} > GC_{Ero} \) \hspace{1cm} \text{Equation-3.10a}

Agape Family Firms: \( GC_{Aga} > GC_{Lud} \) \hspace{1cm} \text{Equation-3.10b}
Where the subscript ‘Aga’ indicates costs related to Agape family firms. In summation, family firms are classified into two categories: efficient and non-efficient family firms. Efficient family firms are the ones which have zero agency costs and the lowest altruism costs. They consist of two types, Eros and Mania. While Eros and Mania family firms are characterized by reciprocal altruism, they differ in that the owners of Eros family firms have high barraging power (i.e., more choices) while the owners of Mania family firms have low barraging power (i.e., fewer choices). The discussion of Non-efficient family firms is limited only to the ones that don’t have the lowest altruism costs. They consist of three types, Pragma, Ludus, and Agape. While Pragma, Ludus, and Agape family firms are characterized by asymmetric altruism, they vary in the difference between the sacrifices of owners and agents.

3.4.2.4. Some Types of Non-Family Firms

The previous section discusses the rationales for forming non-family firms assuming that the formed firms are efficient; however, the reality does not support that assumption. Thus, this subsection relaxes that assumption and explores types of non-family firms by addressing three key points. Firstly, how non-family firms are distinguished from family firms as a starting point. Secondly, what is meant by efficient non-family firms and how they can be identified? Lastly, what is meant by non-efficient non-family firms? This section does not aim to build a theory of the non-family firm by discussing in detail types of non-family firms. However, the aim of this section is to
provide a general idea about some types of non-family firms to be used in building a theory of the family firm.

Non-family Firms: Non-family firms are firms that more oriented toward adding economic value than family firms. Essay-1 argues that altruism, if it exists in non-family firms, is a self-interest type which is used to achieve the economic objectives of a person; that is a sacrifice for the purposes of generating positive returns (e.g., wealth, consumptions) for an altruist, whether in current or future periods (i.e., \( O_{RE} \geq O_{ Gn}, A_{RE} \geq A_{Gn} \), refer to Table-3.2). Essay-1 argues that Storge love between informally engaged partners could be used as a proxy for the self-interests altruism.

Efficient Non-family Firms: Figure-3.1 shows that non-family firms are located on the curve MK1-SWP-MK2. This curve represents efficient non-family firms. This essay defines efficient non-family firms as non-family firms that have no agency costs (i.e., \( O_{RA} \geq O_{RE}, A_{RA} \geq A_{RE} \), refer to Table-3.4). Essay-1 argues that families located on the curves MK1-SWP and SWP-MK2 are the ones who endorse Storge altruism. Therefore, non-family firms located on the curves MK1-SWP and SWP-MK2 are the results of Storge families, and hereafter called Storge non-family firms. While non-family firms located on the curves MK1-SWP and SWP-MK2 are efficient non-family firms within their category, there is a performance difference across the two categories due to transaction costs. Storge non-family firms that have low agent’s power are expected to

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20 Keep in mind that the definition of efficient firms is related to a comparison of firms in the same category. Figure-3.1 shows four categories of firms, firms located on the curve TM1-SWP, MK1-SWP, SWP-TM2, and SWP-MK2. For example, non-family firms located on the curve SWP-MK2 are efficient firms compared to non-family firms in its category (i.e., non-family firms with high agent’s power). In other words, the word ‘efficient’ used here is a comparison within classes of firms not across classes of firms.
Table-3.4

Efficient and Non-efficient Non-Family Firms with respect to Agency Costs

<table>
<thead>
<tr>
<th>Type of Firm</th>
<th>Self-interest Altruism (ALT₃)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-family Firms without Agency Costs</td>
<td>O_RA ≥ O_RE, A_RA ≥ A_RE</td>
</tr>
<tr>
<td>Non-family Firms with Agency Costs</td>
<td>O_RA &lt; O_RE, A_RA &lt; A_RE</td>
</tr>
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</table>

have lower governance costs than Storge non-family firms that have high agent’s power.

The reason is that non-family agents who have high bargaining power are expected to appropriate a large portion of firms’ generated rents. Stated as a mathematical equation:

Storge Non-Family Firms: \[ GC_{Stb} < GC_{Sta} \]  Equation-3.11

Where the subscript ‘Stb’ and ‘Sta’ indicate costs related to Storge non-family firms located below and above the switchover level (SL), respectively.

*Non-efficient Non-family Firms:* Generally, non-family firms exist to achieve economic purposes. Any non-family firm located away from the curve MK1-SWP-MK2 are seen as a non-efficient non-family firm because it has some agency costs, all else equal (i.e., O_RA < O_RE, A_RA < A_RE , refer to Table-3.4). Figure-3.3 is similar to Figure-3.1 but with some variations. The y-axis of Figure-3.3 represents the economic performance of firms in terms of a firm’s agency costs. As the costs of agency increase, the firm performance (i.e., the residual claim of a firm’s owner) decreases. As discussed earlier, the agency costs of a firm are the costs that are mainly driven by the attributes of that firm’s agents such as their values and behaviors. Specifically, this essay defines the agency costs of a firm as costs that are generated from agents taking advantage of their
ability to pursue their goals that are not in congruence with the ones of the firm owners and/or maintain asymmetric information between them and the firm’s owners. Figure-3.3 shows four additional situations for non-family firms to those two of Figure-3.1. As discussed above, efficient non-family firms (i.e., zero agency costs) are located on the curve MK1-SWP-MK2. Non-family firms located on the curve MK1-SWP represent a situation that the agents of these firms have low bargaining power while non-family firms located on the curve SWP-MK2 represent a situation that the agents of these firms have high bargaining power.

Legend: TM1-TM2: Family Firm; MK1-MK2: Efficient Non-Family Firm; SWP: Switchover Point; SL: Switchover Level; Situation 1, 2, 3, and 4 are Non-Efficient Non-Family Firms.

Figure-3.3

Efficient and Non-Efficient Non-Family Firms – Varying Agency Costs
The remaining four situations are non-efficient non-family firms where firms have some level of agency costs. The first situation is non-family firms located on the curve TM1-SWP; it represents a situation of family firms whose governance costs are equal to those of family firms located on that curve. While the economic performance of both firm types is equal, the causes for lower performance, in a comparison to Storge non-family firms located below the SL, are different. The low performance in non-family firms, in the area of low agent’s power, is due to increases in agency costs but the low performance in Eros family firms is due to the presence of altruism costs as results of attaining some non-economic objectives. This essay uses the term AG2 to refer to non-family firms located on the curve TM1-SWP. The second situation is non-family firms in the area between Storge non-family firms located on the curve MK1-SWP and AG2 non-family firms located on the curve TM1-SWP. The essay uses the term AG1 to refer to the non-family firms in that area whose agency cost are lower than that of AG2 non-family firms. The third and fourth situations are non-family firms located above the curves TM1-SWP and SWP-MK2 respectively. They represent situations of non-family firms that have very high agency costs, and the essay uses the term AG3 to refer to the non-family firms located in that area. Stated as mathematical equations:

AG1 Non-Family Firms: \[ GC_{Stb} < GC_{Ag1} < GC_{Ag2} \]  
AG2 Non-Family Firms: \[ GC_{Ag2} = GC_{Ero} \]  
AG3 Non-Family Firms: \[ GC_{Ag3} > GC_{Ag2} \]  
AG3 Non-Family Firms: \[ GC_{Ag3} > GC_{Sta} \]
Where the subscript ‘Ag1’, ‘Ag2’, and ‘Ag3’ indicate costs related to AG1, AG2, and AG3 non-family firms. In summation, non-family firms are classified into two categories: efficient and non-efficient non-family firms. Efficient non-family firms are the ones which have zero agency costs. They consist of two types. The first type is Storge non-family firms that are below the switchover level (SL). This type is characterized by firms’ owners who have high bargaining power. The second type is Storge non-family firms that are above the switchover level (SL). This type is characterized by firms’ agents who have high bargaining power. The discussion of Non-efficient non-family firms is limited to the ones that have positive agency costs. This essay uses the terms AG1, AG2, and AG3 to refer to three different levels of agency costs in non-family firms.

3.4.2.5. Performance Comparison among Family and Non-Family Firms

This subsection attempts to compare the performance of the developed firm types with each other.\(^{21}\) Figure-3.4 is another representation of the firms of Figure-3.1, 2, and 3 by focusing on types of firm gains (e.g., economic and non-economic).\(^{22}\) The x-axis represents firm transaction costs and altruism costs. As discussed earlier, while transaction costs are applicable for family and non-family firms, altruism costs are applicable for only family firms. The y-axis represents firm performance which is the

\(^{21}\) The comparison as previously discussed will take place among the following firms: (1) efficient family firms that have both zero agency costs and the lowest altruism costs, (2) non-efficient family firms that have zero agency costs but do not have the lowest altruism costs, (3) efficient non-family firms that have zero agency costs, and (4) non-efficient non-family firms as results of agency costs.

\(^{22}\) Economic gains do exist in family and non-family firms. However, non-economic gains exist only in family firms. To achieve non-economic objectives, family firms incur some costs. In this essay, these costs are called altruism costs. Accordingly, this essay argues that the presence of altruism costs is an indication of the presence of non-economic objectives regardless of the relationship between the cost and amount of non-economic objectives.
residual claim of a firm’s owner. The z-axis represents firm agency costs. While focusing on the curve AG0-AG0 as a starting point, Figure-3.4 shows that Storge non-family firms formed with low bargaining power of firm’s agents economically perform better than all other forms of family and non-family firms in the figure. Also, Agape family firms pay the highest premium to achieve the non-economic objectives of their families. While Eros and Mania family firms are characterized by the existence of reciprocal altruism, Mania family firms are the only family firms that have the lowest governance costs. The reason for the difference in economic performance between Mania and Eros family firms may be related to the composition of their altruism. As mentioned earlier, altruism in family firms is composed of self and other-interest altruism. This essay expects that the weight of self-interest altruism in Mania family firms is greater than the weight of self-interest altruism in Eros family firms. As previously discussed, self-interest altruism aims to achieve the economic objectives of a firm while other-interest altruism aims to achieve the non-economic objectives of a firm. Therefore, Mania family firms perform better economically than Eros family firms. This explanation of the economic difference between Mania and Eros family firms could shed some lights on why the economic objectives are more apparent than the non-economic objectives in Mania family firms than in Eros family firms.

Pragma and Ludus family firms attain their non-economic gains at the expense of economic gains, where Ludus family firms pay a higher premium than Pragma family firms. The economic performance of Storge non-family firms formed with high bargaining power of firm’s agents is equivalent to Ludus family firms because of higher
transaction costs for the former and higher altruism costs for the later. Curves AG1-AG1 AG2-AG2, and AG3-AG3 are deteriorations in the efficiency of non-family firms as results of increases in agency costs, where non-family firms on the curve AG3-AG3 have higher agency costs than those of non-family firms on other curves. For example, the economic performance of AG1 non-family firms is lower than that of Storge non-family firms and higher than that of Eros and Mania family firms. While the economic performance of Mania family firms is equivalent to that of AG2 non-family firms, it is higher than that of AG3 non-family firms.

Figure-3.4

Relationship between Firm’s Type and Performance

Legend: FF: Family Firm; NFF: Non-Family Firm; LAP: Low Agent’s Power; HAP: High Agent’s Power; AG0-AG0: Zero Agency Costs’ Curve; AG1-AG1, AG2-AG2, and AG3-AG3: Positive Agency Costs’ Curves, where agency costs increase as the number of AG increases.
A final remark on Figure-3.4 pertains to the relationship between economic and no-economic gains. In a previous subsection, this essay follows the general view that the attainment of non-economic objectives implies a trade-off against economic objectives. In other words, attaining non-economic objectives are not without costs which are called here altruism costs. Figure-3.4 supports this general view. Firms moving downward on the curve AG0-AG0 pay higher costs to achieve its non-economic objectives. For example, Agape family firms pay higher costs to achieve its non-economic objectives compared to Pragma family firms; thus, the latter firms have higher economic gains than the former firms. However, there are two special cases that deviate from the general view (i.e., a negative relationship between the attainment of economic and non-economic gains). The first special case is one where there is no relationship between the attainment of economic and non-economic gains. Comparing Ludus family firms with Storge non-family firms formed with high bargaining power of firm’s agents is an example of this. The economic performance of those two types of firms is equal. Someone studying a sample consists of those two types of firms may conclude that there is no significant difference in firm performance between firms attaining some non-economic objectives (i.e., Ludus family firms) and firms that do not (i.e., Storge non-family firms formed with high bargaining power of firm’s agents). However, this essay argues that this insignificant relationship between the presence of non-economic objectives and firm performance is a spurious relationship.\(^{23}\) Controlling for transaction costs may show a significant, negative relationship between the presence of non-economic objectives and

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\(^{23}\) A spurious relationship between two variables is a relationship that disappears when a third variable is introduced (Simon, 1954).
firm performance. The second special case is one where there is positive relationship between the attainment of non-economic objectives and firm performance. Comparing Mania family firms with Storge non-family firms formed with high bargaining power of firm’s agents is an example of this. Someone studying a sample consists of those two types of firms may conclude that there is a positive relationship between the attainment of non-economic and firm performance. The economic performance of firms attaining some non-economic objectives (i.e., Mania family firms) is higher than firms that do not (i.e., Storge non-family firms formed with high bargaining power of firm’s agents). However, this essay argues that this significant, positive relationship between the presence of non-economic objectives and firm performance is a spurious relationship, too. This essay argued above that the transaction costs of this type of non-family firms are higher than the altruism costs of this type of family firms. Thus, controlling for transaction costs may show a significant, negative relationship between attaining non-economic objectives and firm performance.

In summation, Figure-3.4 shed some light on theory of the firm and theory of the family firm. A non-family firm exists to enhance the economic values of the firm in situations where using a family governing mode may hurt the firm’s economic performance. On the other hand, a family firm exists for two reasons. The first reason is to secure the firm’s economic values in situations where using a non-family governing mode may hurt the firm’s economic performance as a result of increases in firm transaction and/or agency costs. The second reason is to achieve the non-economic objectives of the family where the family firm incurs altruism costs.
3.5. Discussion and Conclusion

What distinguishes family firms from non-family firms is the existence of family involvement that shapes firm behaviors and performance (Chua et al., 1999; Chrisman et al., 2005). Also, family involvement is not viewed as a fixed element that only distinguishes between family and non-family firms; but a variable that varies from family to family and distinguishes among family firms themselves. A key question raised by strategy researchers, is how family involvement influences the performance of family firms. Chrisman et al. (2005) state that answering such question requires identifying the distinctive nature of family firms, explaining how it forms by family involvement, and explaining how such distinction influences the performance of family firms.

Distinctions of Family Firms: Researchers identify two critical distinctions of family firms as a result of family involvement. The first distinction is the presence of altruism where research (e.g., Schulze et al., 2001, 2003; Chrisman et al., 2004; Eddleston and Kellermanns, 2007) discusses that family involvement in owning and managing the family firm creates altruism among family owners and managers. The second distinction is the presence of non-economic objectives where research (e.g., Chrisman et al., 2003; Chua et al., 2003) discusses that family firms have non-economic objectives such as maintaining family ties and providing jobs for family members.

How Distinctions Form in the Family: Developing an explanation for how non-economic objectives and altruism form in the family becomes a pressing demand in the field of family business. Essay-1 attempts to develop a theory of the family that addresses that demand. Essay-1 argues that family culture plays a major role in the objectives (i.e.,
economic, non-economic) and altruism of family members. Specifically, the marriage rationale and love style between the family’s founders are key components of family culture that shapes the type of altruism among family members and the attainment level of economic and non-economic objectives of the family and hence the family firm.

How Distinctions Influence Family Firm: This essay links the theory of family developed in Essay-1 to selected theories of the firm (i.e., transaction cost theory, agency theory). It argues that a family firm and hence its performance are functions of the family culture (i.e., marriage rational, love style) that is involved in that firm. Accordingly, this essay performs two links. The first link is between marriage rationales and transactions cost theory. It is concluded that family firms are likely a result of families that prefer to be formally engaged, and non-family firms are likely a result of individuals prefer to be informally engaged. Moreover, the rationales for forming family and non-family firms resemble the ones for engaging in formal and informal marriages, respectively. Family firms are formed in order to (1) minimize their transaction costs when the business contains some vulnerable attributes that agents able to take advantage of, and/or (2) attain the non-economic objectives of the family. The members of those family firms are seen as motivated by family values, such as other-interests and collectivism. However, non-family firms are formed in order to attain pure economic objectives when the business contains invulnerable attributes that agents unable to take advantage of. The members of those non-family firms are seen as motivated by market values, such as self-interests and individualism.
The second link is between love styles and agency theory. The previous link dealt with the rationales of forming efficient family and non-family firms; however, the real world includes efficient as well as non-efficient firms. Efficient is a term used in this essay to refer to firms with the lowest possible governance costs. Thus, this link extends the above rationales to include non-efficient family and non-family firms. The argument is that altruism style and agency costs influence the attainment level of economic and non-economic gains. This essay argues that love styles in families could be used as proxies for altruism styles in firms. Accordingly, the performance of a firm (i.e., family firm, non-family firm) is a function of the altruism style (i.e., self-interest altruism, other-interest altruism) and agency costs in that firm. This link shows that family firms could be classified into five types according to altruism styles. Eros and Mania family firms are efficient family firms because they have both zero agency costs and the lowest altruism costs. While Eros and Mania family firms are characterized by the existence of reciprocal altruism among their family members, Eros family firms formed with firms’ agents possessing low bargaining power and Mania family firms formed with firms’ agents possessing high bargaining power. The remaining three types of family firms are non-efficient where their altruism costs are higher than the possible minimum cost. These three types are Pragma, Ludus and Agape family firms. All the three types are characterized by the existence of asymmetric altruism, where Agape family firms attain its non-economic objectives at a cost higher than the one of Pragma and Ludus family firms, and Ludus family firms attain its non-economic objectives at a cost higher than the one of Pragma family firms. Moreover, Prgama, and Ludus, family firms formed with
firms’ agents possessing high bargaining power while Agape family firms could be formed with firms’ agents possessing either low or high bargaining power. The differences in the bargaining power of firms’ agents have an implication on the prevalent types of family firms. Family firms formed with firms’ agents possessing high bargaining power are more prone to asymmetric altruism than those formed with firms’ agents possessing low bargaining power. Family owners are obligated to respond positively to their powerful family agents who do not take advantage of their firms’ weaknesses (cf., Gouldner, 1960). Accordingly, family owners are expected to be more altruistic than their family agents when their family agents possess high bargaining power. However, if their family agents possess low bargaining power, family owners are not obligated to be more altruistic than their family agents. Thus, it is expected that within family firms formed with high bargaining power of firms’ agents, the prevalence of Pragma, Ludus, and Agape family firms is higher than Mania family firms. Also, it is expected that within family firms formed with low bargaining power of firms’ agents, the prevalence of Eros family firms is higher than Agape family firms. This implication may shed some lights on how the norm of asymmetric or reciprocal altruism is formed among family owners and agents. Family owners who realize that their family agents have high bargaining power are more inclined to pay a higher portion of the costs of achieving some family objectives (i.e., asymmetric altruism) than the portion paid by family agents who have a tendency to take advantage of the altruism of their family owners. Similarly, family owners who realize that their family agents have low bargaining power expect their family agents to equally share the costs of achieving some family objectives (i.e., reciprocal altruism) with
them, and those family agents are not likely to take advantage of the altruism of their family owners. The reason in this case is that family owners are in a powerful position to take advantage of their firms’ strengths; however, they do not do so. Therefore, family owners perceive that they treat well their family agents who need to respond by equally sharing the costs of achieving some family objectives with family owners. This implication presents an example of how the components of governance costs (i.e., transaction, altruism, and agency costs) interact with each other. That interaction is a factor that makes a clear-cut definition among the components of governance costs is difficult as mentioned earlier.

This link shows also that non-family firms could be classified into five types according to agency costs. Storge non-family firms are efficient non-family firms and characterized by the existence of self-interest altruism and zero agency costs. Storge non-family firms could form with low or high agent’s power. The economic performance of Storge non-family firms formed with low agent’s power is higher than that of Storge non-family firms formed with high agent’s power. While both types of Storge non-family firms have no agency costs, the difference in their performance is due to an increase in transaction costs for the firm that formed with high agent’s power. The remaining three types of non-family firms are non-efficient due to increases in agency costs. This link uses three terms: AG1, AG2, and AG3 to refer to three different levels of agency costs, where AG3 non-family firms have higher agency costs than those of AG1 non-family firms and AG2 non-family firms, and AG2 non-family firms have higher agency costs than those of AG1 non-family firms.
In summation, family involvement is a key factor in shaping the behaviors and performance of family firms. This essay is an attempt to theoretically explain how family involvement does that using two components of family culture: marriage rationales and love styles. The conclusion of this essay is that a non-family firm exists to enhance the economic values of the firm in situations where using a family governing mode may hurt the firm’s economic performance. However, a family firm exists to (1) secure the firm’s economic values in situations where using a non-family governing mode may hurt the firm’s economic performance as a result of increases in firm transaction and/or agency costs, and/or (2) achieve the non-economic objectives of the family.

Finally, this essay suggests some empirical and theoretical areas that need further research. Empirically, the essay capitalizes on the developed theory and scale of love (e.g., Lee, 1973; Hendrick et al., 1998) and proposes that love styles could be proxies for altruism types. Thus, the next step in advancing our knowledge in the family firm is to develop a scale for economic and non-economic objectives/performance in the family firm, then test the proposed relationships and modify them as needed. Theoretically, the analysis of this essay does not include agency costs of family firms that results of pursuing non-economic objectives which are not within the owners’ goals of family firms and reduces the firm economic performance. Thus, a potential future research is to address the agency costs of family firms. This essay provides a suggestion in doing that by joining the typology of this essay with the one of Lubatkin et al. (2007). This essay provides a typology of altruism that is based on the marriage rationale and love style between married partners to determine the desired attainment level of economic and non-
economic objectives of family firms. Thus, this essay’s typology is a classification of family firms according to the interests of their owners (i.e., economic and non-economic). Lubatkin et al. (2007) propose a typology of altruism consisting of five ‘parental altruistic archetypes’. Their typology is based on how an individual deduces his/her identity and values and whether the self or other-interests dominate. They show how those altruistic types may relate to the governance mechanisms of family firms (i.e., type of good allowance, control, enforcement, agents’ motivation, and family bond), and how those altruistic types may explain the governance efficiency in those family firms. Ultimately, their typology is a classification of family firms according to their governance mechanisms, and it is useful in explaining the actual attainment level of economic and non-economic objectives of family firms. Chrisman et al. (2005) state that “we need to better understand the interests of family business owners, whatever they may be [i.e., economic and non-economic]. By doing so we will be in a better position to measure agency costs by the decisions and actions pursued in contravention of owners’ actual interests, and the activities, incentives, policies, and structures owners set up to prevent their interests from being contradicted” (p. 565). Thus, a potential joint contribution of the two typologies is to better explain what researchers mean by agency costs. Because one of the typologies deals with the intentions of family firms while the second typology deals with the behaviors of those firms, the altruism discrepancy between a family firm’s intentions and behaviors should be part of agency costs.
3.6. References


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CHAPTER 4
CULTURAL THEORY OF THE FAMILY FIRM: LINKING THEORY OF SOCIETAL CULTURE TO THEORY OF THE FAMILY FIRM (ESSAY-3)

Abstract: The family business literature does not adequately explain the phenomenon of family and non-family firms at the societal level. The purpose of this essay is to provide a comprehensive cultural theory of the family and the non-family firm by linking a cultural theory of the society to a cultural theory of the family and the non-family firm. The current world is composed of three societies: traditional, modern, and postmodern. This essay argues that family and non-family firms are alternate types of economic systems that can be used by societies to achieve their cultural objectives and preserve their cultural values. This essay illustrates that the culture of family firms is more suited to the culture of traditional and postmodern societies, and the culture of non-family firms is more suited to the culture of modern societies. Nevertheless, family firms should not be seen as a homogenous group. This essay presents five types of family firms that differ in their rationales of existence. Because of the differences among family firms and the differences between traditional and postmodern societies, this essay argues that not all types of family firms are equally likely to exist in traditional and postmodern societies. Certain types of family firms are more dominant in traditional societies while other family firms are more dominant in postmodern societies.
4.1. Introduction

Family and non-family firms are alternate types of economic systems that can be used by societies to achieve some societal objectives. There are many attempts to theorize about family and non-family firms at the organizational level (Sharma, 2004), however, there are few attempts to do so at the societal level (e.g., La Porta et al., 1997, 1999, 2000; Burkart et al., 2003; Carney, 2005; Chang et al., 2008). The purpose of this essay is to provide a comprehensive cultural theory of the family and non-family firm by linking a cultural theory of the society to a cultural theory of the family and the non-family firm. That comprehensive cultural theory will be developed from a strategy perspective. Strategy is a field of study that is interested in the competition among organizations (e.g., family and non-family firms) and the outcome of that competition (e.g., failure, survival, low performance, average performance, superior performance). A key aspect that influences any competition process is the fit between the means and ends of that process (e.g., Venkatraman, 1989). Accordingly, the research question of this essay is whether a difference between the culture of an economic system (i.e., a means) and the culture of the society (i.e., process) that the economic system operates in impacts the desired outcomes (i.e., ends) of the society and, if so, why this is the case. The essay’s approach to answer such a question requires (1) reevaluating the long-held implicit assumption that all types of economic systems can equally fit into any type of societies, and (2) viewing economic systems from the perspective of societies’ stakeholders rather than systems’ stakeholders.
This essay mainly revolves around two issues: types of cultures among societies and economic systems and their relationships from a strategy’s perspective. The discussions of these two issues are organized into four sections. The second section introduces the three types of world societies and the cultural differences among them. The third section summarizes the cultural theory of family and non-family firms developed in Essay-2. The fourth section links the cultures of firms and societies to each other using strategy’s concepts such as cultural incongruence and efficiency. Finally, the essay ends with a discussion and conclusion that goes over the essay’s main points.

4.2. Culture of World Societies

The world today could be classified into three types of societies: traditional, modern, and postmodern. The phrase “traditional society” is used for a pre-industrial society where it still continues with an agricultural economy or it has a simple or low volume industries. The phrase “modern society” refers to an industrial society where the society has moved from an agricultural economy to industrial economy. The phrase “postmodern society” is used for a postindustrial society where it has moved from an industrial economy to knowledge economy (Inglehart and Baker, 2000).¹

Those three different types of society have also different cultures. Before discussing the culture of each society, it is important to explain how the phrase “societal culture” is defined. There are numerous definitions for societal culture. For example, Huntington (2000) defines societal culture as “the values, attitudes, beliefs, orientations,

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¹ It should be noted that this is not an exact delineation as each society may contain aspects of the others.
and underlying assumptions prevalent among people in a society” (p. xv). Inglehart (1997) defines it as “a system of attitudes, values, and knowledge that is widely shared within a society and is transmitted from generation to generation” (p. 15). Granato et al. (1996) assert that a societal culture is “a system of basic common values that help shape the behavior of the people in a given society” (p. 608). From the Hofstede’s (1980) view, a societal culture could be described as the collective programming of the mind that distinguishes the people of one society from another. Chrisman et al. (2002) perceive a societal culture as a cognitive categorization of people where members of the same cognitive category tend to have similar perceptions and interpretations as well as similar behaviors and outcomes.

The above definitions of societal culture revolve around the attitudes, values, interpretations, knowledge, behaviors, and outcomes of a group of people that distinguish one group from another. Nye and MacDougall (1960) provide a view of culture that not only encompasses those aforementioned elements but also organizes those elements in a way that closely fits this essay’s strategic view of culture.² According to Nye and MacDougall (1960), a societal culture could be described by four elements: (1) objectives which provide the direction for the efforts of a society’s people, (2) values which help a society’s people in prioritizing their efforts, (3) statuses which define the duties and responsibilities of a society’s people, and (4) roles which provide a society’s people with “specific techniques for achieving goals and realizing values” (p. 315). This essay will be limited to the first two items of Nye and MacDougall’s (1960) view of culture: objectives

² Nye and MacDougall (1960) explain culture in the context of a family’s members. This essay extends their view to include a society’s members because culture is a common term that explains members of any group whether the group is defined as a family or society.
and values because these two items are the most important and dominant attributes among all items. The remaining portion of this section is about the culture of each type of world societies: traditional, modern, and postmodern.

4.2.1. Traditional Society Culture

The traditional society is characterized by a simple form of living which depends on agriculture, herding, hunting and/or trading. It is concerned more with preserving the social status of its people (Granato et al., 1996). Its cultural values push people to care about social solidarity, accept one’s social status, and discourage social mobility. The social status in the traditional society is mostly inherited rather than earned. It transfers from one generation to another of the same family (Inglehart, 1997). Change, in general, is not welcome in this type of society because it may impact the society’s social structure. For example, the traditional society discourages individual economic accumulation and entrepreneurial behaviors that could impact the society’s social order (Granato et al., 1996).

People in traditional societies suffer from scarce resources, which threaten their survival (Norris and Inglehart, 2004). Their wealth is generated mostly from land which is the main source for agriculture and herding. Because of the limited quantity of land, an increase of someone’s wealth is a result of a reduction in another’s wealth; this is why the traditional societies are viewed as zero-sum economies (Granato et al., 1996; Inglehart, 1997). The struggle in this society is between the people who own land and those who do not. People who attempt to change the game’s rules by creating wealth through
entrepreneurial behaviors rather than owning land are marginalized (Lorimer, 1908). Granato et al. (1996) found that the economic development of societies is negatively associated with traditional culture.

Traditional society leans toward the view that humans are controlled by a superior power. Thus, religion has an important role over the people of those societies (Inglehart and Baker, 2000; Norris and Inglehart, 2004). While religion helps traditional people in dealing with their superior power, it provides an influential base for society members to appreciate the value of obedience, including a respect for the existing social order. In return for that respect and because of the scarcity of resources, generosity (e.g., a sacrifice for others) is a key virtue of the traditional society (Inglehart, 1997).

4.2.2. Modern Society Culture

The modern society is characterized by the industrialization and the enhancing of the productivity of many life’s aspects (Drucker, 1993). Inglehart (1997) says that the dominant objective of the modern society is economic progress. He adds that the attractiveness of a modernization process is that it “enables a society to move from being poor, to being rich” (Inglehart, 1997: p. 5). Granato et al. (1996) found that the economic development of societies is positively associated with the modern culture. The cultural values of the modern society could be seen as a revolution against the cultural values of the traditional society. The modern society motivates people to be individualistic, educated, entrepreneurial, and less religious (Inglehart and Baker, 2000; Norris and Inglehart, 2004). All these values are at odds with the values of the traditional society.
The modern society institutionalizes its people’s economic achievements (McClelland, 1961). Capitalism is one example of societal cultural values that encourages individual economic achievement. As Weber (1958) explained, the Protestant ethic was a reformation of the traditional values of Europe that helped in the rise of the capitalistic spirit. Also, a modernized version of Confucian culture helped in the rise of the capitalistic spirit in Confucian societies. It was a reformation of traditional Confucianism that “encourages economic growth, through its support of education and achievement” (Granato et al., 1996: p. 608). The struggle in the modern society is about whom owns the means of production: the capitalists who finance the industrialization process or the laborers who run that process. Such struggle created two systems, capitalism and socialism that each has its own theoreticians and implementers.

The modern society leans toward the view that humans control nature. Thus, rational and bureaucratic organizations rather than religion have an important role over the people of the modern society (Inglehart and Baker, 2000; Drucker, 1993). For example, Norris and Inglehart (2004) found that “the sharpest reduction in religiosity occurs following the first stage of societal modernization, in the shift from agrarian to industrial societies” (P. 71). Controlling rather than being perceived as being controlled encourages innovation and entrepreneurship which contribute to the economic progress of the modern society (Granato et al., 1996).
4.2.3. Postmodern Society Culture

The postmodern society is a modern society that has undergone a change in the objectives or priorities. While the modern society targets economic and human progress, economic progress is its first priority. In the postmodern society where economic security has been taken for granted, human progress becomes its first priority (Inglehart, 2000). The postmodern society is concerned more with the quality of life and protection of environment. Its cultural values motivate people for self-expression that incorporates democracy, pays attention to society’s marginalized groups such as minorities and women, thinks about the meaning of life, and is friendly to nature (Inglehart, 1997). For example, modernization educates women and brings them into the workforce, but it does not grant women a power equivalent to that of men. It is the post-modernization that moves women into “higher status economic roles in management and the professional” and helps women to “gain political influence within elected and appointed bodies” (Norris and Inglehart, 2004: p. 138).

In the postmodern society, people, environment, service, knowledge, concepts, and autonomy are central themes, but focusing on them may come at the expense of economic progress (Inglehart and Baker, 2000; Granato et al., 1996). Bell (1973) and Drucker (1993) say that knowledge, especially theoretical, will be at the core of the postmodern society rather than capital and labor, which constitute the modern society’s core. The struggle in this society will be between the intellectuals who generate the knowledge and the managers who implement it. By making knowledge, people and environment the focal point of progress, economic progress may be negatively impacted.
In fact, the shift from modern to postmodern values could be seen as “the erosion of the Protestant Ethic among populations that experience high levels of economic security” (Granato et al., 1996: p. 609). Granato et al. (1996) found that the economic development of societies is negatively associated with postmodern culture.

Inglehart (1997) says that no trend, including modernization, moves forever in the same direction. It has to reach a point of diminishing utility. Individualism and secularism are at the core of the modern society’s values. Modernized people will not continue pursuing these values forever. The postmodern society is an inflection point of these values. For example, Maffesoli (1996) argues that the postmodern society will be ‘the time of the tribes and the decline of individualism.’ Norris and Inglehart (2004) say that post-modernization emphasizes the meaning and purpose of life and the revival of spiritual concerns that differ from those of traditional religions.

4.3. Culture of Economic Systems

Conklin (1991) defines an economic system as “the organizational arrangements and processes through which a society makes its production and consumption decisions” (p. 1). He adds that each society selects its objectives and decision modes (i.e., economic systems) to achieve these objectives (Conklin, 1991). This section discusses two modes of governing firms, family and non-family, both of which this essay views as parts of a set of alternatives by which a society may organize its production and consumption. The discussion of these two modes will be from a cultural perspective. This section
summarizes the cultural theory of family and non-family firms developed in Essay-2.³

That cultural theory revolves around the interaction among firms’ characteristics, owners and agents and how that interaction influences firms’ governance costs.⁴ Specifically, the cultural theory argues that the governance costs of firms are generated from agents taking advantage of their attributes (i.e., agency costs), the attributes of the business for which they work (i.e., transaction costs), and/or the attributes of business owners who they work for (i.e., altruism costs). Essay-2 defines (1) transactions costs as costs that are mainly driven by the attributes of a business such as its asset specificity and knowledge type (i.e., tacit, explicit), (2) agency costs as the costs that are mainly driven by the attributes of agents such as their values and behaviors, and (3) altruism costs as the costs that are mainly driven by the attributes of owners such as their values and behaviors.⁵, ⁶, ⁷ This section consists of two subsections; the first subsection addresses the culture of family firms while the second subsection addresses the culture of non-family firms.

³ While this section summarizes the main ideas of the cultural theory of family and non-family firms, it is recommended that readers of this essay refer to Essay-2 for more clarification.
⁴ The governance costs of a business could be defined as the costs related to directing and controlling the business to achieve its objectives (Mallin et al., 2005).
⁵ Asset specificity means specialized investments or assets (e.g., site specificity, physical asset specificity, human asset specificity, dedicated assets) that “cannot be redeployed without sacrifice of productive value if contracts should be interrupted or prematurely terminated” (Williamson, 1985: 54-55).
⁶ Chrisman and McMullan (2004) define tacit knowledge as “knowledge that is experientially based and is difficult to codify, to replicate, and to transmit” and define explicit knowledge as “knowledge based on facts and theories that can be codified, replicated, and transmitted to others more easily” (p. 231).
⁷ Altruism means a sacrifice of one person for the benefit of another (Bahr and Bahr, 2001). Essay-2 discusses two types of altruism, self-interest altruism and other-interest altruism. Self-interest altruism is a person’s sacrifice that maximizes the attainment of his/her economic objectives; that is a sacrifice for the purposes of generating positive returns (e.g., wealth, consumptions) for an altruist, whether in current or future periods. Other-interest altruism is a person’s sacrifice that maximizes the attainment of his/her non-economic objectives; that is a sacrifice which is not for the purpose of generating positive returns for him/her, whether in current or future periods. If an altruist receives a return that is equivalent to his/her sacrifice, that interaction is called reciprocal altruism. If an altruist receives a return that is not equivalent to his/her sacrifice, that interaction is called asymmetric altruism.
4.3.1. **Family Firm Culture**

What distinguishes family firms from non-family firms is the existence of family involvement that shapes firm behaviors and performance (Chua et al., 1999; Chrisman et al., 2005). The family firm is considered the interaction of two entities: family and firm. Essay-2 argues that family firms (as opposed to non-family-firms) are formed in order to (1) minimize their transaction costs when the business contains some vulnerable attributes that agents are able to take advantage of, and/or (2) attain the non-economic objectives of the family, such as creating a family legacy and jobs for family members (Andersson et al., 2002). The members of those family firms are seen as motivated by family values, such as other-interests and collectivism.

Figure-4.1 represents a model that explains the situations where a business’s owner prefers to form a family or non-family business. The y-axis represents the economic performance of firms in terms of a firm’s governance costs (i.e., transaction, agency, and altruism costs). The x-axis represents agents’ power in firms. The reason for selecting agent’s power in this model is the importance of agents in appropriating firm rents (Coff, 1999). Agent’s power is defined as the ability of a firm’s agent to achieve his/her objectives in the presence of rivals (cf., Hirshleifer, 1990) such as the firm’s owner(s). The curve TM1-TM2 in this model represents business owners who prefer to form a family firm. The curve MK1-MK2 represents business owners who prefer to form a non-family firm.

Figure-4.1 shows that a firm’s owner should select the family business form over the non-family business form when the risk of the appropriation of rents by agents...
exceeds the switchover level (SL) owing to agent power. The rationale for this decision is that the transaction costs of running a business using the family mode of governance is less than that of the non-family mode of governance because of the kin relationship. At a level higher than the switchover, the power of agents is high due to the vulnerable attributes of the business (e.g., high asset specificity, explicit knowledge) for which they work. Because of the high power of firms’ agents (at area above the SL), firms’ owners could be exposed to a high probability of opportunism if they select the non-family mode of governance to run their businesses.
Below the switchover level (SL), a firm’s agents have low bargaining power because the firm they work in has invulnerable attributes such as low asset specificity and tacit knowledge. Accordingly, the firm’s owner faces two alternatives. The first alternative is for the business’s owner to select the non-family mode of governance in which he/she has high bargaining power over non-family agents and appropriates a large portion of the firm’s generated rent. In that case, a business’s owner selecting a non-family mode of governance at a level of agent’s power lower than the switchover level (SL) is mainly led by economic gains. The second alternative is for the business’s owner to select the family mode of governance in which he/she does not exercise his/her high bargaining power over family agents because of the kin relationship. Accordingly, the owner of a family business incurs an extra cost (the cost differences between the family and non-family mode of governance) in order to achieve some of the non-economic objectives of the family by family altruism (e.g., creating a family legacy, providing jobs for the family members, maintaining the unity of the family).

Figure-4.1 shows that family firms could be classified into five types according to altruism styles. Eros and Mania family firms are efficient family firms because they have both zero agency costs and the lowest altruism costs. While Eros and Mania family firms are characterized by the existence of reciprocal altruism among their family members, Eros family firms formed with firms’ agents possessing low bargaining power and Mania family firms formed with firms’ agents possessing high bargaining power. The remaining three types of family firms are non-efficient where their altruism costs are higher than the
possible minimum cost. These three types are Pragma, Ludus and Agape family firms. All the three types are characterized by the existence of asymmetric altruism, where Agape family firms attain its non-economic objectives at a cost higher than the one of Pragma and Ludus family firms, and Ludus family firms attain its non-economic objectives at a cost higher than the one of Pragma family firms. Moreover, Pragma, and Ludus, family firms formed with firms’ agents possessing high bargaining power while Agape family firms could be formed with firms’ agents possessing either low or high bargaining power.

4.3.2. Non-Family Firm Culture

A non-family firm is a social system (i.e., including people and resources) oriented towards adding economic value (Parsons, 1956a, 1956b), and the relationship among the system’s people is not centralized around marriage or kinship. Essay-2 argues that non-family firms are formed in order to attain pure economic objectives when the business contains invulnerable attributes that agents are unable to take advantage of. The members of those non-family firms are seen as motivated by market values, such as self-interests and individualism.

Figure-4.2 shows that non-family firms could be classified into five types according to agency costs. Storge non-family firms are efficient non-family firms and characterized by the existence of self-interest altruism and zero agency costs. Storge non-family firms could form with low or high agent’s power. The economic performance of

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8 The non-efficiency of family firms, here, pertains to the increases of altruism costs only, all else equal.
Storge non-family firms formed with low agent’s power is higher than that of Storge non-family firms formed with high agent’s power. While both types of Storge non-family firms have no agency costs, the difference in their performance is due to an increase in transaction costs for the firm that formed with high agent’s power. The remaining three types of non-family firms are non-efficient due to increases in agency costs. Figure-4.2 uses three terms: AG1, AG2, and AG3 to refer to three different levels of agency costs, where AG3 non-family firms have higher agency costs than those of AG1 non-family

![Diagram](image_url)

**Legend:** TM1-TM2: Family Firm; MK1-MK2: Efficient Non-Family Firm; SWP: Switchover Point; SL: Switchover Level; AG1, 2, and 3 are Non-Efficient Non-Family Firms.

**Figure-4.2**

Efficient and Non-Efficient Non-Family Firms – Varying Agency Costs
firms and AG2 non-family firms, and AG2 non-family firms have higher agency costs than those of AG1 non-family firms.

4.4. A Strategic View of the Relationship between Societies and their Systems

One function of humans on this world is to manage their survival and growth. The ultimate objectives of such management are to have satisfied and happy people. Within the course of achieving the ultimate objectives, people have materialistic (i.e., wealth, consumption) and non-materialistic (i.e., prestige, self-expression) objectives. Rational people maximize the attainment of their objectives whether their objectives are materialistic, non-materialistic, or a combination of the two. This essay argues that determining the types of objectives and the strategies of achieving these objectives are functions of people’s societal culture. Accordingly, it is inaccurate to assume that rationality always indicates maximizing the achievement of materialistic objectives. In fact, in societies that favor non-materialistic objectives, maximizing non-materialistic objectives is not at odds with rationality. Therefore, rational people are the ones who achieve their objectives at minimum cost.

This section is about how societal culture influences the make up of an economic system in terms of the types of firms that dominate (e.g., family business, non-family

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9 While the phrases “economic objective” and “non-economic objective” are close synonyms to the phrases “materialistic objective” and non-materialistic objective” respectively, this essay avoids that interchangeability of the phrases because this dissertation uses these phrases to highlight different aspects of a person’s objectives. In this dissertation, an economic objective of an individual means a return (i.e., materialistic or non-materialistic) that is greater than his/her paid cost (e.g., sacrifice). However, a non-economic objective of an individual means his/her sacrifice is greater than his/her expected economic return. In other words, the terms materialistic and non-materialistic are related to the content of a person’s objectives while the terms economic and non-economic are related to the beneficiary of a person’s objectives (i.e., self or other).
business) and how the selected type impacts the people’s ultimate objectives. This section consists of three subsections. The first subsection explains, in general, the relationship between a society’s culture and its system’s culture. It argues that cultural incongruence between a system and its society would increase the cost of achieving the ultimate objectives of a society. The second subsection provides an empirical example of cultural incongruence between a political system and its society and how such incongruence increases the society’s cost. The final subsection sets the ideas developed in the first and second subsections in the context of economic systems. It argues that the culture of family firms is more suited to the culture of traditional and postmodern societies while the culture of non-family firms is more suited to the culture of modern societies.

4.4.1. Cultural Incongruence and Efficiency

As mentioned earlier, people need to manage their survival and growth with respect to their ultimate objectives, satisfaction and happiness. Accordingly, they create systems (Bertalanffy, 1950; Boulding, 1956) with different functions (e.g., social, economic, political) that use various inputs (e.g., time, physical-psychological effort, resources) to produce outputs (i.e., materialistic, non-materialistic) that are consumed by a society’s people for their survival and growth. Figure-4.3 shows three key systems (i.e., social, economic, political) and how the outputs of these systems are related to the ultimate objectives of a societal process of survival and growth. The figure reveals that these systems use the available inputs of a society to achieve some intermediate objectives that facilitate a society to attain its ultimate objectives. In other words,
systems’ objectives (e.g., materialistic, non-materialistic) could be seen as vehicles to achieve a society’s objective (e.g., satisfaction, happiness). 10

People are supposed to be rational creatures in that they articulate their objectives and design (or use) an appropriate system (or process) to effectively achieve their objectives. Competition is an important behavior for people’s survival and growth because people are living on a planet with limited resources (Hirshleifer, 1978). Thus, efficiency – a measure of competitiveness – is a central concept for humans. A key

10 This essay distinguishes between two types of objectives: system (e.g., materialistic, non-materialistic) and society (e.g., satisfaction, happiness). The convention of this essay is to use the term “objective” to refer to a system’s objective and use the term “ultimate objective” to refer to a society’s objective.
criterion to evaluate the efficiency of a process is to relate the value of a process’s outputs (e.g., attainment level of a process’s objectives, Parsons 1956a, 1956b) to the values of its inputs and transformation processes (i.e., paid costs). In mathematical terms:

\[ \text{Eff}_p = \frac{\text{Obj}_p}{\text{Cst}_p} \]  

Equation-4.1

Where \( \text{Eff}_p \) represents the efficiency of a process; \( \text{Obj}_p \) represents the attainment level of the process’s objective (i.e., satisfaction, happiness); \( \text{Cst}_p \) represents the costs of used society’s inputs (i.e., resources) to achieve the process’s objective. Accordingly, the efficiency of a process is a way of measuring the cost of one unit of achieved objectives by that process. The approach of this essay in comparing the efficiency of competing processes that achieve the same objectives is to find out how much cost needed to achieve an equal amount of specific objectives (i.e., \( \text{Obj}_p \)).\textsuperscript{11} Therefore, the paid costs could be viewed as consisting of two components as follows:

\[ \text{Cst}_p = \text{Cst}_{\text{eff}} + \text{Cst}_{\text{ief}} \]  

Equation-4.2

Where \( \text{Cst}_{\text{eff}} \) means efficient cost and represents the lowest cost that could be paid by the most efficient process to achieve specific objectives; \( \text{Cst}_{\text{ief}} \) means inefficient cost and is due to ineffective or inefficient used systems (i.e., strategies). Therefore, inefficient cost will be equal to zero in the case of the most efficient process and will be greater than zero in the case of inefficient processes. In fact, there could be many reasons for inefficiency, and hence there would be many types of inefficient cost. This essay is interested in one type of inefficient cost, the cost of incongruent cultures. This essay defines incongruent cultures’ cost as the cost in excess of the lowest cost – required for

\[\textsuperscript{11} \text{This approach of comparing the efficiency of competing processes covers the three views of how a process’s efficiency can be improved: (1) achieving more objectives with similar paid costs, (2) achieving same amount of objectives but with less paid costs, or (3) achieving more objectives with less paid costs.}\]
achieving specific objectives – as a result of incongruence between a system’s culture and the societal culture that the system is supposed to function in. In mathematical terms, the inefficient cost could be shown as follows:

\[ \text{Cst}_{\text{ief}} = \text{Cst}_{\text{inc}} + \text{Cst}_{\text{oth}} \]  

Equation-4.3

Where \( \text{Cst}_{\text{inc}} \) represents the cost associated with incongruent cultures; \( \text{Cst}_{\text{oth}} \) represents all other costs (i.e., due to ineffective or inefficient implemented strategies) that are different from incongruent cultures’ cost. Limited to two of the cultural components explained by Nye and MacDougall (1960), this essay argues that incongruent cultures’ cost could be composed of two components: (1) cost related to incongruent values, and (2) cost related to incongruent objectives. In mathematical terms:

\[ \text{Cst}_{\text{inc}} = \text{Cst}_{\text{incv}} + \text{Cst}_{\text{inco}} \]  

Equation-4.4

Where \( \text{Cst}_{\text{incv}} \) and \( \text{Cst}_{\text{inco}} \) represent the cost associated with incongruent values and objectives between the two cultures, respectively. An important question is why incongruent values and objectives between the cultures of a society and its system have need of additional consumption of inputs. The followings are a brief explanation of why cultural incongruence increases the costs for a societal process to achieve its ultimate objectives.

_Values’ Incongruence (Cst_{incv}):_ To understand how differences in values consume additional resources, this essay treats a society’s cultural values as analogous to a person’s immune system and a society’s system which has incongruent cultural values with its society’s cultural values as analogous to a transplanted organ. Pace and Glass (2000) say that all persons whose bodies contain transplanted organs must take anti-
rejection drugs (i.e., immunosuppression) for the rest of their lives in order to suppress their immune systems from destroying the foreign organs.\textsuperscript{12} The key function of an immune system is to protect “the body from invasion by foreign substances, such as bacteria and viruses, and from cancer cells” (Petechuk, 2006: p. 184). The problem of an immune system is that it does not distinguish between a good and bad cell. All cells that are not native to the body are considered as bad cells and need to be destroyed (Couture, 2001). Kasiske et al. (2000) report the costs of these immunosuppressive medications and find evidence suggesting that “at least some patients have reduced immunosuppression and their transplants fail because they cannot afford these medication costs” (p. 2445). The only way to avoid immunosuppression and its associated costs is to replace the immune system of patients received foreign organs by the immune system of the organs’ donors. Demi-Lee Brennan, a teenager Sydney girl, is the first and only known patient that ever alter blood type and took on the immune system of her liver donor; hence, she retains the foreign organ without immunosuppression (Starzl, 2008; Alexander et al., 2008; Sikora, 2008; Rubinsztein-Dunlop, 2008).

Analogously, a society’s system which has incongruent cultural values with its society’s cultural values will be considered as a foreign system transplanted in the society. Therefore, the foreign system needs some additional inputs (i.e., immunosuppressive medications) in order not to be destroyed by the society’s cultural values (i.e., the society immune system). Inglehart (1997) says that a key function of a society’s cultural values is its role in legitimating the society’s systems (e.g., protecting

\textsuperscript{12} An exception of that are persons who receive an organ from an identical twin. Those persons do not require anti-rejection drugs because of the compatibility of the organ received from their identical twin to their immune system (Pace and Glass. 2000).
the society from invasion by foreign substances). He adds that if a system within a society does not have legitimacy (i.e., being foreign), its survival requires payments (e.g., society resources, materialistic output, or non-materialistic output) to influential people to secure their loyalty and protect the foreign system from being rejected and destroyed. Therefore, there will be some society’s inputs (e.g., resources) diverted to treat such rejection. The cost of the inputs used for such treatment depends on the level of values’ incongruence. Low values’ incongruence leads to low treatment costs while high values’ incongruence leads to high treatment costs. The treatment as well as its associated costs will continue as rejection continues. The long-term fix (i.e., $C_{st_{inc}} = 0$) is to change the system’s cultural values to match the cultural values of its society, or vise versa.

*Objectives’ Incongruence ($C_{st_{inco}}$):* If a system differs with its society in the type of outputs to be produced and/or the priority of produced outputs, the system could be seen as a foreign system, too. A best scenario with respect to low paid costs is that the foreign system is able to partially produce a society’s needed outputs in addition to producing outputs that the society does not need. Accordingly, that system will use additional society’s inputs for products that are not consumed by the society’s people and do not contribute to their ultimate objectives. Another best scenario with respect to low paid costs is that the foreign system has a priority for produced outputs that differs from the one of its society. In that case, there will be a difference in the value of produced outputs that requires the uses of additional society’s inputs to restore the case to the way the society wants. For example, assume a foreign system produces two outputs: wealth and justice which are needed by the society that the foreign system operates in. Assume
the problem of this foreign system is that it prioritizes generating wealth over maintaining justice while its society reverses this priority. In that case, the society’s marginal utility of maintaining justice exceeds its marginal cost. The favorable situation for the society is that the system achieves an efficient level of justice (i.e., marginal utility = marginal cost). However, achieving this favorable situation without changing the foreign system requires using additional society’s resources to restore the inequality. Therefore, differences in the types of produced outcomes or the priority of these outcomes lead to more consumption of society’s inputs. Substituting Equation-4.2, Equation-4.3, and Equation-4.4 into Equation-4.1 yields the following:

\[ \text{Eff}_p = \frac{\text{Obj}_p}{(C_{\text{steff}} + C_{\text{stincv}} + C_{\text{stinco}} + C_{\text{stoth}})} \]

Equation-4.5 is one way to display factors that are related to the efficiency of a societal process of survival and growth. Accordingly, the equation states that one strategy to enhance the efficiency of a societal process is through minimizing cultural incongruence in values (C_{\text{incv}}) and objectives (C_{\text{inco}}) between a society and its systems, all else equal.

There are three schools of thought regarding the relationship between societal culture and system (i.e., economic, political, social) culture. The first school of thought argues that system culture determines societal culture. For example, Marx (1973) states that economic development tends to change society culture into an approximately predictable path (Inglehart and Baker, 2000). The second school of thought argues that societal culture determines system culture. For example, Weber (1958) and Huntington (1993, 2000) say that society culture matters in shaping the society economy and its
progress. The third school is in the middle and argues that societal and system cultures influence each other. For example, Inglehart (1997) argues that “economic development, cultural change, and political change go together in coherent and even, to some extent predictable patterns” (p. 5). In fact, Inglehart and Baker (2000) found evidence for the third school of thought. They found that economic development leads to a cultural shift from “absolute norms and values toward values that are increasingly rational, tolerant, trusting, and participatory” (p. 19). However, cultural change is path dependent that a homogenized world culture is unexpected in the near future (e.g., Inglehart and Baker, 2000). In other words, economic development which occurs in different societies (e.g., Protestant, Confucian) does not create identical modern societies, but creates multiple modern societies that each reflects some features of its people’s cultural heritage (Newson and Richerson, 2007a). Inglehart and Baker (2000) found that distinctive values from the former culture (e.g., Protestant, Confucian) persist even with the presence of economic development in societies. This essay supports the third school (e.g., Inglehart, 1997) that changes could occur in both directions.

Another issue which is of equal importance to the direction of change is when the change will take place. Some discrepancy between societal and system cultures could exist in any society. However, if the discrepancy is so high in that the outcomes of a society’s systems are not consumed by the society’s people and the ultimate objective of the society (i.e., satisfaction, happiness) is costly to achieve, a change in either society or system’s culture is expected to take place. Societies cannot afford to produce products that are not compatible with the demands and values of its people. If societies waste their
limited resources in producing incompatible products, its people will suffer and be motivated to initiate a change. For example, the collapse of the Soviet Union in 1991 was a result of generating products by socialism systems that were culturally incompatible with the demands of Soviet Union’s people. The well-being of Russian people, for example, sharply dropped from around 70% who considered themselves as happy and satisfied in 1981 to around 48% who considered themselves as happy and satisfied in 1990. As stated by Inglehart (2000: p. 226): their “well-being had fallen to unheard-of levels” that lead to the break up of their country into 15 states in 1991. Accordingly, societies that are extremely inefficient in achieving its ultimate objective (e.g., satisfaction, happiness of its people) may suffer from a high discrepancy between its societal culture and the culture of its systems. Thus, these societies will be prone to a cultural change. Stated as a proposition:

\[ P1: \text{High discrepancy between societal and system cultures that results in extreme inefficiencies in achieving the well-being of the society’s people will lead to a cultural change.} \]

The main thesis of this essay is that incongruence between the culture of a society’s system (political, economic, and social) and the culture of the society that the system operates in will increase the costs of achieving the ultimate objectives of the society. The purpose of this essay is to explain the situations that lead to cultural incongruence between economic systems (i.e., family business, non-family business) and the societies they function in and the impact of these situations on the performance of societal process of survival and growth. Before proceeding towards this essay’s purpose,
showing an empirical example pertaining to incongruence between the culture of a political system and its society’s culture and how that incongruence culture increases the costs of achieving people objectives would be relevant and helpful.

4.4.2. An Empirical Example of the Cost of Cultural Incongruence

This subsection is limited to the political systems of Arab states in which these states belong to the traditional society. The key question that this subsection investigates is whether the presence of a cultural incongruence between the political systems of Arab states and their traditional society increases the costs of achieving the ultimate objectives of the people of these states. The approach to answer this question consists of four steps: (1) provide an overview on the Arab states including their political systems and cultural values, (2) discuss the relevance of the political systems of Arab states to the topic of this essay which revolves around family and non-family business in world societies, (3) develop a hypothesis that relates cultural incongruence with paid costs, and (4) perform data analysis and discussion.

(1) Overview on the Arab States: The Arab world consists of twenty two states. The modern history of the Arab world – started in the late 19th century – began with twelve monarcomies and ten republic states. There were coups in four monarchy Arab states (i.e., Egypt, Iraq, Libya, and Yemen) in the 20th century that changed them to republic states. Thus, eight monarchy Arab states (i.e., Bahrain, Jordan, Kuwait, Morocco, Oman, Qatar, Saudi Arabia, and United Arab of Emirates) survive nowadays,

13 League of Arab States, http://www.arableagueonline.org/las/arabic/categoryList.jsp?next=0&level_id=61&image.x=46&image.y=9
and the rest (i.e., fourteen states) are republics. Arab states occupy a homogenous region and share common boarders among them. They have many things in common such as language, history, and culture. The Arab area is characterized by a low level of industrialization. Religion is important for the people of these states because those people live in a region that represents the birthplace of the three monotheistic religions: Judaism, Christianity, and Islam. Theoretically these states could be viewed as traditional societies. Empirically, unfortunately, only four Arab states (i.e., Algeria, Egypt, Jordan, and Morocco) were investigated in the world values survey (WVS). The WVS in 2000 shows that these four states (i.e., two monarchies and two republics) score high on the traditional value scale (Inglehart, 2006). As shown in Table-4.1, the scores of these four countries are around -1.7 on a scale that ranges from -2.3 (very high traditional state) to

<table>
<thead>
<tr>
<th>Country</th>
<th>Political System</th>
<th>Traditional–Modern Value Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Algeria</td>
<td>Republic</td>
<td>-1.65</td>
</tr>
<tr>
<td>Egypt</td>
<td>Republic</td>
<td>-1.70</td>
</tr>
<tr>
<td>Jordan</td>
<td>Monarchy</td>
<td>-1.69</td>
</tr>
<tr>
<td>Morocco</td>
<td>Monarchy</td>
<td>-1.71</td>
</tr>
</tbody>
</table>

Note: (1) Identifying the cultural values of some Arab states were part of the World Values Survey of the year 2000.
(2) The traditional-modern scale ranges from -2.26 (very high traditional state) to +2.00 (very high modern state).
(3) The source of the cultural values information is Figure-1 on page 122 of “Inglehart, R. (2006). Mapping global values. Comparative Sociology, 5: 115-136.”
+2.0 (very high modern state). Because the scores of these four states are close to each other, it is expected that the rest of Arab states have similar scores. In fact, this essay expects that the four countries included in the world values survey are relatively less traditional than some of the Arab states that were not included in the survey such as Yemen and Oman. In summation, all Arab states (i.e., eight monarchies, fourteen republics) are located in the traditional society.

(2) Relevance of the Example to this Essay’s Topic: Arab states have two forms of political system: monarchy and republic. The difference between the two forms is that the political objectives of Arab states are achieved through relatives in the monarchy form while theses objectives are achieved through non-relatives in the republic form. This essay argues that there are similarities between modes of governing business organizations (i.e., family, non-family) and modes of governing political organizations (i.e., monarchy, republic). In explaining these similarities, this essay will be limited to the strategic issues (i.e., survival, performance) of the mode of governing these organizations.

Herb (1997) says that the survival of those eight Arab monarchy states was a puzzle for many political scholars (e.g., Huntington, 1968; Binder, 1988): “How have theses monarchies survived, in a region hardly famous for its political stability, and in an age hostile to monarchism?” where their political orders are equivalent to the ones of Germanic tribes or Irish clans in the old times of the West (Herb, 1997: p. 7). Herb studied the Middle Eastern monarchies, particularly the vanished and survived monarchies. The latter he coined as “dynastic monarchies”. His study, in general,
determined three key survival factors for those eight dynastic monarchies: monopoly of state power, effective succession mechanism, and wide family information network. First, in dynastic monarchies, because the members of the ruling family hold all key posts in the state, it is difficult to overthrow the monarch and his family using state institutions. Holding key posts in the state is equivalent to determining and controlling the strategic decisions of the state. Second, dynastic monarchies have an effective succession mechanism that ensures (a) selecting a qualified monarch, not “children, monsters, or imbeciles” (Herb, 1997, p. 496), (b) smooth transfer of power to a known successor in advance in case of the sudden death or removal of the current monarch, and (c) accountability of the current monarch towards the ruling family’s interests. In dynastic monarchies, no monarch is immune from removal if he damages the ruling family interests. Such a succession mechanism should have wide consensus among the ruling family members in order to avoid big cracks in the ruling family that ultimately affect the family’s survival. Third, in dynastic monarchies, the members of the ruling family have multiple contacts with their people so they are aware of their needs or changes in their needs. Thus, the dynastic family feeds the monarch with information that will be incorporated into his policies to satisfy the state’s people.

Comparing Herb’s explanation of Arab survived monarchies with the definition of family business by Chua et al. (1999) yields many similarities between them. Chua et al. (1999) define family business as “a business governed and/or managed with the intention to shape and pursue the vision of the business held by a dominant coalition controlled by members of the same family or a small number of families in a manner that is potentially
sustainable across generations of the family or families” (p. 25). It can be noticed that the two modes (family business and dynastic monarchy) determine and control the strategic decisions of the entity (business or state) through holding the key positions in that entity. Also, the two modes depend on family members and trust them more than non family members. Moreover, the two modes have the vision that most family members are attached to it that includes the interests of the family. Lastly, the two modes sustain over generations of the same family. Thus, Chua’s et al. (1999) definition is also applicable for Arab monarchy states where replacing the word “family” by “monarchy” and the word “business” by “state” yields the same concept and behavior.

The governing mode of Arab republic states clearly resembles the one of non-family business where the family members of any state president do not control the state’s key posts. Also, the president’s successor of any republic state is determined outside the president’s family. Moreover, most of the successors for republic presidents were not their relatives. In addition, the wide information network depends heavily on non-family members. Thus, the cultural concepts of monarchy and republic states are close to the cultural concepts of family and non-family firms, respectively. Understanding the culture of the political system and its relationship with societal culture will help in understanding the culture of the economic system and its relationship with societal culture, and vise versa.

(3) Cultural Incongruence and Paid Cost: Inglehart (1997) explains that any political system to function in a society should rely on the society’s culture, naked force, or a combination of the two. At one extreme, the society’s culture represents the cheapest
alternative where it justifies “its social order, legitimating a given elite’s right to rule” (Inglehart, 1997: p. 53). At the other extreme, if the elite of a political system does not have legitimacy, it needs to depend on naked force to impose itself and policies on its society’s people. The latter option is not without cost because an illegitimate elite needs to “buy loyalty that is not culturally internalized, but maintained only by external payoffs” (Inglehart, 1997: p. 53). Corruption could be seen as an example of payoffs for cultural incongruence. Corruption is defined as “abuse of public power (or public office) for private gain” (You and Khagram, 2005: p. 137). Illegitimate political elites must divert some of society’s resources (i.e., immunosuppression) to the influential society’s members (e.g., military elite) to secure their loyalty and protect the illegitimate political system. This essay argues that systems (e.g., political, economic) that are built on families are more congruent with the culture of the traditional society. The traditional society is concerned more with the social status of its people which is inherited rather than earned. Thus, the traditional society discourages social mobility and any mode of organizing that is based on individuals rather than families. The next section will elaborate on the importance of family involvement in the economic system of the traditional society. Similar to that, a political system of the traditional society that is built on family members is more legitimate than the one that is built on non-family members. Consequently, monarchy Arab states are more legitimate than republic Arab states. In other words, instead of using society’s resources to achieve the people’s ultimate objectives, republic Arab states divert some of their resources to secure their political
systems. That diversion is reflected in high corruption level of republic Arab states in comparison with monarchy Arab states. Stated as a hypothesis:

**H1: The republic political system in Arab states is associated with a higher level of corruption than the monarchy political system in Arab states.**

(4) Data Analysis and Discussion: The data analysis will be conducted for only seventeen Arab states out of twenty two. Eight Arab states of those seventeen states are monarchies and the remaining nine states are republics. The limiting factor for this sample size is the availability of corruption data where surveys of corruption level exist for seventeen Arab states. The corruption perceptions index (CPI) is a survey done by the Transparency International Organization to rank countries according to “the degree to which corruption is perceived to exist among public officials and politicians”\(^1\). The CPI ranges from zero to ten where zero indicates a highly corrupt society and ten indicates a highly clean society. The analysis will use the average values of the CPI for each Arab state for the period of 2003 to 2006. Another important factor that differentiates among Arab states is the production of oil. Treisman (2000) found that rich countries are less corrupt than poor countries. This analysis will check whether the variable of interest (CPI) is influenced by classifying the Arabs into oil (i.e., rich) states and non-oil (i.e., poor) states. This essay will use a membership in OPEC (Organization of the Petroleum Exporting Countries) to identify oil and non-oil Arab states.\(^2\)

Table-4.2 and Table-4.3 show the results of data analysis. Table-4.2 provides the means and standard deviations for the corruption level in Arab states according to the

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\(^2\) The Organization of the Petroleum Exporting Countries (OPEC), [http://www.opec.org/aboutus/](http://www.opec.org/aboutus/).
survey year, production of oil, and governing mode. Table-4.3 presents the regression results where the corruption level in Arab states is the dependent variable. The survey year (i.e., a dummy variable consisting of four categories: Year 2006, Year 2005, Year 2004, and Year 2003) was used as the independent variable in Model-1. The results of Model-1 show that there is no significant difference in the corruption mean among the four years readings. It indicates that the overall corruption level in the Arab region is stable during that period.

The hypothesis of this essay (H1) was tested via a hierarchical regression consisting of two steps: Model-2a and Model-2b. In step one, the production of oil (i.e., a dummy variable consisting of two categories: OPEC Members and OPEC Non-Members) was entered into the hierarchical regression as the control variable. In step two, the governing mode of Arab states (i.e., a dummy variable consisting of two categories:

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>Standard Deviation</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year 2006</td>
<td>3.918</td>
<td>1.417</td>
<td>17</td>
</tr>
<tr>
<td>Year 2005</td>
<td>4.018</td>
<td>1.498</td>
<td>17</td>
</tr>
<tr>
<td>Year 2004</td>
<td>3.876</td>
<td>1.443</td>
<td>17</td>
</tr>
<tr>
<td>Year 2003</td>
<td>3.959</td>
<td>1.431</td>
<td>17</td>
</tr>
<tr>
<td>OPEC Non-Members</td>
<td>3.958</td>
<td>1.399</td>
<td>10</td>
</tr>
<tr>
<td>OPEC Members</td>
<td>3.921</td>
<td>1.569</td>
<td>7</td>
</tr>
<tr>
<td>Republic States</td>
<td>2.956</td>
<td>0.839</td>
<td>9</td>
</tr>
<tr>
<td>Monarchy States</td>
<td>5.053</td>
<td>1.076</td>
<td>8</td>
</tr>
</tbody>
</table>

Note: (1) CPI is a score relates to perceptions of the degree of corruption as seen by business people and country analysts, and ranges between 10 (highly clean) and 0 (highly corrupt).

(2) OPEC is an abbreviation of Organization of the Petroleum Exporting Countries.
Monarchy and Republic) was entered into the hierarchical regression as the independent variable. The results of step one (i.e., Model-2a) show that if Arab countries are grouped into oil states and non-oil states according to their membership in OPEC, there is no significant difference in their mean level of corruption. There are ten non-oil states that have a mean corruption level of 3.96 verses seven oil states that have a mean corruption level of 3.92. The results of step two (i.e., Model-2b) show that if Arab countries are grouped into republic states and monarchy states, there is a significant difference in their mean level of corruption. There are eight monarchy states that have a mean corruption level of 5.05 verses nine republic states that have a mean corruption level of 2.96 (i.e., a

Table-4.3
Regression Results using Arab States’ CPI as Dependent Variable

<table>
<thead>
<tr>
<th>Unstandardized Predictor’s Coefficient (B)</th>
<th>Model-1</th>
<th>Model-2a</th>
<th>Model-2b</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year 2006</td>
<td>-0.041</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Year 2005</td>
<td>0.059</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Year 2004</td>
<td>-0.082</td>
<td></td>
<td></td>
</tr>
<tr>
<td>OPEC Members</td>
<td>-0.036</td>
<td>-0.407</td>
<td></td>
</tr>
<tr>
<td>Monarchy States</td>
<td></td>
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<td>2.165**</td>
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<table>
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<tr>
<th>Model Summary</th>
<th>Model-1</th>
<th>Model-2a</th>
<th>Model-2b</th>
</tr>
</thead>
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<td>F-value</td>
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<td>0.002</td>
<td>10.327**</td>
</tr>
<tr>
<td>R²</td>
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<td>0.000</td>
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<tr>
<td>Change in R²</td>
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<td>0.000</td>
<td>0.596**</td>
</tr>
</tbody>
</table>

Note: (1) All the predictors in Model-1, Model-2a, and Model-2b are dummy variables.
(2) The base category for Model-1, Model-2a, and Model-2b’s predictors are Year 2003, OPEC Non-Members, and Republic States, respectively.
* p < 0.05, ** p < 0.01, *** p < 0.001.
lower value means a highly corrupt society). Thus, hypothesis H1 is supported (p < 0.001) that the republic mode of governing Arab states increases the corruption in these states. Republic Arab states, non-family modes of governing states, divert some of their resources (i.e., immunosuppression) to secure their political systems which are incongruent with the culture of the traditional society that prefer a family mode of governing states. Said differently, republic mode of governance increases the agency costs (i.e., moral hazard) of Arab states. In fact, the governing mode of states explains 60% of the variance of societal corruption in Arab states.

In summary, the key point is that social, economic, and political systems in a society should go together with the culture of that society. The survival of a system in a society depends on its legitimacy that is granted from its societal culture. Legitimacy is a function of the congruence between the system’s culture and its societal culture. That is, high congruence leads to high legitimacy, and high legitimacy increases the system’s survival chance. The above example shows that maintaining the survival of a political system that does not have cultural legitimacy may increase the corruption level in order to get the required support. In other words, the mismatch between the culture of a political system and the culture of its society diverts some of the political system’s resources from achieving the system’s objectives to treating the problems (e.g., rejecting a foreign system) of this mismatch. Economic systems are not exceptional; the general rules that govern the relationship between an economic system and its society are the same rules that govern the relationship between a political system and its society. Accordingly, this essay argues that economic systems that are not congruent with its
societal culture would not be efficient in achieving the ultimate objectives of their societies as will be explained in the next subsection.

4.4.3. Linking Societal Culture to Firm Culture

This essay is interested in economic systems and their congruence with its societal culture. It focuses on two economic systems, family and non-family business and which one is congruent with which societal culture and why. This essay argues that family businesses are in cultural congruence with the traditional and postmodern societies, and non-family businesses are in cultural congruence with the modern society. Moreover, while family businesses are expected to be prevalent in the traditional and postmodern societies, this essay argues that the rationale for forming family businesses is different in these two societies. This section will address these arguments through how the proposed economic system (i.e., family or non-family business) will (1) achieve the objectives of the society that it functions in, and (2) match with the societal values that the economic system is in. This section consists of three subsections. The first shows how family firms fit the traditional society, the second shows how non-family firms fit the modern society, and the last shows how family firms fit the postmodern society.

4.4.3.1. The Traditional Society and Family Firm

The traditional society suffers from scarcity in resources. Land is its vital production factor. It is the people’s source of survival where agriculture and herding take place. Land ownership and the size of land are also key aspects in determining the
society’s social order. Maintaining a person’s status is the key goal of people in a traditional society because an objective of high consumption is not visible in a society with limited resources. Goldsmith (1977) says that the dominant motivations for economic activities in traditional societies are social reasons such as fulfilling family obligations or achieving prestige. The struggle in this society is between who owns land and who does not. Family, especially extended family, is important in owning and maintaining ownership of land. While land helps a family and successive generations to survive, it also provides them a prestigious position in the society if they protect their land. Therefore, to maintain a peaceful environment, a respect of the society’s social order and generosity (i.e., sacrifice for others) are dominate virtues in the traditional society.

As mentioned above, the traditional society values social order over other objectives. The social status of the traditional societies is built on families rather than on individuals. While people of the traditional society focuses on their social status, economic accumulation is not completely ignored. However, individual economic accumulation is not encouraged within the society because it could change the social status of the society’s families. While the social system of any society is not immune to change, any change should be in harmony with the other parts of the system. Thus, the society needs to have a way of achieving economic accumulation without disturbing the society social system. One possible way is collective economic accumulation through families. Accordingly, family businesses would help in maintaining the social status of its family members by controlling the economic accumulation of the family members. If
economic accumulation is encouraged by individuals out of the family’s control, such accumulation may distort the whole social system. Members of each family will have different social status which leads to the creation of another social status that is based on individuals rather than on families. But, if economic accumulation is done through the family, the changes in society’s social system will be in harmony because it occurs as a unit. That means the family’s status will be changed as a whole, and this will maintain the society’s social system that is based on families. Therefore, family businesses would achieve the objectives of the traditional society (e.g., maintaining social status) better than non-family businesses.

With regard to societal values, the traditional society is characterized by collectivistic value in which the society’s groups (e.g., families) are given precedence over the society’s individuals (Dwairy and Van Sickle, 1996). Individual economic accumulation is supported by individualistic values. Therefore, pursuing individual economic accumulation would create a value conflict in the traditional society. The society as a whole discourages individualistic traits (e.g., individual economic accumulation and entrepreneurship) in general, but those societies need to maintain a certain level of survival and performance to match at least the increases of their people and their demands. One possible solution for the value conflict is to discourage economic accumulation at the individual level and encourage it at the group level (e.g., the family level). Thus, it is expected that family business is the form that economic accumulation and entrepreneurial activities would take. In that case, there will be no value conflict since entrepreneurial activities and economic accumulation target the group level (i.e.,
family level) rather than the individual level. Accordingly, family firms are expected to achieve the societal objectives of the traditional society and to be compatible with the societal values of the traditional society. Stated as propositions:

**P2:** The higher proportion of family businesses in traditional societies, the greater the abilities of these societies to achieve their societal objectives.

**P3:** The higher proportion of family businesses in traditional societies, the greater the abilities of these societies to achieve their well-being (i.e., the ultimate objective) at a lower cost.

Carney (2005) says that “family firms may display different forms and tendencies in different institutional environments” (p. 251). Essay-2 shows five types of family firms (i.e., Mania, Pragma, Ludus, Eros, and Agape) that each differs in its altruism style and attainment level of economic and non-economic objectives. Similar to the Carney’s point of view, this essay argues that not all types of family firms are equally likely to exist in the traditional society. Specifically, this essay expects that Mania, Pragma, and Ludus family firms are more prevalent in the traditional society than Eros and Agape family firms because the culture of the former family firms (i.e., Mania, Pragma, and Ludus) fits the culture of the traditional society more than the culture of the latter family firms (i.e., Eros and Agape).

As mentioned earlier, traditional societies are characterized by the scarcity of resources and preserving families’ social status. Carney (2005) says that the condition of scarce resources requires firms to be simpler and more efficient. Preserving families’ social status requires strong family ties and respect for authority within the
family. The issue, here, is not whether family or non-family firms prevail in societies with scarce resources and strong family ties. Research found that family firms are more suitable for environments characterized by scarce resources (Chang et al., 2008) and strong family ties (La porta et al., 1997; Carney, 2005). But, the issue is what types of family firms that are suitable for the characteristics of traditional societies (e.g., scarce resources, strong family ties).

Essay-2 argues that Mania, Pragma, and Ludus family firms are characterized by family agents possessing high bargaining power because the firms have vulnerable attributes. The family owners of these firms do not have the resources and capability to protect their firms from opportunism other than depending on trusted people such as family agents. The strong family ties and the appreciation of obedience in traditional societies (e.g., respect for authority within the family) are key factors in withholding the family agents of these firms from taking advantage of their attributes (i.e., agency costs) and the vulnerable attributes of their family firms (i.e., transaction costs). One reason is that strong family ties provide channels for (1) exchanging information about the reputation and conduct of family members, and (2) applying “binding social sanctions on opportunist” family members (Carney, 2007: p. 294).

16 The relationship between family firms and strong family ties could be deduced from the relationship between the existence of large organizations and strong family ties. Carney (2005) says that “the vast majority of family enterprises remain small” (p. 260). Consequently, the percentage of non-family firms is greater than that of family firms in large business firms. La Porta et al. (1997) found that societies whose people trust strangers lead to the creation of large business firms (i.e., non-family firms). Also, they found that societies that have low number of large business firms (i.e., non-family firms) tend to trust family members more than strangers and have strong family ties. Therefore, it can be concluded that small family firms will prevail in societies that have strong family ties and a higher trust in family members than strangers.
In fact, Chrisman et al. (2004) found that agency costs are lower in family firms than in non-family firms.

However, family owners are obligated to respond positively to their powerful family agents who do not take advantage of their firms’ weaknesses (cf., Gouldner, 1960). Accordingly, family owners are expected to be more altruistic than their family agents when their family agents possess high bargaining power. Essay-2 shows that the owners of Mania, Pragma, and Ludus family firms tend to be altruistic to their family agents. The altruistic of family owners in these firms are expected to maintain the obedience value (e.g., respect for authority within the family) and strong ties among family members, which support families’ social status in traditional societies. Indeed, Schulze et al. (2001) show that family firms are characterized by altruism among family members that may negatively impact the firm’s economic value. In summation, Mania, Pragma, and Ludus family firms are (1) efficient firms where they have low transaction and agency costs that are suitable for scarce environments, and (2) vehicles to maintain strong family ties, through altruism, which is a key ingredient to preserve family social status. Stated as a proposition:

P4: In the traditional society, Mania, Pragma, and Ludus family businesses are significantly more dominant than Eros and Agape family businesses.

4.4.3.2. The Modern Society and Non-Family Firm

The modern society could be seen as a departure of the objectives and values that prevailed in the traditional society. The presence of machines and management
techniques (i.e., the core elements of modernization) change the way people look to
themselves and environment. Modernization indeed enhances the economic situation of
people who cannot resist the beauty of a comfortable life for themselves and their
children. However, as modernization starts in a traditional society, there will be a
progressive abandonment of traditional values and norms (Newson and Richerson,
2007a). People are able to depend on themselves rather than on their families and achieve
some economic progresses that was seen in the old times as unrealistic dreams. For
example, inexpensive transportation permits “family members to pursue economic
opportunities far from their place of birth” (Newson et al., 2007b: p. 200). These new
resources (i.e., machines, management) and objectives (i.e., economic progress) require
people to develop themselves through formal education and learning. For example, while
concepts such as division of labor and productivity contribute highly to the achieved
economic progress of the modern society (Drucker, 1993), these concepts transfer the
people’s focus from others (e.g., superior power, family) to the self.

Newson and his colleagues (e.g., Newson and Richerson, 2007a; Newson et al.,
2005, 2007b) provide an explanation and empirical test for why and how the transition
occurs from traditional to modern societies and why it might not occur as well. Their
explanation is called the ‘kin influence hypothesis’, and they found empirical supports for
this hypothesis. They notice that the people of modern societies replace their desire for
large families and their submissiveness to families’ obligations by their need to control
family size and their “desire to better one’s self” (Newson and Richerson, 2007a: p. 3).
Specifically, they attribute the cultural changes brought by modernization as the erosion
of pursuing the principle of genetic fitness (Hamilton, 1964) that prevailed in traditional societies. The principle of genetic fitness suggests that “living organisms compete not for their own survival but for the survival of the information in their genes” (Newson and Richerson, 2007a: p. 6). Accordingly, the genetic fitness of an individual is a function of copies of his genes that exist in future generations (e.g., sons, daughters, nephews, nieces, and grandchildren). Genetic fitness encourages diverting resources into the survival of family’s genes (i.e., through producing and rearing children) rather than achieving other life objectives (e.g., personal comfort). Therefore, interaction and cooperation are high among kin who share many of the same genes. Kin provide social support and rewards to encourage producing and rearing children (Newson et al., 2005). In the process of achieving the objective of genes surviving, the family in traditional societies takes care of its members, which includes satisfying their physiological, safety, and education needs. Also, family elders represent the source of vital knowledge and experience in genes competition; hence they are involved in many key decisions of family members, such as whom to marry and when. As the social rewards and sanction weaken toward genetic fitness due to the economic development of modernization (i.e., by the widening of social networks), people tend to be less interactive and cooperative with their kin, less respectful to their family elders, less interested to get married and become parents, and quicker in disrupting families (e.g., through divorce) (Newson and Richerson, 2007a).

Newson and Richerson (2007a) say that the economic revolution of modernization (i.e., a level of prosperity unseen in human history, Horwitz, 2007b) is not the only cause that erodes the pursuit of genetic fitness. Social revolutions, such as what
happened in French in the late 18th century, can erode the pursuit of genetic fitness and produce outcomes similar to the ones of economic revolutions, too. Thus, eroding the pursuit of genetic fitness is seen as the change agent that transforms traditional societies into modern societies. However, the widening of social networks is the link between modernization (i.e., the cause) and eroding the pursuit of genetic fitness (i.e., the change agent). Newson and his colleagues explain that societies that weaken this link (i.e., the widening of social networks) will not become modern societies or slow its transformation’s process. These societies can enjoy some benefits of the modern societies while they maintain their traditional cultures. Among the factors that possibly weaken the widening of social networks, they found that maintaining strong family ties and cultural isolation can do so (Newson et al., 2005; Newson and Richerson, 2007a).

Generally, as the economic development of modernization begins in a traditional society, it widens the people’s social networks. As a consequence of the widening of social networks, kin interaction and cooperation will be less than what it is supposed to be in the traditional society. The reduction in interaction and cooperation among kin will erode the pursuit of genetic fitness. Therefore, the modern society is characterized by the individualistic value that supports individual economic accumulation and entrepreneurial activities. Traditional family (e.g., formal marriage, extended family) and its values (i.e., other-interest altruism) become a burden in the modern society. Modern family (e.g., informal marriage, nuclear family) and its value (i.e., self-interest altruism) are more suitable for the modern society. Accordingly, the involvement of family in economic systems is not as critical in the modern society as it is in the traditional society. On the
contrary, the involvement of family in modern organizations may negatively influence desired economic progress. Family involvement may lead to favoritism which is in conflict with the productivity of modern organizations (Weber, in Gerth and Mills, 1958). Therefore, modernized people prefer to be professional and manage their organizations in an impersonal way in order to achieve their desired goals. Correspondingly, non-family firms are characterized by the prevailing of economic objectives and the dominance of individualistic values. Thus, this essay argues that non-family firms are the preferred form of governing economic systems in the modern society. That form is expected to achieve the societal objectives of the modern society and to be compatible with the societal values of the modern society. Stated as propositions:

\textit{P5: The higher proportion of non-family businesses in modern societies, the greater the abilities of these societies to achieve their societal objectives.}

\textit{P6: The higher proportion of non-family businesses in modern societies, the greater the abilities of these societies to achieve their well-being (i.e., the ultimate objective) at a lower cost.}

4.4.3.3. The Postmodern Society and Family Firm

A person may argue that there are no substantial differences between the modern and postmodern society. Both societies have a high level of living standards, and their people tend to reside in democratic environments. On the surface, this argument seems to be valid, but it does not hold when it is scrutinized. The key difference between the modern and postmodern society is that the former uses people and environment as means
to achieve economic progress while the latter uses economic progress as means to protect environment and achieve human progress (e.g., Drucker, 1993). That switch between the means and ends has reasons and consequences. One reason is that modernized people feel that they are hostages of their economic progress and lose their humanity. The prevalence of industry (or mechanized people) in the modern society is behind its economic progress. Accordingly, the word ‘industry’ is an admired word there and used widely even in the title of some colleges (e.g., business and education colleges) as an indication of modernity. In the postmodern society, people would like to get rid of the negative aspect of the industry legacy: treating people as machines. People of the postmodern society would like to attach themselves to different values that praise humanity and environment.

There is no doubt that modern values largely contribute to the material advancement of industrialized societies. The modern values move the people of traditional societies from a difficult and harsh way of life to another which is simple and soft. However, the utility of these values increases at a diminishing rate. Researchers (e.g., Inglehart, 1997) indicate that modern values will lose their appeal at a certain point in time. This will occur when the marginal cost of these values is greater than its marginal utility. Hence, the modern society reaches a critical point where a shift in the society’s ends and means will take place. That shift is called a shift from a modern culture to a postmodern culture where humans and environment have a greater priority over economic progress. In the postmodern society, people will restore what they have lost in the modern society which is a human view of themselves and the environment.
Modernization (or industrialization), in its attempt to achieve its economic objectives, centralizes people’s attitudes and behaviors around the self. It moves people’s centers from around others (e.g., superior power, family) in the traditional society to around the self in the modern society. That is evident in the individualistic, entrepreneurial, and less religious values of modernized people (e.g., Granato et al., 1996; Norris and Inglehart, 2004). Accordingly, people abuse themselves and the environment. Such abuse will continue until the critical point at which the marginal cost of modern values is equal to its marginal utility. After that point, a shift from the self to others (e.g., superior power, family) will occur. For example, Maffesoli (1996) argues that the postmodern society will show a decline in individualistic values (i.e., a key characteristic of the modern society) and a rise in collectivistic values. Drucker (1993: p.154) says that “The main reason for tribalism [in the postmodern society] is neither politics nor economics. It is existential.” People need others to identify with rather than living for the self. In other words, the marginal cost of living for the self – in the postmodern society – exceeds its utility.

Horwitz (2007a) says that one of the most central objectives of the postmodern society is self-actualization, and familial relationships occupy the top of self-actualization’s list. Maslow (1943) explains that humans are motivated by five basic needs that are arranged from a lower to a higher need: physiological, safety, love, esteem, and self-actualization. The hierarchy of these basic needs implies that when a lower need is satisfied, the next higher need emerges.17 Maslow (1943) describes self-actualization as ‘self-fulfillment’ which is the tendency “to become everything that one is capable of

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17 Maslow (1943) says that while the hierarchy rule is usually observed, reversal of needs order is sometimes observed, too.
becoming” (p. 382). Horwitz (2007b) shows that the function of a family (i.e., a social system) in the postmodern society is different from the function of a family in the traditional society. Family in the traditional society mainly focuses on achieving the lower needs of humans (i.e., survival needs). It is the center for people’s economic and political activities (Horwitz, 2007a). For example, marriages and children are seen in the traditional society as a means of creating new units of production and old-age insurance because of scarce resources and ways to save material wealth for future uses (Horwitz, 2007a, 2007b). However, family in the postmodern society mainly focuses on achieving the higher needs of humans: self-actualization (i.e., fulfillment of psychological and emotional needs). Horwitz (2007b) shows couples of postmodern phenomena that support his argument. For example, the rise of divorce rates and love-based marriage in postmodern societies is an indication of shifts in the expectations of marriages from fulfilling survival needs to fulfilling emotional needs. Also, the concerns of parents about their children shifted from economic needs (i.e., where the next meal comes from) to psychological needs (i.e., “whether toilet training too early or too late will cause great and lasting psychological damage to [their] children”) (Horwitz, 2007b: p. 30).

In summary, the people of postmodern societies are concerned more with non-economic objectives (Horwitz, 2007a, 2007b) and collectivistic values (Maffesoli, 1996). Accordingly, this essay argues that non-family firms of the modern society will not be suitable for the postmodern society. The reason is that non-family firms are characterized by (1) the prevailing of economic objectives which are attained at the expense of non-economic objectives of the postmodern society, and (2) the dominance of individualistic
values which is not in congruence with the collectivistic values of the postmodern society. However, this essay views that the culture of family firms will be more compatible with the culture of the postmodern society. Family firms are characterized by the presence of non-economic objectives among firms’ objectives and the existence of altruism (e.g., collectivistic values) among their family members (Chrisman et al., 2005). Thus, family firms are expected to achieve the societal objectives of the postmodern society and to be compatible with the societal values of the postmodern society. Stated as propositions:

P7: The higher proportion of family businesses in postmodern societies, the greater the abilities of these societies to achieve their societal objectives.

P8: The higher proportion of family businesses in postmodern societies, the greater the abilities of these societies to achieve their well-being (i.e., the ultimate objective) at a lower cost.

While that shift from modern to postmodern values (e.g., humanizing the progress) resembles a return to the values of the traditional society, the culture of the postmodern society is distinctive from that of the traditional society. For example, economic security has been taken for granted in the postmodern society (Inglehart, 2000) while the traditional society suffers from scarce resources. The postmodern society is interested in family for psychological and emotional reasons rather than for economic reasons (Horwitz, 2007a). In other words, achieving family objectives is a free choice for the people of postmodern societies (i.e., if this choice is not selected, the people will not suffer economically).
A key distinction between family firms and non-family firms is the presence of non-economic objectives in family firms (Chrisman et al., 2005). While the importance of non-economic objectives for all types of family firms is not questioned, Essay-2 shows that not all types of family firms have the choice to prioritize their non-economic objectives above their economic objectives. Eros family firms are characterized by family owners possessing high bargaining power because the firms have invulnerable attributes. Eros Family owners have the choice to reap more rent if they hire non-family agents, however, they do not do so because their utility of non-economic objectives is greater than their utility of economic objectives. Similarly, Agape family firms are characterized by Agape owners who are the highest, among family owners, in weighting non-economic objectives over their own economic objectives. On the other hand, the only choice for the owners of Mania, Pragma, and Ludus family firms to reduce the transaction and agency costs of their firms is to be altruistic to their family agents. All over again, the issue is not whether pursuing non-economic objectives is the most important target for family firms, but whether family firms have the choice to not do so. Thus, this essay argues that the culture of Eros and Agape family firms is comparable to the culture of the postmodern society. In both cultures (i.e., Eros and Agape family firms and the postmodern society), pursuing non-economic objectives is a free, not forced, choice. Hence, Eros and Agape family firms will be more dominant than Mania, Pragma, and Ludus family firms in the postmodern society. Stated as a proposition:
P9: In the postmodern society, Eros and Agape family businesses are significantly more dominant than Mania, Pragma, and Ludus family businesses.

4.5. Discussion and Conclusion

A review of family business literature reveals a dearth of explanation for the phenomenon of family and non-family firms at the societal level (e.g., Sharma, 2004; Carney, 2005; Chang et al., 2008). This essay provides an explanation of that phenomenon from a cultural perspective. It links a theory of societal culture to a theory of family and non-family firms developed in Essay-2. This essay is limited to two aspects of culture: objectives and values. Thus, the purpose of this essay is to elaborate on societal situations in which family and non-family modes of governing businesses are (or are not) appropriate economic systems to achieve their societies’ objectives and preserve their values. This essay achieves this purpose through three parts.

The first part explains the culture of existing world societies. The vital production factor, key players, objectives, and values of the three societies are different. While the modern society emphasizes the attainment of economic objectives (e.g., economic progress), the traditional and postmodern societies emphasize the attainment of non-economic objectives. The traditional society attains its non-economic objectives (e.g., social status) without regard to its economic objectives while the postmodern society attains its non-economic objectives (e.g., self-expression) after it has achieved most of its economic objectives. Individualism is a dominant value in the modern society. While
collectivism is a dominant value in both the traditional and postmodern society, the rationale to pursue this value is different. The traditional society pursues collectivism for survival, and the postmodern society pursues collectivism for self-expression.

The second part summarizes the culture theory of family and non-family firms developed in Essay-2. Family firms are formed to (1) secure the firm’s economic values in situations where using a non-family governing mode may hurt the firm’s economic performance (e.g., Mania, Pragma, and Ludus family firms) and/or (2) achieve the non-economic objectives of the family (e.g., Eros and Agape family firms). The members of those family firms are characterized by the collectivistic value. In contrast, non-family firms are formed in order to attain pure economic objectives and their members are characterized by the individualistic value.

The last part links the two cultures together, firm culture (an internal perspective) and societal culture (an external perspective), to enrich our understanding of the family and non-family business phenomenon. The key argument of this link is that incongruence between the culture of a firm (i.e., family or non-family firm) and the culture of the society that the firm operates in (i.e., traditional, modern, or postmodern) will increase the costs of achieving the ultimate objectives of the society (i.e., satisfaction, happiness). Efficiency in achieving people’s objectives is a very important concept because people are living on a planet with limited resources. People are supposed to be rational creatures; they select the form of business (i.e., family or non-family) that would reduce their paid costs. This essay identifies two types of costs that result from cultural incongruence: the cost of incongruent values and the cost of incongruent objectives. Thus, this essay argues
that people select the form of business that is in harmony with the values and objectives of their societies.

Family firms are distinguished from non-family firms by their inclusion of non-economic objectives and the presence of collectivistic value among its members. Thus, family firms could be seen as more appropriate than non-family firms in societies whose non-economic objectives have a higher priority than economic objectives and whose members prefer collectivistic over individualistic values. This essay argues that family firms closely fit traditional and postmodern societies. The traditional society prioritizes its social order over individual economic accumulation. Its social order is based on the achievements of families rather than the achievements of individuals. While economic objectives are important for their survival and growth, traditional people need to achieve these objectives without disturbing their society’s social system. One possible way is through familial economic accumulation. Accordingly, family businesses would help in achieving the economic objectives of the traditional society and would preserve the social status of the society’s families. Similarly, the postmodern society shows a decline of individualistic values and a rise of collectivistic values. Post-modernized people need others to identify with rather than living for the self. Accordingly, this essay argues that non-family firms will not be appropriate for the postmodern society because non-family firms are characterized by the dominance of individualistic values. Family firms are characterized by the prevalence of collectivistic values among its members which make them more compatible with the culture of the postmodern society.
While traditional and postmodern societies prefer family firms over non-family firms, the types of family firms that prevail in these two societies are expected to be different. This essay argues that Mania, Pragma, and Ludus family firms are more prevalent in traditional societies than postmodern societies, and Eros and Agape family firms are more prevalent in postmodern societies than traditional societies. The reason lies in the closest match between the culture of each group of family firms and the culture of its designated society. As mentioned earlier, family firms includes economic objectives as well as non-economic objectives. Family firms are not one type. They differ in the attainment level of their economic and non-economic objectives and whether the attainment of non-economic objectives is a free choice or not. Mania, Pragma, and Ludus are family firms which are characterized by the efficiency and close interconnection between attaining economic and non-economic objectives. In other words, the only choice for these family firms to achieve their economic objectives is to attain their family obligations (i.e., non-economic objectives). However, Eros and Agape family firms are characterized by the independence in the decision of pursuing non-economic objectives from the decision of pursuing economic objectives. While pursuing non-economic objectives usually comes at the expense of achieving economic objectives, Eros and Agape family firms have a free choice to do so. In other words, these firms are not in a weak economic position in order to attain their family obligations (i.e., non-economic objectives). The traditional society suffers from scarcity in resources while the postmodern society enjoys prosperity and suffers from living for the self. Because Mania,  

18 The efficiency of family firms, here, pertains to the decreases of transaction and agency costs only, all else equal.
Pragma, and Ludus family firms are efficient (i.e., low transaction and agency costs), these family firms are more suitable for the traditional society whose members’ survival is critical. Because Eros and Agape family firms prioritize non-economic objectives (e.g., fulfilling emotional and psychological needs) over economic objectives, these family firms are more suitable for the postmodern society whose members are more interested in family and the meaning of life.

On the other hand, non-family firms are firms that exclusively focus on economic objectives. These firms are characterized by the prevalence of individualistic values among their members. The modern society is more interested in economic progress than the other two societies. To achieve its economic objectives, the modern society transfers the people’s focus from others (i.e., superior power, family) to the self. Accordingly, the modern society is characterized by the dominance of the individualistic values that support individual economic accumulation and entrepreneurial activities. Therefore, non-family firms, which prioritize economic objectives over non-economic objectives, could be seen as more appropriate than family firms in the modern society where economic progress is its first priority.

Figure-4.4 visually summarizes the main points of this essay. It links the three world societies: traditional, modern, and postmodern to the dominant types of family and non-family firms. The figure shows the area where each society covers. The traditional society covers the area ranges from TS1 to TS2, the modern society covers the area between MS1 and MS2, and the postmodern society covers the area ranges from PS1 to PS2. Also, the figure shows prevalent firms in each society. While Agape, Pragma, and
Linking Theory of Societal Culture to Theory of the Family Firm

Mania family firms are dominant firms in the traditional society, Eros and Agape family firms are dominant firms in the postmodern society. However, non-family firms are principles firms in the modern society.

Three points in Figure-4.4 are worth notice. First, the change in societal culture, if it occurs, normally will be in a clockwise direction. That is, if the traditional society will change, it will embrace the culture of the modern society; if the modern society will change, it will embrace the culture of the postmodern society. Second, there is no a clear-cut distinction among the three societies. The area of the beginning and ending boundary of each society could be seen as having mixed cultures where the culture of a society
intersects with the culture of its adjacent society. Third, Figure-4.4 does not imply that a specific society has only specific types of firms but that while all societies have all types of firms, certain types of firms are more dominant in one society than in others. More precisely, specific types of firms will be dominant in a society if the society is to achieve its ultimate objective (i.e., well-being at a lower cost).
4.6. References


CHAPTER 5
TOWARDS A THEORY OF CULTURAL COMPETITION: THE IMPACT OF THE GOVERNING MODE OF BUSINESSES ON THE COMPETITIVE ADVANTAGE OF NATIONS (ESSAY-4)

Abstract: This essay argues that competition among nations is cultural in nature. It supports the view that competition is more likely among nations of similar cultures than nations of different cultures. Thus, understanding the domain a nation competes in is a key factor in creating and sustaining the nation’s competitive advantage. The scope of this essay is not intended to provide comprehensive theorizing about the cultural competition among nations. However, this essay introduces and uses that concept to empirically show how the prevalence of a specific governing mode of businesses (e.g., family, non-family, or the state) in a nation impacts the nation ability to achieve superior performance in the cultural domain that it competes in. This essay finds that the family mode of governance is the most appropriate mode for nations competing in traditional societies, the non-family mode of governance is the most appropriate mode for nations competing in modern societies, and the state mode of governance is the most appropriate mode for nations competing in postmodern societies. Thus, this essay could be seen as a step towards building a theory of the cultural competition of nations.
5.1. Introduction

The heart of strategic management research is explaining and predicting the superior performance of business firms (e.g., Porter, 1980; Jensen and Meckling, 1976; Wernerfelt, 1984; Hart, 1992), and nations (e.g., Porter, 1990). Two research questions that interest a group of strategy scholars are: (1) does family involvement in the business impact the competitive advantage of organizations and nations and (2) if it does, why? While there have been many attempts to answer similar questions at the organizational level (e.g., Schulze et al., 2001, 2003; Anderson and Reeb, 2003; Chrisman et al., 2004), no attempt to answer these questions at the national level exists except the work of Morck and Yeung (2004). In fact, Sharma (2004) states that the research of family firms at the national level “has largely been ignored, except for the documentation of a large number of these firms in different nations” (p. 22). Thus, the contribution of this study is to explain and empirically test how and why family involvement in the business impacts the competitive advantage of nations. To do this study requires comparing the family mode of governing businesses with other governing modes such as the non-family and the state.

This essay depends on the cultural approach, developed in Essay 1, 2, and 3 of this dissertation, in constructing the theoretical arguments of how and why family involvement in the business impacts the competitive advantage of nations. The essay

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1 This study is interested in the research question of whether family involvement in the business (i.e., an independent variable) impacts the competitive advantage of nations (i.e., a dependent variable). Morck and Yeung’s (2004) study is an attempt to answer this question. La Porta et al. (1997) conducted an empirical study at the national level, too, however, their study addresses a different question. The study of La Porta et al. (1997) is interested in whether trust among a nation’s citizens (i.e., an independent variable) impacts the performance of large organizations, including large firms’ share of the economy (i.e., a dependent variable). La Porta et al. (1997) found a positive relationship between nations whose citizens trust strangers and the share of large firms in the economy of these nations. Also, they found that strong family ties and hierarchical religions are negatively associated with the development of large firms.
argues that modes of governing businesses, including the family one, could be seen as a component of the competitive strategies used by nations in their cultural competition. However, to position this study within the current literature of family business at the national level, a discussion of the findings and implicit assumptions of the only empirical study using nations as the unit of analysis (Morck and Yeung, 2004) – is important in linking the current empirical study to the existing knowledge at that level.

Morck and Yeung (2004) investigate the relationship between family business in nations and the economy characteristics of those nations, such as economic development, physical infrastructure, health care provision, education system, quality of government, social development, and corruption. Using a sample of 27 countries, they found that countries whose firms are governed by powerful families are poorer, provide worse infrastructure, healthcare, and education, and have high levels of inflation and income inequality. Moreover, they found that a family mode of governing businesses is positively associated with national corruption (e.g., tax system, political system, judicial system, and civil service corruptions). They conclude that, since economic development is negatively correlated with national corruption (e.g., Krueger, 1974; Murphy et al., 1991, 1993), the family mode of governing businesses is a detrimental factor in the economic development of nations. In fact, their conclusion is in line with their previous proposal that the asymmetric focus of researchers on the agency problems of non-family firms (i.e., widely held firms) at the organization level “could color policy decisions in some countries” in favor of the family business form, which, in their opinion is less effective than other forms (Morck and Yeung, 2003: p. 379).
In fact, there is a key implicit assumption in the work of Morck and Yeung (2004) that all nations would place economic objectives (e.g., economic development) as their top objectives. In consequence, they conclude that one mode of governing business (i.e., non-family business) is best able to achieve those objectives, which are economic in nature. This essay departs from the work of Morck and Yeung (2004) by relaxing the assumption regarding national objectives. That is, nations have different objectives and different priorities for those objectives; hence, one governance mode of business may not achieve all those objectives. Specifically, different nations have different cultural values, and different cultural values lead to different objectives which could be either economic, non-economic, or both (e.g., Inglehart and Baker, 2000; Meisenberg, 2004). Thus, it is expected that different governance modes will be better suited to achieve different objectives. That expectation is based on Porter’s (1980, 1985) framework as will be explained in the next section. Accordingly, the purpose of this study is to find the optimal governing mode of businesses that fits the cultural values of world societies and hence create a competitive advantage for nations in achieving their objectives.

Besides introducing the topic, this essay consists of the following sections. The second section provides a theoretical background of the competitive advantage of nations and the essay’s hypotheses. The third section discusses the method used in testing the essay’s hypotheses. The fourth section includes the results of data analysis. The last section includes a discussion of those results and the conclusion of this study.

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2 The word objective used in this paragraph refers to operational objective. This essay, as will be seen later, distinguishes between two types of objectives: operational and ultimate.
5.2. Theoretical Background

The purpose of this section is to develop theoretical arguments on how and why nations achieve competitive advantages in their cultural domain. The key argument of this essay is that competition among nations could be classified according to their cultural values, in which nations need to implement competitive strategies to create and sustain their competitive advantages. Such competitive strategies are explained through the organizational form (e.g., family, non-family, the state) that most businesses in a nation take on. In other words, the essay focuses on the dominant business form in a nation and not on the forms of business in a nation. The essay’s approach in achieving such purpose

<table>
<thead>
<tr>
<th>Term</th>
<th>Firm (System)</th>
<th>Nation (System)</th>
</tr>
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<tbody>
<tr>
<td>Level of Analysis</td>
<td>Organizational</td>
<td>National</td>
</tr>
<tr>
<td>Environment (SuperSystem)</td>
<td>Industry (i.e., a group of firms)</td>
<td>Society (i.e., a group of nations)</td>
</tr>
<tr>
<td>Competition</td>
<td>Economic</td>
<td>Cultural</td>
</tr>
<tr>
<td>Examples of Operational Objectives</td>
<td>Leadership in banking, automobiles, or health sector</td>
<td>Leadership in traditional, modern, or postmodern domain</td>
</tr>
<tr>
<td>Output</td>
<td>Economic product (e.g., groceries, hospital treatment, or insurance service)</td>
<td>Cultural product (e.g., social immobility, economic progress, or lack of corruption)</td>
</tr>
<tr>
<td>Ultimate Objective (Created Value)</td>
<td>Economic profit</td>
<td>Well-being</td>
</tr>
<tr>
<td>Performance</td>
<td>Rate of return</td>
<td>Efficient well-being</td>
</tr>
<tr>
<td>Competitive Positioning Strategy</td>
<td>Generic strategies (i.e., cost leadership, differentiation, focus)</td>
<td>Governing mode strategies (i.e., family, non-family, the state)</td>
</tr>
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is to extend the accumulated knowledge of the economic competition of firms to explain some aspects of the cultural competition of nations; refer to Table-5.1 for the terms used at the two levels of analysis.

There are two reasons why extending the approach of strategic management from organizations to nations is plausible. First, an organization is a subsystem of a nation (e.g., Boulding, 1956). The rationality implies that each subsystem functions in away that its survival should contribute to the survival of its system. That requires the basics and principles which govern the survival of a subsystem and its system should be identical to create the link between the whole and its parts. Second, an organization or nation is a social system, consisting of people who have some objectives achieved by some scarce means (Robbins, 1935; Mitchell, 1961). So, the knowledge of how to manage the objectives and scarce means that was developed at one level of the system can be applicable for another.3

For example, the main objective of an organization or nation is to create and sustain value for its stakeholders (e.g., Varaiya et al., 1987; Rotberg, 2003). Freeman and McVea (2001) define stakeholders as “any group or individual who is affected by or can affect the achievement of an organization’s [or nation’s] objectives” (p. 189). Creating value by an organization or nation occurs when some inputs are transformed, through a process, into some outputs (Bertalanffy, 1950; Boulding, 1956); and the value of the outputs should be greater than the combined values of the inputs and transformed

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3 The term nation is used in this essay in its broad meaning. Thus, it could be interchangeable with the terms state and country. While political science distinguishes among those terms, the essay is interested in one common aspect among them which is their level of analysis; all refer to a social system that includes organizations as social subsystems.
processes. A key criterion to evaluate the created value, and hence the survival and success of an organization or nation, is a performance measure that relates the value of a system’s outputs to the values of its inputs and transformation processes. Creating and sustaining value is not an easy task. Organizations as well as nations exist in a world of limited resources; for their survival and growth, competition is an important behavior (Hirshleifer, 1978). Thus, organizations and nations need to create competitive advantage in the domain that they compete in. Competitive advantage is defined as creating unique value through competitive strategies (Porter, 1980; Barney, 1991). Consequently, the strategic approach for an organization and nation is the same. It requires the decision makers of an organization or nations to “formulate and implement processes which satisfy all and only those groups who have a stake” in their social system (Freeman and McVea, 2001: p. 192).

The remainder of this section contains more elaborations on the preceding concepts. It consists of three subsections. The first subsection discusses what cultural competition means for nations. The second subsection discusses the nation’s ultimate created value; it represents the equation’s first half of the competitive advantage of nations. The last subsection discusses the nation’s competitive strategy; it represents the equation’s second half of the competitive advantage of nations.

5.2.1. Cultural Competition of Nations

Cultural competition is a phrase that indicates a competition based on the cultural values and objectives of competitors. It could be understood by using the perspective of
industrial organizational (IO) economics. In that perspective, Porter (1980) explains the economic performance of a firm as partly a function of the industry it competes in. He defines industry as “the group of firms producing [economic] products that are close substitutes for each other” (Porter, 1980: p. 5). Economic products are products that have economic value such as automobiles, groceries, hospital treatment, and insurance. Accordingly, there are many industries that a firm could compete in such as banking, petroleum, and education. By treating nations as analogous to firms and societies as analogous to industries, this essay argues that the performance of a nation is a function of the society it competes in. Society is defined here as the group of nations producing cultural products that are close substitutes for each other. Cultural products are products that have economic or non-economic value such as social immobility, economic progress, and lack of corruption. Therefore, the nations of the world could be classified into three different types of societies: traditional, modern, and postmodern (e.g., Inglehart and Baker, 2000) where each society has its unique cultural values and products.

While Huntington (1993) predicts that the competition after 1990 will be between nations endorsing different cultural values, many researchers (e.g., Walt, 1997; Rosecrance, 1998; Matlock, 1999; Chiozza, 2002; Fox, 2002, 2005) convincingly argue and empirically found that competition normally occurs among nations with similar cultural values. For example, Walt (1997) states that “[c]ultural differences do not cause war by themselves, just as cultural similarities do not guarantee harmony. Indeed, one could argue that cultural diversity makes conflict less likely, provided different groups

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4 The word product, used by Porter (1980), refers to the output of an industry whether that output is a product or service.
are free to establish their own political and social orders” (p. 184). Moreover, Matlock (1999) states that “[o]ften, it is cultural similarity, not a difference, that nurtures conflict” (p. 433). Fox (2005) empirically tests Huntington’s propositions for the period of 1945-2001. He found that conflicts between nations of different cultures are less common than the ones of similar cultures. He concludes that Huntington’s predictions “are unlikely to come true unless the prediction itself becomes a self-fulfilling prophecy” (Fox, 2005: p. 428). Indeed, history is full of evidences that support the latter argument. For example, the period of the cold war was a competition between the socialistic and capitalistic nations where socialism and capitalism are two different processes of production in the modern society. Thus, determining the nature and boundary of competition among nations are important steps toward understanding the worth of nations’ competitive strategies including mode of governing businesses.

This essay supports the view that competition is more likely among nations of similar cultures than nations of different cultures. The rationale stems from the fact that nations which produce similar products usually use similar resources. A nation’s production grows qualitatively as different demands emerge and/or quantitatively as a nation’s population increases. The growth of a nation requires the use of more production resources. With limited world resources, competition among similar producers would increase because they use similar production resources. Moreover, the product of a nation’s competitor could be more appealing than the nation’s product itself which questions the process that nation uses. That creates more pressure on a nation to compete with nations of similar products. As stated by Rotberg (2003), nations could fail because
they “can no longer deliver positive political goods to their inhabitants” (p. 1). The reason could be a shortage of production resources and/or uncompetitive cultural products. Thus, the governments of those nations “lose legitimacy, and the very nature of the particular nation-state itself becomes illegitimate in the eyes and in the hearts of a growing plurality of its citizens” (Rotberg, 2003: p. 1).

As argued above, IO economics would help in understanding the cultural competition of nations. Porter (1980) argues that each industry has its own structure which a firm’s decision makers need to understand in order to effectively position their firm and then differentiate it from others in order to maintain such position. Specifically, he argues that the economic performance of a firm is a function of the competitive structure of its industry. He adds that the competitive structure of an industry could be explained by five forces: existence of substitutable products, barriers to entry, level of competition, barging power of suppliers, and barging power of buyers. Moreover, he states that to effectively position a firm in an industry requires the firm to adopt one of the three generic strategies (i.e., cost leadership, differentiation, focus) that fits the competitive structure of the industry that it competes in (Porter, 1980, 1985).

In a similar manner to the work of Porter (1980), this essay argues that the ultimate performance of a nation is a function of the cultural structure of its society. Hence, for a superior performance of a nation, decision makers need to understand the cultural structure of the society they want their nation to compete in and then position and differentiate their nation accordingly. Moreover, as will be explained below, to effectively position a nation in a society requires the nation to adopt one of the three
modes of governing businesses (i.e., family, non-family, state mode of governing) that fits the cultural structure of the society that it competes in.

The main focus of this essay is not to explain the components that form the cultural structures of world societies. Rather, the main focus is to show the existence of different societies as a result of different cultural structures and explain how and why positioning strategies impacts the performance of a nation. The essay argues that a mode of governing businesses (i.e., family, non-family, the state) in a nation is a competitive positioning strategy when it fits the cultural structure of the society that the nation competes in. Specifically, the essay is interested in answering two research questions: (1) does the implemented mode of business governance in a nation competing in a specific society impacts its capabilities of producing its society’s economic and/or non-economic products, and (2) does the implemented mode of business governance in a nation competing in a specific society impacts national performance?  

5.2.2. The Ultimate Value of Nations

The products produced differ from one nation to another. Some nations emphasize economic products and others emphasize non-economic products (i.e., social, political). Thus, an important issue is how to assess the performance of nations regardless of their produced products which depends on their objectives and strategies. This essay suggests efficient well-being, defined as achieving the happiness of people at the lowest possible

5 Differentiating strategies to maintain a certain position as well as the components of the cultural structure of world societies are out of this essay scope. They could be topics for future research. Also, Essay 1, 2, and 3 could be useful in shedding the light on some aspects of the cultural structure (e.g., family culture) of some societies, and how a nation uses other strategies (i.e., organizational economics theories such as transaction cost and agency theories) to differentiate itself from others.
cost, as a measure of a nation’s performance regardless of the type of produced products. The selection of this measure is similar to the selection of the rate of returns as a measure of firm economic performance (e.g., Porter, 1980).

Generally, the ultimate objective of business firms, such as widely held firms, is creating economic value (e.g., Coase, 1937). One of the indicators to assess the performance of business firms in achieving their ultimate objective is rate of return which is the ratio of financial gains to the invested resources. Rate of return is an independent measure of firm performance regardless of the firm’s operational objective (e.g., a leadership in food, health, or banking sector) or the firm’s implemented strategy (e.g., cost leadership, differentiation, or focus, Porter, 1980). Thus, the operational objective and strategy of a firm are seen as vehicles to achieve the firm ultimate objective which is superior economic performance.

Likewise, producing economic and non-economic products by nations could be seen as operational objectives that are supposed to lead to an ultimate objective of nations, which is believed to be people’s well-being (e.g., Marks et al., 2006). Well-being is defined as “a person’s cognitive and affective evaluations of his or her life” (Diener et al., 2002: p. 63). Overall satisfaction of one’s life is an example of cognitive evaluation; happiness is an example of affective evaluation (Diener et al., 1999; Burroughs and Rindfleisch, 2002). Ng (2008) argues that the well-being of a nation’s people is “a good national success indicator” (p. 427). Also, researchers such as Krugman (1998: p. 24) state that “in the end, economics is not about wealth, it’s about the pursuit of happiness”

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6 Inglehart and Klingemann (2000) report that the correlation between people’s life satisfaction and happiness is 0.81 among 64 nations of World Value Surveys.
(Diener and Oishi, 2000). Nations would not survive if they do not achieve their ultimate objective which is the well-being of their citizens. For example, Inglehart and Klingemann (2000) showed that the collapse of the Soviet Union was a normal consequence for the sharp decline in its people well-being. The well-being of Russian people, for example, sharply dropped from around 70% who considered themselves as happy and satisfied in 1981 to around 48% who considered themselves as happy and satisfied in 1990. As stated by Inglehart (2000: p. 226): their “well-being had fallen to unheard-of levels” that lead to the break up of their country into 15 states in 1991.

Marks et al. (2006) introduce the concept of efficient well-being which is the ratio of gained satisfaction to the invested resources in generating that satisfaction. Similar to the rate of return, efficient well-being is an independent measure of a nation’s performance regardless of the nation’s operational objective (e.g., a leadership in traditional, modern, or postmodern domain) or the nation’s implemented strategy (e.g., mode of governing businesses such as family, non-family, or the state). Thus, the operational objective and strategy of a nation are seen as vehicles to achieve the nation ultimate objective which is superior efficient well-being.

Moreover, the perception of the worth of a product, whether it is industrial or cultural, is a controversial issue. It differs from one nation to another and from one society to another. For example, the United States of America and Europe have controversies regarding genetically modified foods which are industrial products. Gaskell et al. (1999) found that the Europeans are more resistant to those products than the Americans. Moreover, the perception of social mobility, a cultural product, is different in
the modern society than in the traditional society. People of the modern society support
social mobility more than those of the traditional society (Granato et al., 1996). Thus, the
worth of a product, whether it is industrial or cultural, is a relative concept. It is
determined by the members of a nation or a society according to their cultural values. It
should not be determined by members of other nations or societies because differences
among groups of people are a result of differences among their perceptions, including the
perception of the worth of a product (cf., Chrisman et al., 2002).

5.2.3. The Competitive Strategy of Nations

This essay argues that while nations have alternative strategies to achieve their
objectives, there will be some competitive strategies that distinguish among high,
average, and low-performance nations. A nation can compete in any society (i.e.,
traditional, modern, postmodern) it desires. Each society has its own set of objectives and
cultural values that distinguishes one society from another. The issue is that a nation to
achieve a superior performance, in the society it desires, requires the nation to use
competitive strategies with respect to the selected society. This essay defines a
competitive strategy used by a nation as the strategy that (1) generates the outcomes
desired by the selected society, (2) does not produce undesired outcomes by the selected
society, and (3) its cultural values match the cultural values of the selected society.7 This
essay views modes of governing businesses (i.e., family, non-family, the state) as
alternative strategies that can be used by nations to achieve their objectives. Each mode

7 Refer to Essay-3 for detailed discussions of this definition.
of governance has its own cultural values and is suitable to generate specific objectives. Accordingly, this essay argues that not all modes of governance work effectively in each society. In other words, nations competing in a specific society need to use the proper mode of governance in order to achieve superior performance. This subsection is about the impact of governing modes of businesses on the competitive advantage of nations. It consists of three subsections. The first subsection discusses the characteristics and products of the three world societies: traditional, modern and postmodern. These three societies represent the competition domains of nations. Understanding the domain of competition is part of understanding the rules of the game. The second subsection discusses the key characteristics of the three dominant governing modes of businesses: family, non-family, and the state. The last subsection is about the essay’s model and hypotheses that show the relationships between governing modes of businesses and both the domain of competition and nations’ performance. In other words, the last section is an explanation of how the mode of governing businesses impacts the competitive advantage of nations.

5.2.3.1. Culture of World Societies

The world today could be classified into three types of societies: traditional, modern, and postmodern (Inglehart and Baker, 2000). Those three different types of society have different cultures. There are numerous definitions for societal culture (e.g., Huntington, 2000; Inglehart, 1997; Granato et al., 1996; Hofstede, 1980; Chrisman et al., 2002). This essay defines societal culture using Nye and MacDougall’s (1960) view, which describes culture by four elements: (1) objectives which provide the direction for
the efforts of a society’s people, (2) values which help a society’s people in prioritizing their efforts, (3) statuses which define the duties and responsibilities of a society’s people, and (4) roles which provide a society’s people with “specific techniques for achieving goals and realizing values” (p. 315). This essay will be limited to the first two items of Nye and MacDougall’s (1960) view of culture: objectives and values because these two items are the most important and dominant attributes among all items.

**Traditional Society Culture:** The traditional society is characterized by a simple form of living which depends on agriculture, herding, hunting and/or trading. It is concerned more with preserving the social status of its people (Granato et al., 1996). Its cultural values push people to care about social solidarity, accept one’s social status, and discourage social mobility. The social status in the traditional society is mostly inherited rather than earned. It transfers from one generation to another of the same family (Inglehart, 1997). Change, in general, is not welcome in this type of society because it may impact the society’s social structure. For example, the traditional society discourages individual economic accumulation and entrepreneurial behaviors that could impact the society’s social order (Granato et al., 1996).

**Modern Society Culture:** The modern society is characterized by the industrialization and the enhancing of the productivity of many life’s aspects (Drucker, 1993). Inglehart (1997) says that the dominant objective of the modern society is economic progress. He adds that the attractiveness of a modernization process is that it “enables a society to move from being poor, to being rich” (Inglehart, 1997: p. 5). Granato et al. (1996) found that the economic development of societies is positively
associated with the modern culture. The cultural values of the modern society could be seen as a revolution against the cultural values of the traditional society. The modern society motivates people to be individualistic, educated, entrepreneurial, and less religious (Inglehart and Baker, 2000; Norris and Inglehart, 2004). All these values are at odds with the values of the traditional society.

Postmodern Society Culture: The postmodern society is a modern society that has undergone a change in the objectives or priorities. While the modern society targets economic and human progress, economic progress is its first priority. In the postmodern society where economic security has been taken for granted, human progress becomes its first priority (Inglehart, 2000). The postmodern society is concerned more with the quality of life and protection of the environment. Its cultural values motivate people for self-expression that incorporates democracy, pays attention to society’s marginalized groups such as minorities and women, thinks about the meaning of life, and is friendly to nature (Inglehart, 1997). For example, modernization educates women and brings them into the workforce, but it does not grant women a power equivalent to that of men. It is the post-modernization that moves women into “higher status economic roles in management and the professional” and helps women to “gain political influence within elected and appointed bodies” (Norris and Inglehart, 2004: p. 138).

5.2.3.2. Governing Modes of Businesses

This section focuses on three modes of governing businesses, family, non-family, and state. While the presence of some economic objectives is a common factor among the
three modes of governing businesses, there are differences among these modes. The following is a brief discussion of the cultural elements (i.e., objectives, values) of each governing mode.

*Family Firm:* What distinguishes family firms from non-family firms is the existence of family involvement that shapes firm behaviors and performance (Chua et al., 1999; Chrisman et al., 2005). The family firm is considered the interaction of two entities: family and firm. Essay-2 argues that family firms (as opposed to non-family-firms) are formed in order to (1) minimize their transaction costs when the business contains some vulnerable attributes that agents are able to take advantage of, and/or (2) attain the non-economic objectives of the family, such as creating a family legacy and jobs for family members (Andersson et al., 2002). The members of those family firms are seen as motivated by family values, such as other-interests and collectivism.

*Non-Family Firm:* A non-family firm is a social system (i.e., including people and resources) oriented towards adding economic value (Parsons, 1956a, 1956b), and the relationship among the system’s people is not centralized around marriage or kinship. Essay-2 argues that non-family firms are formed in order to attain pure economic objectives when the business contains invulnerable attributes that agents are unable to take advantage of. The members of those non-family firms are seen as motivated by market values, such as self-interests and individualism.

*State Firm:* State firms are defined as “government-owned or government-controlled economic entities that generate the bulk of their revenues from selling goods and services” (Shirley, 1997: p. 850). Researchers present two rationales for the
involvement of government in owning or controlling economic entities, economic and non-economic. The economic rationales are that government involvement suits (1) large businesses containing specific assets where government can reduce the cost of required capital for these businesses, (2) businesses operate in environments characterized by uncertainty where principles find difficulty in holding agents accountable for achieving the contracted objectives (Shirley, 1999), and (3) businesses operate in markets characterized by weak competition and regulation (Shleifer, 1998). The non-economic rationales for government involvement in businesses are to (1) ensure the non-contractible quality of a product or service (e.g., operating the airplane of a country’s president), and (2) transfer benefits to supporters (e.g., jobs for unions’ members who can bring down a government) (Shleifer, 1998).

5.2.3.3. Nations’ Performance

The three above modes of governing businesses could be seen as three types of economic systems. Conklin (1991) defines an economic system as “the organizational arrangements and processes through which a society makes its production and consumption decisions” (p. 1). He adds that each society selects its objectives and decision modes (i.e., economic systems) to achieve these objectives (Conklin, 1991). This subsection is about how societal culture influences the make-up of an economic system in terms of the types of firms that dominate (e.g., family business, non-family business, state business) and how the selected type impacts the attainment of operational and ultimate objectives of a nation’s people. In other words, for a nation to achieve superior
performance in the society it desires requires the nation to use the mode of governing businesses that is dictated by its selected society; refer to Figure-5.1 for an overview of the hypotheses of this essay.

*Cultural Competition in Traditional Society*: The traditional society suffers from scarcity in resources. Maintaining a person’s status is the key goal of people in a traditional society because an objective of high consumption is not visible in a society with limited resources. Goldsmith (1977) says that the dominant motivations for economic activities in traditional societies are social reasons such as fulfilling family obligations or achieving prestige. The social status of the traditional societies is built on families rather than on individuals. While people of the traditional society focuses on their social status, economic accumulation is not completely ignored. Thus, the society needs to have a way of achieving economic accumulation without disturbing the society social system. One possible way is collective economic accumulation through families. Accordingly, family businesses would help in maintaining the social status of its family members by controlling the economic accumulation of the family members. If economic accumulation is encouraged by individuals out of the family’s control, such accumulation may distort the whole social system. Members of each family will have different social status which leads to the creation of another social status that is based on individuals rather than on families. But, if economic accumulation is done through the family, the changes in society’s social system will be in harmony because it occurs as a unit. That means the family’s status will be changed as a whole, and this will maintain the society’s social system that is based on families. Therefore, family businesses would achieve the
Table-5.4a & 4b show the regression results of the traditional society, Table-5.5a & 5b show the regression results of the modern society, and Table-5.6a, 6b, 6c, 7a, 7b, & 7c show the regression results of the postmodern society.

Notes:
(1) In each of the three societies, the shown governing mode of business is expected to generate the cultural product of that society and enhance the performance of nations in that society too.

(2) To maintain the positive direction of the model’s hypotheses, the traditional values’ variable is stated in a different way than it is measured. More attentions are required when interpreting the results of the regressions that include this variable.

(3) Table-5.4a & 4b show the regression results of the traditional society, Table-5.5a & 5b show the regression results of the modern society, and Table-5.6a, 6b, 6c, 7a, 7b, & 7c show the regression results of the postmodern society.

Figure-5.1
The Model’s Hypotheses
objectives of the traditional society (e.g., maintaining social status) better than non-family businesses. Moreover, the traditional society is characterized by collectivistic values. Likewise, family businesses are characterized by the presence of altruism among family members and attaining non-economic objectives (Chrisman et al., 2005), which make the culture of these businesses dominated by collectivistic values. Because the family mode of governing business fits the cultural structure of the traditional society, this essay expects that nations achieving superior performance (i.e., efficient well-being) in the traditional society are the ones that the family mode of governance is dominant in the nations’ businesses (cf. Porter, 1980; Venkatraman, 1989). Stated as hypotheses:

**H1:** The higher the proportion of family business in traditional nations, the greater the abilities of these nations to produce their societal product.

**H2:** The higher the proportion of family business in traditional nations, the greater the abilities of these nations to achieve their well-being at a lower cost (i.e., superior performance).

*Cultural Competition in Modern Society:* As modernization starts in a traditional society, there will be a progressive abandonment of traditional values and norms (Newson and Richerson, 2007). People are able to depend on themselves rather than on their families and achieve some economic progresses that was seen in the old times as unrealistic dreams. Specifically, as the economic development of modernization begins, it widens people’s social networks. As a consequence of the widening of social networks, kin interaction and cooperation will be less than what it is supposed to be in the
traditional society (Newson et al., 2005; Newson and Richerson, 2007). Therefore, the modern society is characterized by the individualistic value that supports individual economic accumulation and entrepreneurial activities. Traditional family (e.g., formal marriage, extended family) and its values (i.e., other-interest altruism) become a burden in the modern society. Modern family (e.g., informal marriage, nuclear family) and its values (i.e., self-interest altruism) are more suitable for the modern society. Accordingly, the involvement of family in economic systems is not as critical in the modern society as it is in the traditional society. On the contrary, the involvement of family in modern organizations may negatively influence desired economic progress. Family involvement may lead to favoritism which is in conflict with the productivity of modern organizations (Weber, in Gerth and Mills, 1958). Therefore, modernized people prefer to be professional and manage their organizations in an impersonal way in order to achieve their desired goals (i.e., economic progress). Correspondingly, non-family firms are characterized by the prevailing of economic objectives and the dominance of individualistic values. Thus, this essay argues that non-family firms are the preferred form of governing economic systems in the modern society. That form is expected to achieve the societal objectives of the modern society. Because the non-family mode of governing business fits the cultural structure of the modern society, this essay expects that nations achieving superior performance (i.e., efficient well-being) in the modern society are the ones that the non-family mode of governance is dominant in the nations’ businesses (cf. Porter, 1980; Venkatraman, 1989). Stated as hypotheses:
**H3**: The higher the proportion of non-family business in modern nations, the greater the abilities of these nations to produce their societal product.

**H4**: The higher the proportion of non-family business in modern nations, the greater the abilities of these nations to achieve their well-being at a lower cost (i.e., superior performance).

*Cultural Competition in Postmodern Society*: The key difference between the modern and postmodern society is that the former uses people and environment as means to achieve economic progress while the latter uses economic progress as means to protect environment and achieve human progress (e.g., Drucker, 1993). That switch between the means and ends has reasons and consequences. One reason is that modernized people feel that they are hostages of their economic progress and lose their humanity. Modernization (or industrialization), in its attempt to achieve its economic objectives, centralizes people’s attitudes and behaviors around the self. It moves people’s centers from around others (e.g., superior power, family) in the traditional society to around the self in the modern society. That is evident in the individualistic, entrepreneurial, and less religious values of modernized people (e.g., Granato et al., 1996; Norris and Inglehart, 2004). Accordingly, people abuse themselves and the environment. Such abuse will continue until the critical point at which the marginal cost of modern values is equal to its marginal utility. After that point, a shift from the self to others (e.g., superior power, family) will occur. For example, Maffesoli (1996) argues that the postmodern society will show a decline in individualistic values (i.e., a key characteristic of the modern society) and a rise in collectivistic values. Drucker (1993: p.154) says that “The main reason for
tribalism [in the postmodern society] is neither politics nor economics. It is existential.”
People need others to identify with rather than living for the self. In other words, the marginal cost of living for the self – in the postmodern society – exceeds its utility. Horwitz (2007) says that one of the most central objectives of the postmodern society is self-actualization, and familial relationships occupy the top of self-actualization’s list. Accordingly, this essay argues that non-family firms of the modern society will not be suitable for the postmodern society. The reason is that non-family firms are characterized by (1) the prevailing of economic objectives which are attained at the expense of non-economic objectives of the postmodern society, and (2) the dominance of individualistic values which is not in congruence with the collectivistic values of the postmodern society. However, this essay views that the culture of family firms will be more compatible with the culture of the postmodern society. Family firms are characterized by the presence of non-economic objectives among firms’ objectives and the existence of altruism (e.g., collectivistic values) among their family members (Chrisman et al., 2005). Thus, family firms are expected to achieve the societal objectives of the postmodern society and to be compatible with the societal values of the postmodern society. Because the family mode of governing business fits the cultural structure of the postmodern society, this essay expects that nations achieving superior performance (i.e., efficient well-being) in the postmodern society are the ones that the family mode of governance is dominant in the nations’ businesses (cf. Porter, 1980; Venkatraman, 1989). Stated as hypotheses:
**H5a:** The higher the proportion of family business in postmodern nations, the greater the abilities of these nations to produce their societal product.

**H6a:** The higher the proportion of family business in postmodern nations, the greater the abilities of these nations to achieve their well-being at a lower cost (i.e., superior performance).

The main thesis of this subsection is that non-family firms do not fit the cultural structure of the postmodern society. Non-family firms are driven by economic objectives which are not the core objectives of the postmodern society. While it is argued above that the family mode of governing businesses fits the cultural structure of the postmodern society, this essay presents another compelling argument. This essay argues that the state mode of governing businesses could fit the cultural structure of postmodern nations, too. The major reasons for this argument are related to (1) the power of postmodern people to control their governmental agents, and (2) the ability of government to pay for the well-being of its postmodern people.

(1) **Controlling Governmental Agents:** The postmodern society is very democratic in nature. Inglehart (1997) shows that “economic development is linked with democracy because it tends to bring social and cultural changes that help democracy emerge and flourish” (p. 180). The postmodern society attains its non-economic objectives after it has achieved most of its economic objectives. Self-expression, a key objective of the postmodern society, is an important indication of a high level of democracy where the postmodern society pays attention to its marginalized groups, such as minorities and women. The high level of democracy means that the political markets of the postmodern
society work efficiently. Accordingly, politicians and bureaucrats (i.e., agents) will act for the benefits of citizens (i.e., principles). Shirley and Walsh (2001) say that the main argument for government involvement in businesses is the government’s ability to maximize the social welfare of its citizens in efficient political markets. Said differently, the postmodern society is characterized by two factors. The first factor is the presence of citizens who are interested in non-economic objectives which cannot be met by agents who focus exclusively on economic objectives, such as the agents of non-family firms. Drucker (1954) says that while the analytical and administrative skills of business agents are extremely important in managing any type of organizations, but these skills alone are not sufficient to achieve the non-economic objectives of non-economic entities. In other words, analytical and administrative skills are important in attaining any type of objectives. But, the perceptions and interpretations of non-economic objectives – which are more important than the analytical and administrative skills – differ from agents who view these objectives as primary or secondary. Accordingly, the attainment of these non-economic objectives, in quantity and quality, will be different for those who view them as primary or secondary, all else equal including analytical and administrative skills. The second factor is the presence of efficient political markets that include governmental agents (i.e., politicians and bureaucrats) who would align their interests with the interests of their citizens; otherwise these agents will not be reelected. These two elements make the involvement of government in businesses crucial in effectively achieving the non-economic objectives of the people of the postmodern society, such as the objectives of placing human progress before economic progress and protecting environment.
Governmental agents are not only able to achieve the non-economic objectives of the people of the postmodern society, but these agents have lower agency costs.

(2) Government’s Expenditure: While both the traditional and postmodern societies target non-economic objectives, the beneficiaries of these objectives are different. The traditional society focuses on maintaining the social order of its members. Specifically, it discourages social mobility among families. Thus, the real beneficiaries of such system are the families who rank high on the social ladder. The members of these high-ranked families enjoy many societal privileges including economic and political privileges. Families who do not rank high have no incentive to maintain such social order. To suppress any incentive to change the status quo, the traditional society is characterized by the virtues of generosity and charity (Inglehart, 1997). Specifically, the benefited families need to be so generous to the non-benefited families in order to maintain the society’s social order. Inglehart (1997) adds that generosity and charity do not only support non-benefited families, but “further undermined the legitimacy of economic accumulation” (p. 31). In other words, the traditional society sacrifices its economic objectives in order to maintain its non-economic objective, maintaining the social order of its families. Because the beneficiaries of such a non-economic objective (i.e., social immobility) are the families who rank high in the social ladder, these families pay the cost of such an objective by transferring some of their wealth (i.e., being generous) to non-benefited families.

On the other hand, the postmodern society motivates its people toward self-expression that incorporates democracy, pays attention to society’s marginalized groups
such as minorities and women, thinks about the meaning of life, and is friendly to nature (Inglehart, 1997). Achieving such non-economic objectives usually comes at the expense of economic objectives. An important question, then, is who should pay the cost of such non-economic objectives. In the traditional society, the families who rank high in the social system are the ones who benefit from their society’s non-economic objectives (e.g., social immobility) and they are the ones who pay the cost of such objectives. In the postmodern society, it is all the society’s families, not specific families, who benefit from such objectives. Accordingly, the postmodern society, as a whole, needs to pay for such cost. In other words, governments of postmodern nations need to finance these non-economic objectives. So, the viable alternative for these governments is to create their own businesses to support the demands of their people. As stated by La Porta et al. (1999), governments create their own firms in order to pursue some non-economic objectives while their people pay any losses. Thus, state firms are expected to achieve the societal objectives of the postmodern society and to be compatible with the societal values of the postmodern society. Because the state mode of governing business fits the cultural structure of the postmodern society, this essay expects that nations achieving superior performance (i.e., efficient well-being) in the postmodern society are the ones in which the state mode of governance is dominant in the nations’ businesses (cf. Porter, 1980; Venkatraman, 1989). Stated as hypotheses:

**H5b: The higher the proportion of state business in postmodern nations, the greater the abilities of these nations to produce their societal product.**
5.3. Research Method

This empirical research uses secondary data in testing its hypotheses. Secondary data are data that were collected with purposes other than this essay’s purpose. Using secondary data has advantages as well as shortcomings compared to using primary data produced by the researchers themselves. Some of these advantages are the existence of the required data that reduces research cost and save researchers’ time for unexplored aspects of knowledge. Moreover, the quality of secondary data, such as the representativeness of a sample, the large number of investigated issues, and the method used in collecting the data, could not be achieved by a researcher or an institution with limited resources. Some of the disadvantages in using secondary data include the possible differences in the definition of the research sample and variables between producers and users of these data. Moreover, the sample time frame and variables’ scales might not be optimal for the users of secondary data (Sørensen et al., 1996; Crawford, 1997; Hofferth, 2005). In sum, users of secondary data need to evaluate its positive and negative aspects and make sure that there would be positive gains in using these data.

This section attempts to explain the essay’s research method. It consists of six subsections. The first subsection explains the study sample and its limiting factor. The second subsection elaborates on the timing of study variables and if any obstacle exists.
The third and fourth subsections discuss the measurements of the essay’s dependent and independent variables respectively, and the quality of those measurements. The fifth subsection explains why the essay would not use control variables. The last subsection shows the procedures of examining the study’s hypotheses.

5.3.1. Sample

The sample of this empirical study consists of 41 countries. It represents the common available information among eight different secondary datasets. That means, if country information does not exist in all datasets, that country is excluded from this essay’s sample. The key limiting factor in the size of this sample is the availability of information about the dominant governing mode of business (i.e., family, non-family, the state) across nations. Governing mode of business is a common variable in all the regression analyses. The essay uses two different datasets of governing mode of businesses; the first consists of 29 usable countries and the second consists of 38 usable countries. While those two datasets are used separately in the essay’s regression equations, the total countries used in this essay are 41 countries, as will be clarified later.

5.3.2. Timing of Variables

While the dependent variables should be measured for a period of at least three years after the time period in which the independent variables are measured, it is difficult

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8 This is correct for all the countries used except two countries which miss income inequality data that are only used on the regression analysis of the traditional society’s product (one dependent variable out of four), and one country which misses gross national income data that are only used on the regression analysis of the modern society’s product (one dependent variable out of four).
to maintain this time distance between all dependent and independent variables. This problem specifically occurs with the traditional society’s product, income inequality, which is measured at a time before the independent variables. In fact, there are data available for income inequality that are measured after the time of the independent variables, but they are low quality data compared to the one used in this essay. While this could be seen as a trade off between the quality and timing of data, income inequality as will be explained later is time resistant. Thus, maintaining the quality of income inequality data supersedes the timing of this data.

5.3.3. Dependent Variables

This essay uses two dependent variables, societal product and efficient well-being. The following subsections are brief elaborations about those two dependent variables.

5.3.3.1. Societal Product

As discussed above, world societies could be classified into three kinds: traditional, modern, and postmodern (Inglehart and Baker, 2000). While societies have multiple products, this essay is limited to one key product from each society. The selection of that product and its measurement depend on the relevance and availability of data.
5.3.3.1.1. Income Inequality: A Key Product of the Traditional Society

The traditional society is concerned more with preserving the social status of its members (Granato et al., 1996). Thus, social immobility represents the optimal choice to be a key product of the traditional society. However, due to the unavailability of social immobility data across countries, income inequality is seen as the best alternative to represent a key product of the traditional society; more elaboration on such selection is available on Appendix 5.7.1. This essay uses the Gini index, compiled by Dollar and Kraay (2002), as a measure of income inequality. The Gini index ranges from zero percent to 100 percent, where zero means perfect income equality among a nation’s people and 100 percent means perfect income inequality among a nation’s people. The Gini database of Dollar and Kraay (2002) includes only 39 countries out of 41 (the total of this essay’s sample) and shows the country’s average Gini index for the period of 1956 to 1999; refer to Appendix 5.7.1 for more discussion about the Gini index and Dollar and Kraay’s (2002) database.

5.3.3.1.2. Gross National Income: A Key Product of the Modern Society

The modern society emphasizes economic accumulation and growth (Granato et al., 1996). Thus, the best representation of a key product of the modern society is the purchasing power parity of gross national income per capita (PPP-GNI-PC) assembled by World Bank and measured in international dollars.⁹ Only 40 countries out of 41 (the total of this essay’s sample) are included in the World Bank’s database and have yearly PPP-

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⁹ To shorten the abbreviation of the purchasing power parity of gross national income per capita (PPP-GNI-PC), this essay would refer to it by GNI.
GNI-PC readings for the period of 2002-2006. This essay uses the average values of the PPP-GNI-PC indictor for each country for the above specified period. The calculated average would smooth any fluctuations of that indicator across five years, for one reason or another; refer to Appendix 5.7.2 for more elaboration about PPP-GNI-PC.

5.3.3.1.3. Lack of Corruption: A Key Product of the Postmodern Society

Meisenberg (2004) found that lack of corruption is “the most powerful predictor of postmodern values” (p. 143). He states that material wealth is not the most important factor in the life of postmodern people. In fact, the key factor is “the intactness of the social system and the moral character of people in the society [(i.e., nation)], which are most directly assessed as low level of corruption” (Meisenberg, 2004: p. 144). Thus, lack of corruption represents the optimal choice to be a key product of the postmodern society.

Corruption is defined as “abuse of public power (or public office) for private gain” (You and Khagram, 2005: p. 137). This essay uses two different measures of lack of corruption: corruption perceptions index (CPI) and control of corruption index (CCI). The CPI, developed by Transparency International Organization, ranges from zero to ten with zero representing a highly corrupt nation and ten representing a highly clean nation.\(^\text{10}\) The CCI, developed by the World Bank, ranges from negative 2.5 (a highly corrupt nation) to positive 2.5 (a highly clean nation) (Kaufmann et al., 2007). This essay uses the average values of the CPI and CCI for each country for the period of 2002 to 2006. All of the 41 countries used in this essay sample have yearly CPI and CCI readings.

for that period. The reason for using two measures for lack of corruption is to ensure the robustness of the essay findings.\textsuperscript{11} More discussion about the two datasets is available on Appendix 5.7.3.

\textbf{5.3.3.2. Efficient Well-Being}

Efficient well-being, as explained above, is the ratio of gained satisfaction to the invested resources in generating that satisfaction. This essay uses the happy planet index (HPI) as a measurement of a nation’s efficient well-being. HPI is an index of human well-being and environmental impact developed by the New Economics Foundation (NEF).\textsuperscript{12} It is an innovative new measure that was first introduced in 2006 for 178 countries.\textsuperscript{13} It stands for “the efficiency with which countries convert the earth’s finite resources into well-being experienced by their citizens” (Marks et al., 2006: p. 8).

Mathematically, the index divides the product of life satisfaction and life expectancy of each country by the country’s consumed resources, as seen below (Marks et al., 2006: p. 8).

\[
\text{HPI} = \frac{\text{Life Satisfaction} \times \text{Life Expectancy}}{\text{Ecological Footprint}}
\]

The calculation of the HPI-2006 was mainly based on the latest available data published in scholarly journals and by international organizations such as the United Nations. The score of life satisfaction in HPI-2006 was mostly drawn from four sources. One of these sources is the World Values Survey; the measure of life satisfaction is a 10-

\textsuperscript{11} For ease of presentation and discussion, this essay considers CPI dataset as the main measure of lack of corruption and CCI dataset as a secondary measure. Accordingly, this essay reports the results of the main measure in more detail than the secondary measure.

\textsuperscript{12} NEF is a registered charity founded in 1986 by the leaders of The Other Economic Summit (TOES).

\textsuperscript{13} http://www.happyplanetindex.org/
scale question where respondents asked, “All things considered, how satisfied are you with your life as a whole these days: 1 ‘Dissatisfied’ ……… 10 ‘Satisfied’”. Life expectancy of countries’ people was taken from the UN Human Development Report in 2003. Ecological footprint, the consumed resources and ecological services, of countries’ people was taken from Living Planet Report in 2004.\textsuperscript{14} All the 41 countries used in this essay sample have HPI readings.

5.3.4. Independent Variables

The essay uses three independent variables, nation’s cultural values, governing mode of businesses, and their interaction term. The following subsections are brief elaborations about those three independent variables.

5.3.4.1. Nation’s Cultural Values

Huntington (2000) defines national culture as “the values, attitudes, beliefs, orientations, and underlying assumptions prevalent among people” in a nation (p. xv). Nation’s cultural values (e.g., traditional, modern, postmodern) could be determined using the World Values Survey (WVS). All the 41 nations of this study sample are covered in the WVS, and their survey years range from 1994 to 2002; more discussion about the WVS dataset is available on Appendix 5.7.4.

Based on the WVS, this essay uses the two dimensions developed by Inglehart and Baker (2000) to distinguish among traditional, modern, and postmodern cultural

\textsuperscript{14} For details of how the index is calculated and the data used, please refer to the 2006 HPI report on: http://www.neweconomics.org/gen/z_sys_publicationdetail.aspx?pid=225
values. The first one is called Traditional/Secular-Rational Dimension (TSR) and is used to distinguish between traditional and modern (i.e., secular-rational values) nations. It consists of five items such as “God is very important in respondent’s life” and “It is more important for a child to learn obedience and religious faith than independence and determination” (Inglehart and Baker, 2000: p. 24). While the items in this TSR have 4, 5, and 10 point scales, the overall scale of this dimension ranges from negative 2.23 (a highly traditional nation) to positive 1.73 (a highly modern nation) (Meisenberg, 2004; Van de Vliert, 2007). The second is Survival/Self-Expression Dimension (SSE) and is used to distinguish between non-postmodern nations (i.e., survival values) and postmodern nations (i.e., self-expression values). It consists of five items such as “Respondent gives priority to economic and physical security over self-expression and quality-of-life” and “Respondent has not signed and would not sign a petition” (Inglehart and Baker, 2000: p. 24). While the items on this SSE have 2, 4, 5, and 10 point scales, the overall scale of this dimension ranges from negative 1.93 (a highly non-postmodern nation) to positive 2.17 (a highly postmodern nation) (Meisenberg, 2004; Van de Vliert, 2007). Refer to Appendix 5.7.4 for a discussion of the reliability and validity of the Inglehart and Baker’s two dimensions.

5.3.4.2. Governing Mode of Businesses

This study is limited to the three dominant modes of governing businesses, family, non-family, and the state. There are two datasets that could help in identifying the
population of family, non-family, and state businesses in countries: (1) existing firms’
dataset, and (2) newly created firms’ dataset.

The existing firms’ dataset is compiled by Morck et al. (2005) and uses the
ownership structure of existing large firms in 32 countries to identify the ultimate
controlling shareholders of these firms. This dataset uses the stock market in each country
to determine the percentage of firms that owned by family (FFL), non-family (NFL), and
the state (SFL) in 1996. The measurement scale of this dataset ranges between 0 and 1;
where 0 represents the non existence of a specific governing mode (family, non-family,
or the state) in a country’s businesses, and 1 indicates that all a country’s businesses are
governed by only one mode.¹⁵ Not all of the 32 countries of this dataset are used; this
study is limited to 29 countries due to missing information about the cultural values of
some countries.

The newly created firms’ dataset is an international survey done by the Global
Entrepreneurship Monitor (GEM). It includes a question about the relationship between
business’ investors and entrepreneurs (i.e., relative, non-relative). This essay uses this
question to determine the percentage of newly created firms that owned by family (FInv)
and non-family (NInv). Accordingly, there is no information about newly created firms
by the state, if they exist. Similar to the first dataset, the measurement scale of this dataset
ranges between 0 and 1; where 0 represents the non existence of a specific governing
mode (family, or non-family) in a country’s newly created businesses, and 1 indicates

¹⁵ In addition to the three modes used in this essay (family, non-family (widely held), and the state), this
dataset includes three more modes which are widely held firms by financial institutions, widely held firms
by corporations, and miscellaneous firms. This is why the summation of those three modes (family, non-
family, and the state) is equal to or less than one.
that all a country’s newly created businesses are governed by only one mode. Thus, the summation of all governing modes (family, non-family) in a country should be equal to one.\textsuperscript{16} This dataset has 38 usable countries using the surveys of 2001, 2002, and 2003. Refer to Appendix 5.7.5 for more elaboration about the two datasets (i.e., existing and large, new and small) of governing modes of businesses.\textsuperscript{17}

5.3.4.3. Interaction Terms

This essay focuses on three societies which can be identified by two dimensions, Traditional/ Secular-Rational Dimension (TSR) and Survival/ Self-Expression Dimension (SSE). Also, this essay focuses on three modes of governance, family, non-family, and the state. Each mode of governance has multiple measures. The family mode of governance has three measures, FFL20, FFL10, and Finv. The non-family mode of governance has three measures, NFL20, NFL10, and Ninv. The state mode of governance has two measures, SFL20 and SFL10. Therefore, the interaction terms that will be used for each society will be the product of the cultural values of a society (i.e., a predictor) by the hypothesized mode of governance (i.e., a moderator) that fit the society, refer to Appendix 5.7.6 for a discussion of why this essay uses interaction terms. Thus, the product of a predictor by a moderator will result in 11 interaction terms as follows:

\textsuperscript{16} Either family or non-family investment is sufficient to be used throughout the essay because each is reciprocal for the other. For example, if one investment is significant in one direction, it means that the other investment is also significant, but in the opposite direction. However, for ease of presentation, the essay uses the two investments (i.e., family, non-family) for two different analyses. For example, the essay uses the family investment when analyzing the traditional society, and the non-family investment when analyzing the modern society.

\textsuperscript{17} For ease of presentation and discussion, this essay considers the existing firms’ dataset as the main measure of modes of governing businesses and the newly created firms’ dataset as a secondary measure. Accordingly, this essay reports the results of the main measure in more details than the secondary measure.
• Traditional Society: TSR*FFL20, TSR*FFL10, and TSR*Finv
• Modern Society: TSR*NFL20, TSR*NFL10, and TSR*Ninv
• Postmodern Society: SSE*FFL20, SSE*FFL10, SSE*Finv, SSE*SFL20, and SSE*SFL10

5.3.5. Control Variables

Because of the limited sample size and the presence of three independent variables (i.e., two main variables and their interaction term) in each regression, control variables are not included. Moreover, efficient well-being (HPI), the key dependent variable of this study, is a newly created measure in July 2006 by the New Economics Foundation (NEF). There is no scholarly literature explaining what, how, and why specific factors influence this variable. In fact, this is probably the first study to do that.

5.3.6. Procedures

This essay uses multiple hierarchical OLS regressions to analyze the data. Generally, there are two sets of analysis. The first set of analyses tests whether the hypothesized modes of governing businesses are appropriate to achieve societal products. It uses four variables, at the national level, for each regression. The dependent variable is a societal product. The independent variables are: (1) a nation’s cultural value, (2) a nation’s proportion of businesses with a specific governing mode, and (3) the interaction

18 http://www.happyplanetindex.org/
19 Ordinary least square (OLS) is a linear method that based on minimizing the sum of the squared errors between the predicted and observed values (Huber, 1964).
term of the two independent variables. The second set of analyses tests whether the hypothesized modes of governing businesses are appropriate to enhance the ultimate performance of nations. It uses four variables, at national level, for each regression. The dependent variable is a nation’s efficient well-being. The independent variables are: (1) a nation’s cultural value, (2) a nation’s proportion of businesses with a specific governing mode, and (3) the interaction term of the two independent variables.

Governing mode of business is a common variable in all the regression equations. The essay uses two different datasets of family and non-family governing modes: (1) existing firms and (2) newly created firms. Thus, each regression equation includes family or non-family governing mode is run twice: one with a measure from the first dataset (n=29), and second with a measure from the other dataset (n=38). For the state governing mode, it is only available on the first dataset; thus, its regression equations are run one time (n=29). Similarly, lack of corruption is measured by two variables, CPI and CCI. Thus, the regression equation that uses the lack of corruption variable is run twice: one with CPI, and second with CCI.

Using a hierarchical regression is helpful because it shows the changes in the explained variance ($R^2$) as a new variable is entered while controlling for the other variables. To eliminate the multicollinearity problem, the two main independent variables are centered before they are used in any regression equations or in creating the interaction

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20 This is applicable for all regressions except the regressions for income inequality (Gini) and gross national income (GNI). Gini’s regressions for newly created firms are run for a sample size of 36 countries because of missing income inequality data for two countries. GNI’s regressions for existing firms are run for a sample size of 28 and for newly created firms are run for a sample size of 37 countries because of missing gross national income data for one country.
term (Aiken and West, 1991; Baron and Kenny, 1986). In step one: the two main independent variables are entered simultaneously into all regression equations. To check for the essay’s hypotheses, the interaction term is entered as a second step into all regression equations. Thus, the regression equations for the model’s hypotheses are as follows:

(1) Traditional Society:  
H1:  \[ Gini = a_{11} + b_{12} \cdot TSR + b_{13} \cdot FFL + b_{14} \cdot TSR \cdot FFL \]  
H2:  \[ HPI = a_{21} + b_{22} \cdot TSR + b_{23} \cdot FFL + b_{24} \cdot TSR \cdot FFL \]  
H1 and H2 focus on the interaction terms and expect that \( b_{14} \) and \( b_{24} \) to be significant and in the negative direction.

(2) Modern Society:  
H3:  \[ GNI = a_{31} + b_{32} \cdot TSR + b_{33} \cdot NFL + b_{34} \cdot TSR \cdot NFL \]  
H4:  \[ HPI = a_{41} + b_{42} \cdot TSR + b_{43} \cdot NFL + b_{44} \cdot TSR \cdot NFL \]  
H3 and H4 focus on the interaction terms and expect that \( b_{34} \) and \( b_{44} \) to be significant and in the positive direction.

(3) Postmodern Society:  
H5a:  \[ CPI = a_{51a} + b_{52a} \cdot SSE + b_{53a} \cdot FFL + b_{54a} \cdot SSE \cdot FFL \]  
H6a:  \[ HPI = a_{61a} + b_{62a} \cdot SSE + b_{63a} \cdot FFL + b_{64a} \cdot SSE \cdot FFL \]  
H5b:  \[ CPI = a_{51b} + b_{52b} \cdot SSE + b_{53b} \cdot SFL + b_{54b} \cdot SSE \cdot SFL \]  
H6b:  \[ HPI = a_{61b} + b_{62b} \cdot SSE + b_{63b} \cdot SFL + b_{64b} \cdot SSE \cdot SFL \]  

---

21 Centering a variable is done by subtracting the mean from each individual value (i.e. \( IV_i - \overline{IV} \)) (Aiken and West, 1991).

22 The representation of the model’s regression equations uses only the main datasets of the model's variables (e.g., existing firms’ dataset for modes of governing businesses, and CPI dataset for lack of corruption).

23 The traditional values’ variable is the only one among the model variables that increases in the negative direction as constructed by Inglehart and Baker (2000). However, the hypotheses relevant to this variable (e.g., H1 and H2) are stated in a different way than the way that this variable is measured. Thus, to have a convincing evidence of a liner relationship between the variables stated in those hypotheses in the specified direction requires having significant, negative interaction terms at the designated level of significance.
H5a, H5b, H6a, and H6b focus on the interaction terms and expect that $b_{54a}$, $b_{64a}$, $b_{54b}$, and $b_{64b}$ to be significant and in the positive direction.

5.4. Results

This section presents the results of testing the hypotheses of this study using the collected data from 41 countries (Appendix 5.7.8 shows all data used in this study). Table-5.2 shows the variables of this study. Table-5.3 reports the means, standard deviation, and Pearson correlation matrix for the variables used in this study, before centering the independent variables. The table shows some significant correlations among some variables. Focusing on the four dependent variables, generally family firms have significant and positive correlations with income inequality and efficient well-being. In addition, family firms have significant and negative correlations with gross national income and lack of corruption. On the other hand, non-family firms have significant and negative correlations with income inequality and efficient well-being. Furthermore, non-family firms have significant and positive correlations with gross national income and lack of corruption. The correlation analysis, however, does not show any significant correlations between state firms and any of the four dependent variables, income inequality, gross national income, lack of corruption, and efficient well-being.

All variables were checked for normal distributions. Bachman (2004: 74) states that “As a rule of thumb, values for skewness and kurtosis of between -2 and +2 indicate a reasonably normal distribution.” Examining the skewness and kurtosis values of the
Table-5.2
List of the Study’s Variables

<table>
<thead>
<tr>
<th>#</th>
<th>Variable</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Gini</td>
<td>Income Inequality, Gini Index</td>
</tr>
<tr>
<td>2</td>
<td>GNI</td>
<td>The Purchasing Power Parity of Gross National Income Per Capita</td>
</tr>
<tr>
<td>3</td>
<td>CPI</td>
<td>Lack of Corruption, Corruption Perceptions Index</td>
</tr>
<tr>
<td>4</td>
<td>CCI</td>
<td>Lack of Corruption, Control of Corruption Index</td>
</tr>
<tr>
<td>5</td>
<td>HPI</td>
<td>Efficient Well-Being, Happy Planet Index</td>
</tr>
<tr>
<td>6</td>
<td>TSR</td>
<td>Traditional/ Secular-Rational Dimension</td>
</tr>
<tr>
<td>7</td>
<td>SSE</td>
<td>Survival/ Self-Expression Dimension</td>
</tr>
<tr>
<td>8</td>
<td>FFL20</td>
<td>Large Family Firms Using 20% Shareholder Ownership Cutoffs</td>
</tr>
<tr>
<td>9</td>
<td>NFL20</td>
<td>Large Non-Family Firms Using 20% Shareholder Ownership Cutoffs</td>
</tr>
<tr>
<td>10</td>
<td>SFL20</td>
<td>Large State Firms Using 20% Shareholder Ownership Cutoffs</td>
</tr>
<tr>
<td>11</td>
<td>FFL10</td>
<td>Large Family Firms Using 10% Shareholder Ownership Cutoffs</td>
</tr>
<tr>
<td>12</td>
<td>NFL10</td>
<td>Large Non-Family Firms Using 10% Shareholder Ownership Cutoffs</td>
</tr>
<tr>
<td>13</td>
<td>SFL10</td>
<td>Large State Firms Using 10% Shareholder Ownership Cutoffs</td>
</tr>
<tr>
<td>14</td>
<td>Finv</td>
<td>Family Investment in Small and Newly Created Firms</td>
</tr>
<tr>
<td>15</td>
<td>Ninv</td>
<td>Non-Family Investment in Small and Newly Created Firms</td>
</tr>
</tbody>
</table>

The study’s variables reveals that the maximum statistic values of skewness and kurtosis among the study’s variables are 1.22 and 1.68, respectively. According to Bachman (2004), all variables used in this study follow reasonably normal distributions.

Furthermore, the regression analyses were checked for multicollinearity. Examining the variance inflation factor (VIF) reveals that the maximum VIF value among the regressed, centered independent variables is 1.55. Because the VIF values are far below than the
### Table-5.3

Descriptive Statistics: Mean, Standard Deviation, and Pearson Correlation Matrix

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>SD</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Gini</td>
<td>34.549</td>
<td>7.997</td>
<td>1.000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2 GNI</td>
<td>21.914</td>
<td>11.083</td>
<td>-0.460**</td>
<td>1.000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3 CPI</td>
<td>6.265</td>
<td>2.514</td>
<td>-0.379*</td>
<td>0.869**</td>
<td>1.000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4 CCI</td>
<td>1.008</td>
<td>1.094</td>
<td>-0.397*</td>
<td>0.881**</td>
<td>0.990**</td>
<td>1.000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5 HPI</td>
<td>42.246</td>
<td>8.189</td>
<td>0.133</td>
<td>-0.249</td>
<td>-0.207</td>
<td>-0.225</td>
<td>1.000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6 TSR</td>
<td>0.206</td>
<td>0.540</td>
<td>-0.523**</td>
<td>0.574**</td>
<td>0.513**</td>
<td>0.510**</td>
<td>-0.218</td>
<td>1.000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7 SSE</td>
<td>0.308</td>
<td>0.544</td>
<td>-0.171</td>
<td>0.730**</td>
<td>0.706**</td>
<td>0.693**</td>
<td>0.071</td>
<td>0.260</td>
<td>1.000</td>
<td></td>
</tr>
<tr>
<td>8 FFL20</td>
<td>0.312</td>
<td>0.228</td>
<td>0.615**</td>
<td>-0.679**</td>
<td>-0.620**</td>
<td>-0.649**</td>
<td>0.481**</td>
<td>-0.397*</td>
<td>-0.384*</td>
<td>1.000</td>
</tr>
<tr>
<td>9 NFL20</td>
<td>0.353</td>
<td>0.281</td>
<td>-0.369*</td>
<td>0.530**</td>
<td>0.412*</td>
<td>0.405*</td>
<td>-0.430*</td>
<td>0.283</td>
<td>0.401*</td>
<td>-0.710**</td>
</tr>
<tr>
<td>10 SFL20</td>
<td>0.173</td>
<td>0.176</td>
<td>-0.120</td>
<td>0.079</td>
<td>0.157</td>
<td>0.195</td>
<td>-0.096</td>
<td>0.047</td>
<td>-0.159</td>
<td>-0.156</td>
</tr>
<tr>
<td>11 FFL10</td>
<td>0.361</td>
<td>0.230</td>
<td>0.546**</td>
<td>-0.664**</td>
<td>-0.566**</td>
<td>-0.595**</td>
<td>0.390*</td>
<td>-0.341</td>
<td>-0.413*</td>
<td>0.959**</td>
</tr>
<tr>
<td>12 NFL10</td>
<td>0.223</td>
<td>0.255</td>
<td>-0.318</td>
<td>0.495**</td>
<td>0.319</td>
<td>0.324</td>
<td>-0.381*</td>
<td>0.066</td>
<td>0.400*</td>
<td>-0.629**</td>
</tr>
<tr>
<td>13 SFL10</td>
<td>0.192</td>
<td>0.189</td>
<td>-0.114</td>
<td>0.067</td>
<td>0.118</td>
<td>0.158</td>
<td>-0.055</td>
<td>0.062</td>
<td>-0.168</td>
<td>-0.171</td>
</tr>
<tr>
<td>14 Finv</td>
<td>0.546</td>
<td>0.144</td>
<td>0.363*</td>
<td>-0.567**</td>
<td>-0.474**</td>
<td>-0.423**</td>
<td>0.087</td>
<td>-0.557**</td>
<td>-0.124</td>
<td>0.335</td>
</tr>
<tr>
<td>15 Ninv</td>
<td>0.454</td>
<td>0.144</td>
<td>-0.366*</td>
<td>0.566**</td>
<td>0.473**</td>
<td>0.423**</td>
<td>-0.088</td>
<td>0.557**</td>
<td>0.120</td>
<td>-0.335</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Variable</th>
<th>9</th>
<th>10</th>
<th>11</th>
<th>12</th>
<th>13</th>
<th>14</th>
<th>15</th>
</tr>
</thead>
<tbody>
<tr>
<td>9 NFL20</td>
<td></td>
<td>1.000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10 SFL20</td>
<td>-0.459*</td>
<td>1.000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>11 FFL10</td>
<td>-0.682**</td>
<td>-0.139</td>
<td>1.000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>12 NFL10</td>
<td>0.924**</td>
<td>-0.447*</td>
<td>-0.630**</td>
<td>1.000</td>
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<td></td>
</tr>
<tr>
<td>13 SFL10</td>
<td>-0.447*</td>
<td>0.983**</td>
<td>-0.161</td>
<td>-0.449*</td>
<td>1.000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>14 Finv</td>
<td>-0.230</td>
<td>-0.002</td>
<td>0.318</td>
<td>-0.110</td>
<td>0.025</td>
<td>1.000</td>
<td></td>
</tr>
<tr>
<td>15 Ninv</td>
<td>0.230</td>
<td>0.002</td>
<td>-0.318</td>
<td>0.110</td>
<td>-0.025</td>
<td>-1.000**</td>
<td>1.000</td>
</tr>
</tbody>
</table>

* p < 0.05, ** p < 0.01
common cutoff threshold of 10.0 (Hair et al., 2006), the estimations and explanations of the regression analyses are not biased by multicollinearity problem among the regressed independent variables. Moreover, a comparison among countries with respect to the study’s four dependent variables is reported in Appendix 5.7.7.

*Cultural Competition in Traditional Society:* Table-5.4a and Table-5.4b show six models that summarize the regression results for nations competing in traditional societies. Hypothesis 1 states that family firms would increase income inequality in traditional societies. Table-5.4a presents three models (i.e., Model-01, 02, and 03) which were used to test Hypothesis 1. These models are hierarchical regressions consisting of

Table-5.4a

Regression Results for Cultural Competition in Traditional Society
Family Mode of Governance and Income Inequality

<table>
<thead>
<tr>
<th>Independent Variable</th>
<th>Model-01a Beta</th>
<th>Model-01b Beta</th>
<th>Model-02a Beta</th>
<th>Model-02b Beta</th>
<th>Model-03a Beta</th>
<th>Model-03b Beta</th>
</tr>
</thead>
<tbody>
<tr>
<td>TSR</td>
<td>-0.359*</td>
<td>-0.331*</td>
<td>-0.407*</td>
<td>-0.356*</td>
<td>-0.459*</td>
<td>-0.425*</td>
</tr>
<tr>
<td>FFL20</td>
<td>0.473**</td>
<td>0.352*</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FFL10</td>
<td></td>
<td></td>
<td>0.407*</td>
<td>0.341*</td>
<td>0.108</td>
<td>0.118</td>
</tr>
<tr>
<td>Finv</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TSR*FFL20</td>
<td></td>
<td></td>
<td></td>
<td>-0.287*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>TSR*FFL10</td>
<td></td>
<td></td>
<td></td>
<td>-0.315*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>TSR*Finv</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>-0.353*</td>
<td></td>
</tr>
<tr>
<td>R²</td>
<td>0.487</td>
<td>0.551</td>
<td>0.445</td>
<td>0.535</td>
<td>0.278</td>
<td>0.402</td>
</tr>
<tr>
<td>Adjusted R²</td>
<td>0.447</td>
<td>0.497</td>
<td>0.402</td>
<td>0.479</td>
<td>0.234</td>
<td>0.346</td>
</tr>
<tr>
<td>ΔR²</td>
<td>0.487***</td>
<td>0.064*</td>
<td>0.445***</td>
<td>0.090*</td>
<td>0.278**</td>
<td>0.123*</td>
</tr>
<tr>
<td>F-value</td>
<td>12.328***</td>
<td>10.224***</td>
<td>10.422***</td>
<td>9.589***</td>
<td>6.358**</td>
<td>7.159***</td>
</tr>
<tr>
<td>N</td>
<td>29</td>
<td>29</td>
<td>29</td>
<td>29</td>
<td>36</td>
<td>36</td>
</tr>
</tbody>
</table>

* p ≤ 0.10,  p ≤ 0.05, ** p ≤ 0.01, *** p ≤ 0.001
two steps. The first step shows the effects of traditional culture and family firms on income inequality. There is a significant positive relationship between each of traditional culture (TSR) and large family firms (FFL20, FFL10) (as independent variables) and income inequality (as a dependent variable). Small family firms (Finv) are not significant in increasing income inequality. The second step shows the interaction effect of traditional culture and family firms on the income inequality. The second step of these three models shows that Hypothesis 1 is statistically significant in the predicted direction. Large family firms with 20\% SOC (β = -0.287, p ≤ 0.10, ΔR² = 0.064), large family firms with 10\% SOC (β = -0.315, p ≤ 0.05, ΔR² = 0.090), and small family firms (β = -0.353, p
($p \leq 0.05, \Delta R^2 = 0.123$) increase income inequality in traditional societies.\(^{24}\) Thus, Hypothesis 1 is supported in the case of large and small family firms. Figure-5.2a is one plot of the significant interactions. It is the plot of the interaction term of traditional cultural values and family firms with 20\% SOC. As shown in Figure-5.2a, high proportion of family firms is associated with high level of income inequality in traditional societies.

Hypothesis 2 states that family firms would increase efficient well-being in traditional societies. Table-5.4b presents three models (i.e., Model-04, 05, and 06) which were used to test Hypothesis 2. These models are hierarchical regressions consisting of

![Figure-5.2a](image-url)

**Figure-5.2a**

Cultural Competition in Traditional Society – FFL20 and Gini

\(^{24}\) SOC is an abbreviation of shareholder ownership cutoffs.
two steps. The first step shows the effects of traditional culture and family firms on efficient well-being. There is a significant positive relationship between large family firms (FFL20 and FFL10) and efficient well-being. However, traditional culture (TSR) and small family firms (Finv) are not significant in increasing or decreasing efficient well-being. The second step shows the interaction effect of traditional culture and family firms on the efficient well-being. The second step of Model-04 and Model-05 shows that Hypothesis 2 is statistically significant in the predicted direction. Large family firms with 20% SOC ($\beta = -0.384$, $p \leq 0.05$, $\Delta R^2 = 0.115$) and large family firms with 10% SOC ($\beta = -0.358$, $p \leq 0.10$, $\Delta R^2 = 0.116$) increase efficient well-being in traditional societies.

Figure-5.2b

Cultural Competition in Traditional Society – FFL20 and HPI
second step of Model-06 shows that small family firms are not significant in increasing efficient well-being in traditional societies. Thus, Hypothesis 2 is supported in the case of large family firms and is not supported in the case of small family firms. Figure-5.2b is one plot of the significant interactions. It is the plot of the interaction term of traditional cultural values and family firms with 20% SOC. As shown in Figure-5.2b, high proportion of family firms is associated with high level of efficient well-being in traditional societies.

Table-5.5a
Regression Results for Cultural Competition in Modern Society
Non-Family Mode of Governance and Gross National Income

<table>
<thead>
<tr>
<th>Independent Variable</th>
<th>Model-07a Beta</th>
<th>Model-07b Beta</th>
<th>Model-08a Beta</th>
<th>Model-08b Beta</th>
<th>Model-09a Beta</th>
<th>Model-09b Beta</th>
</tr>
</thead>
<tbody>
<tr>
<td>TSR</td>
<td>0.393*</td>
<td>0.409**</td>
<td>0.479**</td>
<td>0.423**</td>
<td>0.335*</td>
<td>0.298&quot;</td>
</tr>
<tr>
<td>NFL20</td>
<td>0.418&quot;</td>
<td>0.426**</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>NFL10</td>
<td></td>
<td>0.460**</td>
<td>0.432</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ninv</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0.377&quot;</td>
<td>0.388*</td>
</tr>
<tr>
<td>TSR*NFL20</td>
<td>-0.455***</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
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<td>TSR*NFL10</td>
<td></td>
<td>-0.418**</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TSR*Ninv</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>-0.333*</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Model-09a Beta</th>
<th>Model-09b Beta</th>
</tr>
</thead>
<tbody>
<tr>
<td>R²</td>
<td>0.423</td>
<td>0.506</td>
</tr>
<tr>
<td>Adjusted R²</td>
<td>0.377</td>
<td>0.461</td>
</tr>
<tr>
<td>ΔR²</td>
<td>0.423***</td>
<td>0.206***</td>
</tr>
<tr>
<td>F-value</td>
<td>9.152***</td>
<td>11.276***</td>
</tr>
<tr>
<td>N</td>
<td>28</td>
<td>37</td>
</tr>
</tbody>
</table>

*p ≤ 0.10, * * p ≤ 0.05, ** p ≤ 0.01, *** p ≤ 0.001
### Table-5.5b

**Regression Results for Cultural Competition in Modern Society**  
**Non-Family Mode of Governance and Efficient Well-Being**

<table>
<thead>
<tr>
<th>Independent Variable</th>
<th>Model-10a Beta</th>
<th>Model-10b Beta</th>
<th>Model-11a Beta</th>
<th>Model-11b Beta</th>
<th>Model-12a Beta</th>
<th>Model-12b Beta</th>
</tr>
</thead>
<tbody>
<tr>
<td>TSR</td>
<td>-0.154</td>
<td>-0.167</td>
<td>-0.240</td>
<td>-0.173</td>
<td>-0.105</td>
<td>-0.101</td>
</tr>
<tr>
<td>NFL20</td>
<td>-0.386*</td>
<td>-0.397*</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>NFL10</td>
<td></td>
<td>-0.365*</td>
<td>-0.339*</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ninv</td>
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<td></td>
<td></td>
<td>-0.030</td>
<td>-0.031</td>
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</tr>
<tr>
<td>TSR*NFL20</td>
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<td></td>
<td></td>
<td>0.430*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>TSR*NFL10</td>
<td></td>
<td></td>
<td></td>
<td>0.484**</td>
<td></td>
<td></td>
</tr>
<tr>
<td>TSR*Ninv</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0.032</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>R²</th>
<th>Adjusted R²</th>
<th>ΔR²</th>
<th>F-value</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>TSR</td>
<td>0.206</td>
<td>0.145</td>
<td>0.206*</td>
<td>3.382*</td>
<td>29</td>
</tr>
<tr>
<td>NFL20</td>
<td>0.391</td>
<td>0.317</td>
<td>0.184*</td>
<td>5.341**</td>
<td>29</td>
</tr>
<tr>
<td>NFL10</td>
<td>0.202</td>
<td>0.141</td>
<td>0.202*</td>
<td>3.293*</td>
<td>29</td>
</tr>
<tr>
<td>Ninv</td>
<td></td>
<td></td>
<td>0.229**</td>
<td>6.323**</td>
<td>29</td>
</tr>
<tr>
<td>TSR*NFL20</td>
<td></td>
<td></td>
<td>0.015</td>
<td>0.274</td>
<td>38</td>
</tr>
<tr>
<td>TSR*NFL10</td>
<td></td>
<td></td>
<td>0.015</td>
<td>0.189</td>
<td>38</td>
</tr>
<tr>
<td>TSR*Ninv</td>
<td></td>
<td></td>
<td>0.001</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* p ≤ 0.10,  * p ≤ 0.05, ** p ≤ 0.01, *** p ≤ 0.001

**Cultural Competition in Modern Society:** Table-5.5a and Table-5.5b show six models that summarize the regression results for nations competing in modern societies. Hypothesis 3 states that non-family firms would increase gross national income in modern societies. Table-5.5a presents three models (i.e., Model-07, 08, and 09) which were used to test Hypothesis 3. These models are hierarchical regressions consisting of two steps. The first step shows the effects of modern culture and non-family firms on gross national income. There is a significant positive relationship between each of modern culture (TSR) and non-family firms (NFL20, NFL10, and Ninv) (as independent variables) and gross national income (as a dependent variable). The second step shows the interaction effect of modern culture and non-family firms on the gross national income.
income. The second step of these three models shows that Hypothesis 3 is statistically significant, but it is not in the predicted direction. Large non-family firms with 20% SOC ($\beta = -0.455$, $p \leq 0.001$, $\Delta R^2 = 0.206$), large non-family firms with 10% SOC ($\beta = -0.418$, $p \leq 0.01$, $\Delta R^2 = 0.170$), and small non-family firms ($\beta = -0.333$, $p \leq 0.05$, $\Delta R^2 = 0.110$) decrease gross national income in the modern society. Thus, Hypothesis 3 is not supported in the case of either large or small non-family firms. Figure-5.3a is one plot of the significant interactions. It is the plot of the interaction term of modern cultural values and non-family firms with 20% SOC. Contrary to Hypothesis 3, Figure-5.3a shows that

Figure-5.3a

Cultural Competition in Modern Society – NFL20 and GNI
A low proportion of non-family firms is associated with a high level of gross national income in modern societies.

Hypothesis 4 states that non-family firms would increase efficient well-being in modern societies. Table-5.5b presents three models (i.e., Model-10, 11, and 12) which were used to test Hypothesis 4. These models are hierarchical regressions consisting of two steps. The first step shows the effects of modern culture and non-family firms on efficient well-being. There is a significant negative relationship between large non-family firms (NFL20 and NFL10) and efficient well-being. However, modern culture (TSR) and small non-family firms (Ninv) are not significant in increasing or decreasing efficient well-being.

![Figure-5.3b](image)

**Figure-5.3b**

Cultural Competition in Modern Society – NFL20 and HPI
well-being. The second step shows the interaction effect of modern culture and non-family firms on the efficient well-being. The second step of Model-10 and Model-11 shows that Hypothesis 4 is statistically significant in the predicted direction. Large non-family firms with 20% SOC ($\beta = 0.430$, $p \leq 0.05$, $\Delta R^2 = 0.184$) and large non-family firms with 10% SOC ($\beta = 0.484$, $p \leq 0.01$, $\Delta R^2 = 0.229$) increase efficient well-being in the modern society. The second step of Model-12 shows that small non-family firms are not statistically significant in increasing efficient well-being in modern societies. Thus, Hypothesis 4 is supported in the case of large non-family firms and is not supported in the case of small non-family firms. Figure-5.3b is one plot of the significant interactions.

### Table-5.6a

Regression Results for Cultural Competition in Postmodern Society
Family Mode of Governance and Lack of Corruption (CPI)

<table>
<thead>
<tr>
<th>Independent Variable</th>
<th>Model-13a Beta</th>
<th>Model-13b Beta</th>
<th>Model-14a Beta</th>
<th>Model-14b Beta</th>
<th>Model-15a Beta</th>
<th>Model-15b Beta</th>
</tr>
</thead>
<tbody>
<tr>
<td>SSE</td>
<td>0.467**</td>
<td>0.426**</td>
<td>0.486**</td>
<td>0.463*</td>
<td>0.640***</td>
<td>0.620***</td>
</tr>
<tr>
<td>FFL20</td>
<td>-0.441**</td>
<td>-0.477**</td>
<td>-0.365*</td>
<td>-0.383*</td>
<td>-0.395***</td>
<td>-0.411***</td>
</tr>
<tr>
<td>SSE*FFL20</td>
<td></td>
<td></td>
<td>0.139</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SSE*FFL10</td>
<td></td>
<td></td>
<td>0.046</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SSE*Finv</td>
<td></td>
<td></td>
<td></td>
<td>-0.042</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SSE*Finv</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>R$^2$</td>
<td>0.571</td>
<td>0.588</td>
<td>0.516</td>
<td>0.517</td>
<td>0.628</td>
<td>0.630</td>
</tr>
<tr>
<td>Adjusted R$^2$</td>
<td>0.538</td>
<td>0.539</td>
<td>0.478</td>
<td>0.459</td>
<td>0.607</td>
<td>0.597</td>
</tr>
<tr>
<td>$\Delta R^2$</td>
<td>0.571***</td>
<td><strong>0.017</strong></td>
<td>0.516***</td>
<td><strong>0.002</strong></td>
<td>0.628***</td>
<td><strong>0.001</strong></td>
</tr>
<tr>
<td>F-value</td>
<td>17.297***</td>
<td>11.903***</td>
<td>13.842***</td>
<td>8.931***</td>
<td>29.592***</td>
<td>19.260***</td>
</tr>
<tr>
<td>N</td>
<td>29</td>
<td>29</td>
<td>29</td>
<td>29</td>
<td>38</td>
<td>38</td>
</tr>
</tbody>
</table>

* $p \leq 0.10$,  * $p \leq 0.05$,  ** $p \leq 0.01$,  *** $p \leq 0.001$
Table-5.6b
Regression Results for Cultural Competition in Postmodern Society
Family Mode of Governance and Lack of Corruption (CCI)

<table>
<thead>
<tr>
<th>Independent Variable</th>
<th>Model-16a Beta</th>
<th>Model-16b Beta</th>
<th>Model-17a Beta</th>
<th>Model-17b Beta</th>
<th>Model-18a Beta</th>
<th>Model-18b Beta</th>
</tr>
</thead>
<tbody>
<tr>
<td>SSE</td>
<td>0.450***</td>
<td>0.398**</td>
<td>0.467***</td>
<td>0.428*</td>
<td>0.631***</td>
<td>0.590***</td>
</tr>
<tr>
<td>FFL20</td>
<td>-0.477**</td>
<td>-0.521***</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FFL10</td>
<td></td>
<td>-0.402*</td>
<td>-0.432*</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Finv</td>
<td></td>
<td></td>
<td>-0.345**</td>
<td>-0.378**</td>
<td></td>
<td></td>
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<tr>
<td>SSE*FFL20</td>
<td></td>
<td></td>
<td></td>
<td>0.173</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SSE*FFL10</td>
<td></td>
<td></td>
<td></td>
<td>0.080</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SSE*Finv</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>-0.086</td>
<td></td>
</tr>
<tr>
<td>R²</td>
<td>0.595</td>
<td>0.622</td>
<td>0.535</td>
<td>0.540</td>
<td>0.572</td>
<td>0.577</td>
</tr>
<tr>
<td>Adjusted R²</td>
<td>0.563</td>
<td>0.576</td>
<td>0.499</td>
<td>0.484</td>
<td>0.547</td>
<td>0.540</td>
</tr>
<tr>
<td>∆R²</td>
<td>0.595***</td>
<td><strong>0.027</strong></td>
<td>0.535***</td>
<td><strong>0.005</strong></td>
<td>0.572***</td>
<td><strong>0.005</strong></td>
</tr>
<tr>
<td>N</td>
<td>29</td>
<td>29</td>
<td>29</td>
<td>29</td>
<td>38</td>
<td>38</td>
</tr>
</tbody>
</table>

*p ≤ 0.10, ** p ≤ 0.05, *** p ≤ 0.01, **** p ≤ 0.001

It is the plot of the interaction term of modern cultural values and non-family firms with 20% SOC. As shown in Figure-5.3b, high proportion of non-family firms is associated with high level of efficient well-being in modern societies.

Cultural Competition in Postmodern Society: Table-5.6a, Table-5.6b, Table-5.6c, Table-5.7a, Table-5.7b, and Table-5.7c show 15 models that summarize the regression results for nations competing in postmodern societies. Hypothesis 5a states that family firms would reduce corruption in postmodern societies. Table-5.6a and Table-5.6b display six models (i.e., Model-13, 14, 15, 16, 17, and 18) which were used to test Hypothesis 5a. These models are hierarchical regressions consisting of two steps. The
first step shows the effects of postmodern culture and family firms on lack of corruption (i.e., two measures, CPI and CCI). There is a significant positive relationship between postmodern culture (SSE) and lack of corruption. However, large and small family firms (FFL20, FFL10, and Finv) have a significant negative relationship with lack of corruption. The second step shows the interaction effect of postmodern culture and family firms on the lack of corruption. The second step of each of these six models shows that Hypothesis 5a is not statistically significant. Thus, Hypothesis 5a is not supported in the case of large and small family firms.

Hypothesis 6a states that family firms would increase efficient well-being in postmodern societies. Table-5.6c presents three models (i.e., Model-19, 20, and 21)

### Table-5.6c

**Regression Results for Cultural Competition in Postmodern Society**

**Family Mode of Governance and Efficient Well-Being**

<table>
<thead>
<tr>
<th>Independent Variable</th>
<th>Model-19a Beta</th>
<th>Model-19b Beta</th>
<th>Model-20a Beta</th>
<th>Model-20b Beta</th>
<th>Model-21a Beta</th>
<th>Model-21b Beta</th>
</tr>
</thead>
<tbody>
<tr>
<td>SSE</td>
<td>-0.168</td>
<td>-0.138</td>
<td>-0.201</td>
<td>-0.238</td>
<td>0.192</td>
<td>0.151</td>
</tr>
<tr>
<td>FFL20</td>
<td>0.416*</td>
<td>0.442*</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FFL10</td>
<td></td>
<td></td>
<td>0.307</td>
<td>0.278</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Finv</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0.111</td>
<td>0.080</td>
</tr>
<tr>
<td>SSE*FFL20</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td><strong>-0.099</strong></td>
</tr>
<tr>
<td>SSE*FFL10</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td><strong>0.077</strong></td>
</tr>
<tr>
<td>SSE*Finv</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td><strong>-0.084</strong></td>
</tr>
<tr>
<td>R²</td>
<td>0.255</td>
<td>0.264</td>
<td>0.186</td>
<td>0.190</td>
<td>0.044</td>
<td>0.048</td>
</tr>
<tr>
<td>Adjusted R²</td>
<td>0.198</td>
<td>0.176</td>
<td>0.123</td>
<td>0.093</td>
<td>-0.011</td>
<td>-0.035</td>
</tr>
<tr>
<td>ΔR²</td>
<td>0.255*</td>
<td><strong>0.009</strong></td>
<td>0.186*</td>
<td><strong>0.005</strong></td>
<td>0.044</td>
<td><strong>0.005</strong></td>
</tr>
<tr>
<td>F-value</td>
<td>4.452*</td>
<td>2.988*</td>
<td>2.963*</td>
<td>1.957</td>
<td>0.801</td>
<td>0.578</td>
</tr>
<tr>
<td>N</td>
<td>29</td>
<td>29</td>
<td>29</td>
<td>29</td>
<td>38</td>
<td>38</td>
</tr>
</tbody>
</table>

* p ≤ 0.10, * p ≤ 0.05, ** p ≤ 0.01, *** p ≤ 0.001
which were used to test Hypothesis 6a. These models are hierarchical regressions consisting of two steps. The first step shows the effects of postmodern culture and family firms on efficient well-being. There is a significant positive relationship between large family firms with 20% SOC (FFL20) and efficient well-being. However, postmodern culture (SSE), large family firms with 10% SOC, and small family firms (Finv) are not significant in increasing or decreasing efficient well-being. The second step shows the interaction effect of postmodern culture and family firms on the efficient well-being. The second step of these three models shows that Hypothesis 6a is not statistically significant. Thus, Hypothesis 6a is not supported in the case of large and small family firms.
Hypothesis 5b states that state firms would reduce corruption in postmodern societies. Table-5.7a and Table-5.7b display four models (i.e., Model-22, 23, 24, and 25) which were used to test Hypothesis 5b. These models are hierarchical regressions consisting of two steps. The first step shows the effects of postmodern culture and state firms on lack of corruption (i.e., two measures: CPI and CCI). Postmodern culture (SSE) and large state firms (SFL20 and SFL10) have a significant positive relationship with lack of corruption. The second step shows the interaction effect of postmodern culture and state firms on the lack of corruption. The second step of these four models shows that Hypothesis 5b is not statistically significant. Thus, Hypothesis 5b is not supported in the case of large state firms.

Table-5.7b

Regression Results for Cultural Competition in Postmodern Society
State Mode of Governance and Lack of Corruption (CCI)

<table>
<thead>
<tr>
<th>Independent Variable</th>
<th>Model-24a Beta</th>
<th>Model-24b Beta</th>
<th>Model-25a Beta</th>
<th>Model-25b Beta</th>
</tr>
</thead>
<tbody>
<tr>
<td>SSE</td>
<td>0.682***</td>
<td>0.613***</td>
<td>0.679***</td>
<td>0.609***</td>
</tr>
<tr>
<td>SFL20</td>
<td>0.304*</td>
<td>0.385*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SFL10</td>
<td>0.273#</td>
<td>0.347*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SSE*SFL20</td>
<td></td>
<td>-0.210</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SSE*SFL10</td>
<td></td>
<td></td>
<td>-0.185</td>
<td></td>
</tr>
<tr>
<td>R²</td>
<td>0.491</td>
<td>0.522</td>
<td>0.473</td>
<td>0.495</td>
</tr>
<tr>
<td>Adjusted R²</td>
<td>0.452</td>
<td>0.464</td>
<td>0.433</td>
<td>0.435</td>
</tr>
<tr>
<td>ΔR²</td>
<td>0.491***</td>
<td>0.031</td>
<td>0.473***</td>
<td>0.022</td>
</tr>
<tr>
<td>F-value</td>
<td>12.531***</td>
<td>9.096***</td>
<td>11.680***</td>
<td>8.181***</td>
</tr>
<tr>
<td>N</td>
<td>29</td>
<td>29</td>
<td>29</td>
<td>29</td>
</tr>
</tbody>
</table>

*p ≤ 0.10, *p ≤ 0.05, **p ≤ 0.01, ***p ≤ 0.001
Hypothesis 6b states that state firms would increase efficient well-being in postmodern societies. Table-5.7c presents two models (i.e., Model-26 and 27) which were used to test Hypothesis 6b. These models are hierarchical regressions consisting of two steps. The first step shows the effects of postmodern culture and state firms on efficient well-being. There is a significant negative relationship between postmodern culture (SSE) and efficient well-being. However, large state firms (SFL20 and SFL10) are not significant in increasing or decreasing efficient well-being. The second step shows the interaction effect of postmodern culture and state firms on the efficient well-being. The second step of these two models shows that Hypothesis 6b is statistically
significant in the predicted direction. Large state firms with 20% SOC ($\beta = 0.528$, $p \leq 0.05$, $\Delta R^2 = 0.196$) and large state firms with 10% SOC ($\beta = 0.500$, $p \leq 0.05$, $\Delta R^2 = 0.161$) increase efficient well-being in the postmodern society. Thus, Hypothesis 6b is supported in the case of large state firms. Figure-5.4 is one plot of the significant interactions. It is the plot of the interaction term of postmodern cultural values and state firms with 20% SOC. As shown in Figure-5.4, high proportion of state firms is associated with high level of efficient well-being in postmodern societies.

A post-hoc power analysis was conducted using Soper’s (2009) calculator for supported hypotheses at the 0.05 level of significance. The analysis shows that these
supported hypotheses have an average size effect of 0.31 and an effect size range from 0.18 (medium) to 0.56 (large). Also, the statistical power of these hypotheses ranges from 0.60 to 0.97, with an average power of 0.79.

### 5.5. Discussion and Conclusion

This essay argues that competition among nations is cultural in nature. Competition usually occurs among nations of similar cultures rather than of different cultures. This essay is interested in the role of the mode of governing businesses (i.e., family, non-family, the state) on the cultural competition of nations. In other words, how and why these modes of governing businesses could enhance or deteriorate a nation’s performance in the society (i.e., domain) that the nation competes in. The discussion of cultural competition and the role of these three modes of governance will be from the perspective of the world’s three societies: traditional, modern, and postmodern.

Specifically, this essay empirically tests the hypotheses that point to (1) the family mode of governance as a competitive strategy for nations competing in the traditional society, (2) the non-family mode of governance as a competitive strategy for nations competing in the modern society, and (3) the family and state modes of governance as competitive strategies for nations competing in the postmodern society.

*Cultural Competition in Traditional Society:* This essay demonstrates that the traditional society emphasizes the attainment of non-economic objectives over economic objectives. Specifically, the traditional society attempts to maintain the social status of its families without regard to its economic objectives. Moreover, the people of the traditional
society prefer collectivistic over individualistic values. This essay demonstrates that the family mode of governing businesses is able to achieve the main objective of the traditional society and to be congruent with the collectivistic values of the traditional society, too. Thus, this essay views the family mode of governance as a competitive strategy for competition in the traditional society. Accordingly, nations which compete in the traditional society and adopt the family mode of governance are able to achieve the operational objective of its people (i.e., income inequality, Hypothesis 1) and the ultimate objective of its people (i.e., efficient well being, Hypothesis 2). The regression results of Table-5.4a show that Hypothesis 1 is supported by both large and small family firms. Furthermore, it can be noted that the explained variance of the income inequality is greater in the case of small family firms (i.e., around 12%) than in the case of large family firms (i.e., around 6%). This essay expects that the difference in the explanation power between large and small family firms could be related to the differences in the number of employment opportunities for non-family agents in large and small family firms. This essay expects that small family firms have less employment opportunities for non-family agents than large family firms because of the small firm size. Thus, small family firms in the traditional society strengthen the family relationship more than large family firms do, which may increase social immobility in the traditional society. In other words, large family firms have a higher probability of hiring non-family agents than small family firms. This means large family firms do not preserve social immobility to the extent that small family firms do, which is reflected in the lower explanation power of large family firms relative to small family firms. The regression results of Table-5.4b
show also that Hypothesis 2 is supported by only large family firms which explain around 12% of the efficient well-being variance in the traditional society. Interestingly, Hypothesis 2 is not supported by small family firms. Research (e.g., Schneider, 1991; Schneider and Lenzelbauer, 1993; Wing and Yiu, 1997; Lundvall and Battese, 2000) found that large firms are usually more efficient than small firms. Thus, the inability of small family firms to achieve efficient well-being in the traditional society compared to large family firms can be attributed to the small size of these firms. In summary, nations competing in the traditional society need to adopt the family mode of governing businesses in order to achieve superior performance because the family mode is found to attain the operational and ultimate objectives of these nations’ people.

*Cultural Competition in Modern Society:* This essay shows that the modern society emphasizes the attainment of economic objectives. Particularly, the modern society attempts to attain economic progress even if it goes against human progress or protecting the environment. Furthermore, the people of the modern society prefer individualistic over collectivistic values. This essay argues that the non-family mode of governing businesses is able to achieve the main objective of the modern society and is congruent with the society’s individualistic values, too. Thus, this essay views the non-family mode of governance as a competitive strategy for nations operating in the modern society. Said differently, nations competing in the modern society and adopting the non-family mode of governance will be able to achieve the operational objective of their people (i.e., gross national income, Hypothesis 3) and the ultimate objective of their people (i.e., efficient well being, Hypothesis 4). The regression results of Table-5.5a
show that Hypothesis 3 is not supported. In fact, Hypothesis 3 is statistically significant, but it is not in the predicted direction. This means that (1) the non-family mode of governance is negatively associated with attaining the operational objective of modern people (i.e., gross national income) and (2) the family mode of governance is positively associated with attaining the operational objective of modern people (i.e., gross national income). In fact, the explanation power of non-family mode of governance for the gross national income variance – in the opposite direction – ranges from 11% (small firms) to around 21% (large firms). However, the regression results of Table-5.5b demonstrate that Hypothesis 4 is supported in the case of large non-family firms. This means that the large non-family mode of governance is positively associated with attaining the ultimate objective of modern people (i.e., efficient well-being) and explains around 23% of the efficient well-being variance.

These are very surprising results because of two points. The first point is that the non-family mode of governance, which is expected to stimulate individual economic accumulation in the modern society, is found to retard individual economic accumulation. The second point is that both Hypothesis 3 and Hypothesis 4 are not consistent. In other words, if the non-family mode of governance does not achieve the operational objective

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25 The interaction terms of both small and large family firms have a significant, positive relationship with gross national income (GNI) in the modern society. Small family firms (Finv) are the inverse of small non-family firms (Ninv). If TSR*Ninv in Table-5.5a shows a negative relationship with GNI, it means that TSR*Finv has a significant, positive relationship with GNI (for TSR*Finv: β = 0.333, p ≤ 0.05, ΔR² = 0.11). Because large family firms are not the inverse of large non-family firms, a regression analysis, which is not shown in this essay, is conducted and the interaction terms of large family firms show a significant, positive relationship with GNI (for TSR*FFL20: β = 0.289, p ≤ 0.10, ΔR² = 0.064; for TSR*FFL10: β = 0.247, p ≤ 0.10, ΔR² = 0.054).
of modern people, it should not achieve the ultimate objective of modern people, too. However, the results do not go in one direction.

The statistical significance of Hypothesis 3 in the reverse direction of prediction could be due to the heterogeneity of modern countries with respect to gross national income (GNI). A comparison among the sample’s countries reported in Appendix 5.7.7 shows that the mean GNI of modern countries in Quadrant 3 is significantly greater than the mean GNI of modern countries in Quadrant 2. In spite of this heterogeneity, it is still unclear how heterogeneity may affect the relationship between non-family firms and GNI.

Another potential reason for the significant negative relationship between non-family firms and GNI is the presence of high agency problems in non-family firms, which makes non-family firms unable to achieve the operational objective of modern societies. However, a key question is how the inability of achieving the operational objective of modern societies (i.e., Hypothesis 3) would not be reflected in the inability of achieving the ultimate objective of modern societies (i.e., Hypothesis 4), too. The reason for this inconsistency may lie in the cost of an incongruent objective relative to the cost of an incongruent value. Essay-3 shows that the efficiency in achieving the ultimate objective of a society is a function of the cost of an incongruent objective and the cost of an incongruent value in the society. Therefore, there is a probability that the cost of an incongruent objective relative to the cost of an incongruent value is small. Thus, even if non-family firms are not able to achieve the operational objective of modern societies for one reason or another, non-family firms are able to achieve the ultimate objective of
modern societies because the values of non-family firms match the values of modern societies. Thus, non-family firms would be the most appropriate mode of governing businesses in modern societies in spite of the unexpected result of Hypothesis 3. So, further research in this society is needed to understand the impact of the non-family mode of governance on the operational and ultimate objectives of nations competing in the modern society.

_Cultural Competition in Postmodern Society:_ This essay shows that the postmodern society emphasizes the attainment of non-economic objectives over economic objectives. Specifically, the postmodern society attempts to support the self-expression of its people after it has achieved most of its economic objectives. Moreover, the people of the postmodern society prefer collectivistic over individualistic values. This essay argues that both the family and state modes of governing businesses are able to achieve the main objective of the postmodern society and congruent with the collectivistic values of the postmodern society, too. Thus, this essay views the family and state modes of governance as competitive strategies for competition in the postmodern society. Accordingly, nations which compete in the postmodern society and adopt the family or state modes of governance are able to achieve the operational objective of its people (i.e., lack of corruption, Hypothesis 5a and Hypothesis 5b) and the ultimate objective of its people (i.e., efficient well being, Hypothesis 6a and Hypothesis 6b). The regression results of Table-5.6a, Table-5.6b, Table-5.7a, and Table-5.7b show that neither Hypothesis 5a (family mode of governance) nor Hypothesis 5b (state mode of governance) is supported. The regression results of Table-5.6c and Table-5.7c show also
that Hypothesis 6a (family mode of governance) is not supported and Hypothesis 6b (state mode of governance) is supported and explains around 20% of the efficient well-being variance.

Two points are worthy of mention. The first point is why both modes, the family and state, are not statistically significant in attaining the operational objective of the postmodern society, lack of corruption. One explanation is that this variable ‘lack of corruption’ may not be the optimal operational objective for this society. Future research needs to examine other variables that have potential to be within the core operational objectives of this society. The second point is why the family mode is not significant in attaining the ultimate objective of the postmodern society while the state mode is significant in doing that. As discussed before, the key characteristic of the postmodern society is that it targets non-economic objectives. Moreover, the non-family mode is not the best mode of governing businesses because of the nature of this mode that exclusively focuses on economic objectives. Contrary to the non-family mode of governance, the family and state modes prioritize non-economic objectives over economic objectives, which make them closely fit the culture of the postmodern society. While this essay finds empirical evidence that the state mode is the preferable mode of governing businesses in the postmodern society, it does not find similar evidence for the family mode. There are two possible interpretations for these findings. The first interpretation is that the state mode is the only mode that fits the culture of the postmodern society. Table-5.6a and Table-5.6b show that family firms are positively associated with corruption while Table-5.7a and Table-5.7b show that state firms are positively associated with lack of
corruption. Thus, the added value by state firms may suppress the added value by family firms in postmodern societies. The second interpretation is that at the current time where the postmodern society is evolving, it is too early to judge on the non-suitability of the family mode of governing businesses for the postmodern society. Therefore, future empirical research should investigate the possibility that the family mode of governance businesses may fit the postmodern society at a later stage of evolution.

In conclusion, this essay could be seen as a step towards building a theory of the cultural competition of nations. Cultural competition of nations is a phrase that indicates a competition based on the cultural values and objectives of nations. This essay is particularly interested in presenting a theory of the competitive advantage of nations from a cultural perspective. Whetten (1989) states that a complete theory should contain four key elements: (1) the concepts that logically should be considered as parts of explaining the phenomena of interest, (2) the relationships among these concepts, (3) the rationale in selecting these concepts and proposing such relationships among them, and (4) the boundary of these relationships. Thus, the following discussion is this essay’s view of a cultural theory of the competitive advantage of nations. This discussion is a cultural explanation of how nations create and sustain competitive advantage and is infused with the four elements of Whetten’s perspective of what constitutes a complete theory.

Society: This essay defines society as the group of nations producing cultural products that are close substitutes for each other (cf. Porter, 1980). It utilizes the classification of world into three societies (i.e., traditional, modern, postmodern, Inglehart, 1997) as three domains for cultural competition. Each domain has its own
culture that distinguishes it from another domain. A nation whose people endorse a
domain’s culture is viewed as a member of such a domain.

Objective: While each society has its own operational objectives (i.e., economic,
non-economic), all societies share an ultimate objective which is efficient well-being
(i.e., well-being at a lower cost). World nations can be classified into these societies
according to the culture of their people. Accordingly, nations have different operational
objectives to pursue. Thus, it is inaccurate to assume that all nations pursue or should
pursue economic progress as a universal operational objective. In other words, it is
inaccurate to view all nations with a low gross domestic product (GDP), one measure of
economic progress, as low performance nations. The low performance of these nations
may not be attributed to their inability to achieve high economic progress, but it may be
attributed to their focus on different objectives, such as non-economic objectives.

Culture Competition: Little research (e.g., Huntington, 1993) argues that
competition after 1990 occurs among nations of different cultures, but this essay, in
addition to others (e.g., Walt, 1997; Rosecrance, 1998; Matlock, 1999; Chiozza, 2002;
Fox, 2002, 2005), argues that competition occurs among nations of similar cultures.
Intensive competition is usually among nations with similar culture because they produce
similar products and use similar resources. Producing similar products (e.g., economic
progress) creates a benchmark that stakeholders of each nation in a specific society
compare their nation’s performance with the performance of their competitors. A nation
far away from its society’s benchmark is viewed as a low performance nation which is
reflected into low well-being of the nation’s stakeholders with respect to the inputs used.
Using similar resources to produce similar products intensifies the competition among nations due to the fact that resources are limited on our planet. The argument that the future competition will be among nations of different culture cannot stand firmly. In fact, nations with different cultures could be seen as complementary to each other rather than competing with each other. The nations of different cultures could be markets for exchanging different products and resources. Thus, nations with different cultures are likely to support each other against each nation’s major competitors. In that case, the conflict among nations with different cultures does not primary arise of differences in cultures, but could be as competition among nations of similar cultures to line up as many complementarily nations (i.e., suppliers, customers) against each nation’s primary competitors.

*Competitive Strategy:* A nation to achieve a superior performance in the cultural domain which is selected by its people requires implementing a competitive strategy. Porter (1980) explains a competitive strategy as the strategy that is dictated by the domain of competition. This essay defines the competitive strategy as the strategy that generates the cultural outcomes desired by the selected society, (2) does not produce undesired cultural outcomes by the selected society, and (3) its cultural values match the cultural values of the selected society.

*Competitive Advantage:* Rationality implies that all nations attempt to attain a superior performance in the society in which they compete. However, many nations do not achieve competitive or satisfactory positions in their societies. A main reason is not that these nations are incapable to do so, but they do not know where to go in the first
place. The problem of these low performance nations is that their leaders and/or people do not know which society they belong to, what goals should be pursued, who their competitors are, and which strategies should be implemented. For example, a nation whose people endorse specific cultural values, the nation’s leaders pursue conflicting goals with their people’s values. Or, instead of focusing on a nation’s real competitors who are within the nation’s society, the nation creates and competes with fictitious rivals who lay outside the domain of its society. Or, a nation wants to pursue a specific goal, but it applies ineffective strategies that do not fit its goal. Therefore, it is not unexpected that many nations waste their limited resources and may wonder why they do not create and sustain a competitive advantage!

In summary, creating and sustaining competitive advantage occurs when a nation continuously applies competitive strategies that enable the nation to be in the center of the society of which it is a member. The center of a society represents a location that contains the society’s core objectives and values. Figure-5.5 depicts nations which can create and sustain competitive advantage and nations which cannot. A nation being in a society’s center means that the nation is able to attain its society’s core objectives and maintain its society core values; hence the nation holds a leadership position in this society. Additionally, a nation being in a society’s center is an indication that the nation is efficient in creating the desired value by its society’s stakeholders. Efficient means that a nation is able to achieve its target at a lower cost which include, but are not limited to, optimal allocation of the nation’s limited resources, utilizing competitive strategies, avoiding the production of undesired cultural products, and being incongruent with the
Creating and Sustaining Competitive Advantage in the Cultural Competition of Nations

society’s cultural values. Nations are at the centers of their societies can be called Leading Nations. Nations being a way from their societies’ centers could be seen as followers because while these followers attain some of their societies’ objectives and values, but they are not able to attain the core objectives and values of their societies, and/or they are not efficient. Those followers will survive and their performance is a function of how far are they from their societies’ centers. Thus, nations which are within the domain of their societies, but are not at their societies’ centers can be called Following Nations. The problem is with nations who are located outside the domain of any society.

Legend: (1) Leading Nations are nations which are at the centers of their societies. (2) Following Nations are nations which are within the domain of their societies, but are not in their societies' centers. (3) Vulnerable Nations are nations which are outside the domain of any society.
any society. These nations can be called Vulnerable Nations, and can be classified into two categories. The first category is Vulnerable Nations which are in a transit stage where they intentionally or unintentionally in the process of changing their membership from one society to another. The second category is Vulnerable Nations which are stuck in these positions because they lost their identity, they do not know from where they came, where they will go and why, and how they will go.

Limitations and Future Research: This essay offers its view of the cultural competition among nations and tests some hypotheses regarding the impact of the governing mode of businesses on the competitive advantage of nations. However, this essay is not without limitations that can be used as guidelines for future research. Theoretically, while this essay attempts to answer a few questions, many questions pertaining to the cultural competition of nations are left unanswered. For example, what are the other competitive strategies used by leading nations in their societies? How leaders of different societies interact with each other, and what are the strategies for effective interactions? Does each society contain a homogenous group of nations, or are there sub-societies within each society? If there are sub-societies with each society, how is the relationship between leaders of these sub-societies? What are the important factors that make nations to be vulnerable? Is the cost of incongruent objectives equal to the cost of incongruent values? If the two costs are not equal, what is the relative cost of incongruent objectives to incongruent values? For how long could a nation be in a vulnerable state? What are the effective strategies to transfer a nation from one society to another? Methodologically, this essay attempts to capture complex phenomena in a very
simple way; however, simplicity brings in some limitations. The major limitation of this essay is the sample size. The availability of information about the dominant governing mode of business (i.e., family, non-family, the state) across nations is the key limiting factor in the size of this sample. Some of the hypothesized interaction terms are not significant. Arnold (1982) states that a small sample size increases the likelihood of Type II error, which means increasing the likelihood of concluding that interaction terms are not significant. Also, control variables are not included in this essay’s analysis because of the limited sample size. Another limitation is data availability. Social immobility represents the optimal choice to be a key product of the traditional society. However, due to the unavailability of social immobility data across countries, income inequality is used instead of social immobility. An additional limitation is the reliability, validity, and timing of measures used. This essay depends on secondary datasets; hence, this essay has no control over the reliability, validity, and timing of datasets’ measures. For example, Marks et al. (2006) report that the efficient well-being of several countries were based on estimated data. Also, Arnold (1982) states that an unreliable independent variable increases the likelihood of Type II error. A further limitation is that the analysis of this essay focuses on differences across countries, assuming homogeneity within countries. However, differences do exist within countries. Certainly, the topic of cultural competition of nations is at an early stage of development. Hopefully, this essay creates a momentum to explore this topic from different perspectives.
5.6. References


5.7. Appendix

5.7.1. A Key Product of the Traditional Society

Becker’s (1979) views social immobility as a function of inequality among families across generations such as inequality in their social status, wealth, education, and occupation. He states that social immobility “measures the effect of a family on the well-being of its children” (Becker, 1979: 1182). He highlights that parental altruism is an example of that effect. On the other hand, income inequality represents one type of inequality among families, but within the same generation. It measures how income is distributed among a nation’s members at a specific time (Becker, 1979). While the two constructs, social immobility and income inequality, are different, there is a correlation between them. For example, Inkeles (2000) found a negative correlation between individualism and both income inequality (r = -0.71) and social immobility (r = -0.71). That means that nations with more individualism have less income inequality and more social mobility. Moreover, Solon (2004) states that “other things equal, an increase in earnings inequality might be expected to result in a higher intergenerational elasticity” (p. 45-46). Also, Andrews and Leigh (2007) found in their study of 16 countries that “sons who grew up in more unequal countries in the 1970s were less likely to have experienced

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26 Social mobility (or intergenerational mobility) refers to vertical changes in a family’s social position from one generation to another of the same family. If there is pure immobility in a nation, it means that each family and its generations would “stay in its social class for a theoretically infinite period of time” (Prais, 1955: p. 59).

27 Keep in mind that low social mobility indicates high inequality while high social mobility indicates low inequality.

28 Elasticity is the complement of the mobility. That means a higher intergenerational elasticity interprets to a lower intergenerational mobility, and a lower intergenerational elasticity interprets to a higher intergenerational mobility (Beller and Hout, 2006).
social mobility by 1999” (p. 10). Therefore, this essay uses income inequality as a representative of a key product of the traditional society, and the remainder of this appendix is devoted to the discussion of its measure.

While, there are multiple measures of income inequality such as the coefficient of variance, Theil index, and relative mean deviation, the “most commonly used” (Allison, 1978: 867), “most highly regarded” (Moran, 2003: 353), and “best single measure of inequality” (Morgan, 1962: 270) is the Gini index which was developed by the Italian statistician Corrado Gini in 1912 (Shahatee, 2006). Gini index is the Gini coefficient multiplied by 100. Mathematically, the Gini coefficient is the average of absolute differences between the incomes in a nation divided by twice the income mean. It ranges from zero to one, where zero means perfect equality (all members of a nation have equal income), and one means perfect inequality (all members of a nation have nothing except one member who has all the income) (Martins, 2007).

There are many sources of incomes for a nation on which the Gini index could be based. Deiningera and Squire (1998) state that valid Gini indices for inferences should be based on household surveys rather than using national account statistics. Moreover, Gini indices should be based on a representative sample of the nation’s population rather than dealing with specific aspects of the population (i.e., subnational) such as the rural, urban or taxpayer population. Also, Gini indices should be based on all income or expenditure sources rather than on partial sources (Deiningera and Squire, 1998). This essay uses the Gini database which was compiled by Dollar and Kraay (2002). Their Gini data represent

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29 Gini coefficient is a scale from zero to one while the Gini index is the Gini coefficient multiplied by 100. 30 For additional information on the theoretical meaning, calculation, and critics of the Gini index, readers may refer to the papers of Schutz (1951), Morgan (1962), Gastwirth (1972), Allison (1978), and Moran (2003).
the largest and highest quality database (Dollar and Kraay, 2002; You and Khagram, 2005). Their dataset included only “nationally representative surveys” (Dollar and Kraay, 2002: p. 201). However, a methodical issue regarding those nationally representative surveys is that they may not be comparable. They have differences in measures of welfare (income vs. expenditure), measures of income (gross vs. net), and recipient unit (individual vs. household). Dollar and Kraay (2002) were able to adjust the calculated Gini index for differences in the measures of welfare and measures of income. While Dollar and Kraay (2002) were not able to adjust for differences in the recipient unit because of missing information, You (2006) found that there is no significant difference between individual-based and household-based Gini indices. Thus, this essay uses the adjusted Gini dataset compiled by Dollar and Kraay (2002).

Dollar and Kraay’s (2002) dataset includes 953 Gini readings for 137 countries from the period of 1955 to 1999. According to the limiting factor ‘family business datasets’, this essay is restricted to 187 adjusted Gini readings for 39 countries from the period of 1956 to 1999. This essay uses the average adjusted Gini for each country for the period of 1956 to 1999. You and Khagram (2005) state that income inequality persists “across countries over time” (p. 141). They report that variations of income inequality within countries explain only 1 to 2% of the total variations, while variations of income inequality between countries explain more than 90% of the total variations. They add that taking the average of income inequality over a longer period would minimize its

31 Dollar and Kraay (2002) further filtered their database so that they only considered Gini readings in at least five years interval of each of the 137 countries. Thus, the total available readings of adjusted Gini for 137 countries are 418.
variations within countries because a major part of these variations is due to measurement errors (You and Khagram, 2005).

5.7.2. A Key Product of the Modern Society

The purchasing power parity of gross national income per capita (PPP-GNI-PC) is based on international accounts reported by each country and yearly assembled by World Bank for most of world countries. For example, the 2000-2006 databases of World Bank show the value of PPP-GNI-PC for more than 200 countries in each year. The gross national income (GNI) measures “the total domestic and foreign value added claimed by residents” of a country during a specific year in US dollars. The gross national income per capita (GNI-PC) is the total value added of each country divided by its midyear population. While GNI-PC measures the average income held by country residents in US dollars, the purchasing power of such income differs from one country to another. The purchasing power parity of gross national income per capita (PPP-GNI-PC) is GNI-PC converted into international dollars using purchasing power parity (PPP). The PPP conversion factors “take into account differences in the relative prices of goods and services” in world countries such that international dollars would have an equivalent purchasing power worldwide. Thus, the World Bank indicator of PPP-GNI-PC provides a better standardized measure of average wealth held by residents of each world country.


33 Source: (1) World Bank - Size of the Economy, 2006 World Development Indicators
5.7.3. A Key Product of the Postmodern Society

Both indices, corruption perceptions index (CPI) and control of corruption index (CCI), are considered as reliable measures of corruption across nations (You and Khagram, 2005). The CPI is a survey done by Transparency International Organization to rank countries according to “the degree to which corruption is perceived to exist among public officials and politicians”. It shows the opinions of business people and analysts in many countries, including local experts of the surveyed country.34 The CPI is a yearly survey for many world countries. It started in 1995 with 41 countries and included 179 countries in 2007.

The CCI is a corruption index developed by the World Bank Institute. It is a survey of individual and organizations that measures “the extent to which public power is exercised for private gain” (Kaufmann et al., 2007: p. 4). The CCI follows a normal distribution (i.e., Mean=0; Standard Deviation =1) so that all scores suppose to range from negative 2.5 to positive 2.5.35 It covers approximately 212 countries for 1996, 1998, 2000, and yearly from 2002 to 2006 (Kaufmann et al., 2007).

35 There are few cases that exceed the range (-2.5 to 2.5) where individual data sources show high or low scores (Kaufmann et al., 2007).
5.7.4. Nation’s Cultural Values

The World Values Survey (WVS) is considered “the largest investigation ever conducted of attitudes, values, and beliefs around the world” (Inglehart and Baker, 2000: p. 23). The WVS was carried out four times: 1981-1984, 1989-1993, 1994-1999, and 1999-2004, and includes 20, 43, 54, and 70 nations in each surveyed period respectively. The essay uses the latest survey for each nation which has data on the governing mode of its businesses. Accordingly, there will be data available for all the 41 nations of this study sample; and their survey years range from 1994 to 2002.

As discussed earlier, Inglehart developed two dimensions to distinguish among traditional, modern, and postmodern cultural values. These two dimensions are Traditional/Secular-Rational Dimension (TSR) and Survival/Self-Expression Dimension (SSE). While the ten items used in Inglehart’s two dimensions are able to explain more than 70% of total cross-cultural variation (Inglehart, 2006), there are critiques regarding the reliability and validity of those dimensions. For example, Haller (2002) states that Inglehart’s “scales are heterogeneous collections of items, that his classification of countries into ‘cultural zones’ is not very consistent” (p. 139). He adds that “no statistical measures, reliability coefficients or the like are presented to show if the scales are homogenous and reliable” (Haller, 2002: p. 148). In that regard, Van de Vliert (2007) says that scales could be designed from too homogeneous to too heterogeneous items.36

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36 Van de Vliert (2007: 170) explains that a homogeneous scale is the one that consists of similar items (e.g., never adds apples to oranges). He adds that a homogeneous scale should be ‘internally consistent and factorially independent’, and its validity should be built on ‘specificity rather than generality’. On the other hand, Van de Vliert (2007: 170) explains that a heterogeneous scale is the one that consists of different items (e.g., adding apples to oranges). He adds that the validity of a heterogeneous scale should be built on ‘generality rather than specificity’.
However, some scholars (e.g., psychologists) overemphasize the problem of heterogeneity while others (e.g., economists) overemphasize the problem of homogeneity (Van de Vliert, 2007). Dawis (1987) states that for “homogeneous scales, internal consistency reliability is appropriate; for heterogeneous scales, it is immediate test-retest or alternate-forms reliability” (p. 486). Inglehart (2006) asserts the robust of his two dimensions. He uses the two most recent waves of the WVS and compares the positions of some countries on those two dimensions. He found that there are 0.92 and 0.95 correlations for the positions of some countries on the TSR and SSE respectively and their corresponding positions five years later. Moreover, Schwartz (2006) develops a new measure, containing 3-dimensions, for measuring nation’s cultural values. He compares his 3-dimensions with Hofstede’s 5-dimensions, and Inglehart’s 2-dimensions, he states that the “most striking finding” is that all three approaches “identify such similar cultural regions around the world” while they differ in the cultural constructs, scale measurement, studied sample, and timing of data gathering (p. 177). Moreover, Van de Vliert (2007) reaffirms the validity of the Inglehart’s two dimensions.37

5.7.5. Governing Mode of Businesses

The definition and measurement of family governing mode in this essay needs a specific consideration. Controversy exists in the family business literature regarding what is considered a family business (Chua et al., 1999). For example, Chrisman et al. (2005) argue that family involvement (i.e., ownership, management, governance, or succession)

37 For more discussion about the validity of the Inglehart’s two dimensions, please refer to Appendix A and B in Van de Vliert (2007).
is necessary, but not sufficient to distinguish family business from non-family ones. They add that family involvement needs to create distinctive behaviors and outcomes in order to consider a business to be a family business. While this essay acknowledges that distinctive behaviors and outcomes should be the optimal criteria for defining the family businesses, this essay uses family involvement as a criterion to distinguish the population of family businesses from those of non-family businesses. The reason for not using distinctive behaviors is the practical difficulty in achieving such criteria in the wide scope of this study where it analyzes the impact of family firms in more than forty countries. Hence, the essay measures the existence of family business governance as the proportion of the business population in a country that has significant family involvement. For example, consider two countries where country “A” reveals that 70% of its businesses have family involvement, and country “B” reveals that 30% of its businesses have family involvement. The interpretation of this example, with respect to this essay’s definition, is that the importance of family business as a governance mode according to Chrisman’s et al. (2005) argument would be higher in country “A” than in country “B”.

The first dataset of governing modes of businesses, Morck et al. (2005), consists of 32 countries. However, there are three countries that do not have information about their countries’ cultural values; hence, the essay’s analysis is limited to 29 usable countries out of 32. Generally, Morck’s et al. (2005) dataset is built on the work of La Porta et al. (1999) in identifying the firms with family, non-family, and state involvement in 27 countries and the supplemental work by Claessens et al. (2000) in the remaining 5 countries. For example, La Porta et al. (1999) determine the percentage of family, non-
family, and state firms in the 27 countries using 10% and 20% shareholder ownership cutoffs of the countries’ large and medium corporations. Using the stock markets in each country, they selected two samples. The first sample is called the large corporations and includes the top 20 firms ranked by their common equity. The second sample is called the medium corporations and includes the smallest 10 firms, in the stock market, with a common equity of at least $500 million. For each sample, they identified the percentage of family, non-family, and state firms based on the substantial controllers (or ultimate owners) of each firm. Substantial controllers could be (1) a family, an individual with (or without) his/her relatives, (2) the state where it uses the firm to “pursue political objectives, while the public pays for the losses” (La Porta et al., 1999: p. 476).

They used two criteria in determining the substantial controllers in each firm: 10% and 20% shareholder ownership cutoffs. In the first criterion, the substantial controller of a firm is the shareholder who has direct or indirect voting rights in the firm that exceed 10%. In the second criterion, the ultimate owner of a firm is the shareholder who has direct or indirect voting rights in the firm that exceed 20%. If the firm has no substantial owners, the firm is a non-family governed entity where its professional managers are unregulated to an ultimate owner (La Porta et al., 1999). In other words, non-family governed firms are the ones with no family ownership concentration and no institution ownership concentration such as a business or governmental organization. La Porta’s et al. (1999) data mainly represents the ownership status of the sampled firms in the period of 1995-1996 with some exceptions.
The second dataset of governing modes of businesses is an international survey of the adult population done by the Global Entrepreneurship Monitor (GEM) research program that covered 41 countries in the years 2001, 2002, and 2003. However, there are three countries that do not have information about their countries’ cultural values; hence, the essay’s analysis is limited to 38 usable countries out of 41.

GEM, which started in 1998, is a yearly assessment of entrepreneurial activities across a number of world countries (Reynolds et al., 2005). Among the issues that GEM investigates is who finances the newly created firms worldwide. In the 2002 survey, informal investors (e.g., relatives, non-relatives) funded 99.962% of all newly created businesses while formal investors (e.g., classic venture capital) funded the remaining percentage ‘0.038%’ (Reynolds et al., 2004). In regards to monetary contributions, informal investors supplied 91.8% of the total invested fund in the newly created businesses while formal investors supplied 8.2% of that total invested fund on those businesses (Reynolds et al., 2004). These figures show the importance of informal investors in the creation of new firms which prompts Reynolds et al. (2004) to state that “if there was no informal investments there would be virtually no new ventures” (p. 58). Moreover, Astrachan et al. (2003) used this dataset and show that family investments range from 30-80% of all informal investments. Accordingly, this essay considers the size of family governing mode in a country by the proportion of the total investment made by people who are related to the entrepreneur; and the size of non-family governing mode in that country would be the complementary figure.

38 The essay is mostly depend on the 2002 survey that covered 32 countries of the sample of this study; two countries of the 2001 survey are used; four countries that first appear in the 2003 survey are added in order to have a total of 38 countries.
Finally, this essay separately uses both datasets (i.e., existing firms, newly created firms) in verifying the essay hypotheses. Using two ways of measuring the governing modes of countries’ businesses would help in testing the robustness of the essay findings because the two measures were created by two different methods (i.e., industry sources, adults’ survey), at two different times (i.e., 1996, 2002), and used two different populations (large and medium sized firms, small firms) at two different stages of life cycle (existing firms, newly created firms). Moreover, the two measures of business governing modes would assist in increasing the sample size. The first dataset has 29 usable countries while the second dataset has 38 usable countries. Using the two datasets would lead to verifying the essay hypotheses on a sample of 41 different countries.

5.7.6. Types of Moderation

This essay argues that there is no universally superior mode of governance, irrespective of the societal context (cf. Venkataman, 1989). Therefore, this essay uses the fit as moderation in developing and testing the hypotheses of this essay. The fit as moderation means that the impact of a predictor on a criterion varies across the different levels of a moderator (Venkataman, 1989). Arnold (1982) explains that there are two types of fit as moderation, the degree and form of moderation, which are conceptually and analytically distinct. Venkataman (1989: 423) states that a lack of correspondence between the concept of fit and its analytical method “weakens the link between theory building and theory testing (Blalock, 1965), which may be a major reason for inconsistent
research results.” Therefore, it is important to clarify the type of fit as moderation which is used in developing and testing this essay’s hypotheses.

Arnold (1982) explains that there are two aspects of the relationship between a criterion and predictor with respect to a moderator. The first aspect is the degree of the relationship where the correlation between a predictor and a criterion would be stronger (or weaker) under some conditions (i.e., a moderator). Analytically, the degree of moderation should be tested using subgroup analysis where the sample needs to be grouped according to a predictor (or a moderator in some cases); and a moderation effect exists if there is a significant difference in the correlation coefficient of a predictor and criterion across the sample groups (Venkataman, 1989). The second aspect is the form of the relationship where a criterion is determined by the interaction of both a predictor and moderator. In other words, the relationship between a predictor and criterion is conditional upon a moderator; the rate of change of a criterion is not a constant function of predictor, but rather varies with the value of a moderator (Arnold, 1982). Analytically, the form of moderation should be tested using moderated regression analysis where a moderation effect exists if the coefficient of an interaction term (i.e., the product of a predictor by a moderator) is significantly different from zero (Venkataman, 1989).

The key argument of this essay is that for a society to achieve a specific objective (i.e., operational, ultimate), the society needs to use a specific mode of governance (i.e., family, non-family, the state). In other words, if a society uses an improper mode of governance, the society would not achieve its objectives. Accordingly, the extent to which a society achieves its objective is a function of the prevalence of a specific mode
of governance in that society. Said differently, the operational or ultimate objective (i.e., a criterion) of a society is determined by the interaction of the society (i.e., a predictor) with a specific mode of governance (i.e., a moderator). Therefore, the form of moderation is the building block of this essay’s hypotheses; hence, moderated regression analysis should be used to test this essay’s hypotheses.

5.7.7. A Comparison among the Sample’s Countries

This subsection provides a comparison among the sample’s countries with respect to the study’s four dependent variables. The comparison is based on grouping the sample’s countries according to the predictor variable of this essay, cultural values. As mentioned in Appendix 5.7.6, the hypotheses of this study should be tested using moderated regression analysis. Therefore, this comparison is not intended to test this essay’s hypotheses. However, this comparison mostly intends to provide a description for the sample used, which may assist in explaining the findings of this essay.

This essay uses the Inglehart’s (2006) two cultural dimensions to evaluate whether the proportion of a mode of governing businesses in the presence of specific cultural values would impact the attainment of a specific objective which is associated with the specific cultural values. The first dimension is Traditional/ Secular Rational (TSR) and is used to distinguish among traditional and modern cultural values. The second dimension is Survival/ Self-Expression (SSE) and used to distinguish among non-postmodern and postmodern cultural values. Figure-5.6 shows how these two dimensions form four quadrants, in which the world’s nations could be grouped. The first quadrant
Figure-5.6
The Distribution of the Study’s Sample on the Cultural Values’ Map

(Q1) represents nations with traditional and non-postmodern cultural values. The second quadrant (Q2) represents nations with modern and non-postmodern cultural values. The third quadrant (Q3) represents nations with modern and postmodern cultural values. The fourth quadrant (Q4) represents nations with traditional and postmodern cultural values. The sample of this essay consists of 41 nations and is distributed on the four quadrants as follows: 9 nations in Q1, 6 nations in Q2, 19 nations in Q3, and 7 nations in Q4.

Using the Inglehart’s two dimensions to test the hypotheses of this study would incorporate combining two quadrants to represent specific cultural values. The TSR
dimension combines Q1 and Q4 to represent traditional cultural values, and combines Q2 and Q3 to represent modern cultural values. The SSE dimension combines Q1 and Q2 to represent non-postmodern cultural values, and combines Q3 and Q4 to represent postmodern cultural values. Table-5.8a, Table-5.8b, Table-5.8c, Table-5.8d, and Table-5.8e are one-way ANOVA, using Scheffe Post Hoc test. These tables demonstrate whether there are significant differences in the study’s four dependent variables (i.e., four objectives) with respect to these quadrants. Particularly, is there a difference within the two quadrants of specific cultural values with respect to their specific objective? Table-5.8a shows that income inequality (Gini), the operational objective of traditional nations, does not statistically differ in the two quadrants of traditional cultural values (Q1 and Q4). Table-5.8b shows that gross national income (GNI), the operational objective of modern society statistically differs in the two quadrants of modern cultural values (Q2 and Q3). Table-5.8c and Table-5.8d show that lack of corruption (CPI, CCI), the operational objective of postmodern nations, does not statistically differ in the two quadrants of postmodern cultural values (Q3 and Q4). Table-5.8e shows that efficient well-being (HPI), the ultimate objective of all nations, does not statistically differ among the four quadrants. In summary, the operational objective of each the traditional and postmodern society does not statistically differ in the two quadrants of its cultural values. Moreover, the ultimate objective of each the traditional, modern, and postmodern does not statistically differ in the two quadrants of its cultural values. However, the operational objective of the modern society (GNI) does statistically differ in the two quadrants (Q2
and Q3) of its cultural values, where Q2 represents ex-communist countries and Q3 represents Western, European countries (Inglehart and Baker, 2000).

Table-5.8a

One-Way ANOVA Test for Income Inequality (Gini)
Across the Four Quadrants of the Cultural Values’ Map

<table>
<thead>
<tr>
<th>Mean</th>
<th>SD</th>
<th>N</th>
<th>Q1</th>
<th>Q2</th>
<th>Q3</th>
<th>Q4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1</td>
<td>39.538</td>
<td>10.727</td>
<td>9</td>
<td>0.000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q2</td>
<td>29.308</td>
<td>7.517</td>
<td>5</td>
<td>10.230</td>
<td>0.000</td>
<td></td>
</tr>
<tr>
<td>Q3</td>
<td>31.644</td>
<td>3.353</td>
<td>18</td>
<td>7.894</td>
<td>2.336</td>
<td>0.000</td>
</tr>
<tr>
<td>Q4</td>
<td>39.347</td>
<td>8.347</td>
<td>7</td>
<td>0.191</td>
<td>10.039</td>
<td>7.703</td>
</tr>
</tbody>
</table>

*The absolute mean difference is significant at the 0.05 level, using Scheffe Post Hoc Test.

Table-5.8b

One-Way ANOVA Test for Gross National Income (GNI)
Across the Four Quadrants of the Cultural Values’ Map

<table>
<thead>
<tr>
<th>Mean</th>
<th>SD</th>
<th>N</th>
<th>Q1</th>
<th>Q2</th>
<th>Q3</th>
<th>Q4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1</td>
<td>10,105</td>
<td>8,503</td>
<td>9</td>
<td>0.000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q2</td>
<td>15,628</td>
<td>4,963</td>
<td>5</td>
<td>5.523</td>
<td>0.000</td>
<td></td>
</tr>
<tr>
<td>Q3</td>
<td>29,744</td>
<td>4,432</td>
<td>19</td>
<td>19.639*</td>
<td>14.115*</td>
<td>0.000</td>
</tr>
<tr>
<td>Q4</td>
<td>20,333</td>
<td>13.693</td>
<td>7</td>
<td>10.228</td>
<td>4.704</td>
<td>9.411</td>
</tr>
</tbody>
</table>

*The absolute mean difference is significant at the 0.05 level, using Scheffe Post Hoc Test.

Table-5.8c

One-Way ANOVA Test for Lack of Corruption (CPI)
Across the Four Quadrants of the Cultural Values’ Map

<table>
<thead>
<tr>
<th>Mean</th>
<th>SD</th>
<th>N</th>
<th>Q1</th>
<th>Q2</th>
<th>Q3</th>
<th>Q4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1</td>
<td>4.193</td>
<td>2.358</td>
<td>9</td>
<td>0.000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q2</td>
<td>4.603</td>
<td>1.313</td>
<td>6</td>
<td>0.410</td>
<td>0.000</td>
<td></td>
</tr>
<tr>
<td>Q3</td>
<td>8.003</td>
<td>1.528</td>
<td>19</td>
<td>3.810*</td>
<td>3.400*</td>
<td>0.000</td>
</tr>
<tr>
<td>Q4</td>
<td>5.634</td>
<td>2.653</td>
<td>7</td>
<td>1.441</td>
<td>1.031</td>
<td>2.369</td>
</tr>
</tbody>
</table>

*The absolute mean difference is significant at the 0.05 level, using Scheffe Post Hoc Test.
Table-5.8d

One-Way ANOVA Test for Lack of Corruption (CCI)
Across the Four Quadrants of the Cultural Values’ Map

<table>
<thead>
<tr>
<th></th>
<th>Mean</th>
<th>SD</th>
<th>N</th>
<th>Q1</th>
<th>Q2</th>
<th>Q3</th>
<th>Q4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1</td>
<td>0.159</td>
<td>1.059</td>
<td>9</td>
<td>0.000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q2</td>
<td>0.290</td>
<td>0.598</td>
<td>6</td>
<td>0.131</td>
<td>0.000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q3</td>
<td>1.758</td>
<td>0.617</td>
<td>19</td>
<td>1.599*</td>
<td>1.468*</td>
<td>0.000</td>
<td></td>
</tr>
<tr>
<td>Q4</td>
<td>0.677</td>
<td>1.239</td>
<td>7</td>
<td>0.518</td>
<td>0.387</td>
<td>1.081</td>
<td>0.000</td>
</tr>
</tbody>
</table>

The absolute mean difference is significant at the 0.05 level, using Scheffe Post Hoc Test.

Table-5.8e

One-Way ANOVA Test for Efficient Well-Being (HPI)
Across the Four Quadrants of the Cultural Values’ Map

<table>
<thead>
<tr>
<th></th>
<th>Mean</th>
<th>SD</th>
<th>N</th>
<th>Q1</th>
<th>Q2</th>
<th>Q3</th>
<th>Q4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1</td>
<td>42.233</td>
<td>11.920</td>
<td>9</td>
<td>0.000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q2</td>
<td>38.767</td>
<td>8.185</td>
<td>6</td>
<td>3.467</td>
<td>0.000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q3</td>
<td>41.895</td>
<td>4.590</td>
<td>19</td>
<td>0.339</td>
<td>3.128</td>
<td>0.000</td>
<td></td>
</tr>
<tr>
<td>Q4</td>
<td>46.200</td>
<td>10.384</td>
<td>7</td>
<td>3.967</td>
<td>7.433</td>
<td>4.305</td>
<td>0.000</td>
</tr>
</tbody>
</table>

The absolute mean difference is significant at the 0.05 level, using Scheffe Post Hoc Test.
### Table-5.9

Average Income Inequality (Gini) from 1956 to 1999

<table>
<thead>
<tr>
<th>#</th>
<th>Country</th>
<th>Average Gini</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Argentina</td>
<td>37.95</td>
</tr>
<tr>
<td>2</td>
<td>Australia</td>
<td>32.26</td>
</tr>
<tr>
<td>3</td>
<td>Austria</td>
<td>28.94</td>
</tr>
<tr>
<td>4</td>
<td>Belgium</td>
<td>27.13</td>
</tr>
<tr>
<td>5</td>
<td>Brazil</td>
<td>53.69</td>
</tr>
<tr>
<td>6</td>
<td>Canada</td>
<td>28.11</td>
</tr>
<tr>
<td>7</td>
<td>Chile</td>
<td>48.46</td>
</tr>
<tr>
<td>8</td>
<td>Croatia *</td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>Denmark</td>
<td>32.36</td>
</tr>
<tr>
<td>10</td>
<td>Finland</td>
<td>30.01</td>
</tr>
<tr>
<td>11</td>
<td>France</td>
<td>37.70</td>
</tr>
<tr>
<td>12</td>
<td>Germany</td>
<td>28.89</td>
</tr>
<tr>
<td>13</td>
<td>Greece</td>
<td>35.43</td>
</tr>
<tr>
<td>14</td>
<td>Hungary</td>
<td>23.00</td>
</tr>
<tr>
<td>15</td>
<td>Iceland *</td>
<td></td>
</tr>
<tr>
<td>16</td>
<td>India</td>
<td>33.61</td>
</tr>
<tr>
<td>17</td>
<td>Indonesia</td>
<td>33.90</td>
</tr>
<tr>
<td>18</td>
<td>Ireland</td>
<td>36.31</td>
</tr>
<tr>
<td>19</td>
<td>Israel</td>
<td>35.53</td>
</tr>
<tr>
<td>20</td>
<td>Italy</td>
<td>36.02</td>
</tr>
<tr>
<td>21</td>
<td>Japan</td>
<td>30.57</td>
</tr>
<tr>
<td>22</td>
<td>Korea, Rep.</td>
<td>30.74</td>
</tr>
<tr>
<td>23</td>
<td>Mexico</td>
<td>51.60</td>
</tr>
<tr>
<td>24</td>
<td>Netherlands</td>
<td>30.46</td>
</tr>
<tr>
<td>25</td>
<td>New Zealand</td>
<td>29.11</td>
</tr>
<tr>
<td>26</td>
<td>Norway</td>
<td>33.22</td>
</tr>
<tr>
<td>27</td>
<td>Philippines</td>
<td>44.51</td>
</tr>
<tr>
<td>28</td>
<td>Poland</td>
<td>24.20</td>
</tr>
<tr>
<td>29</td>
<td>Portugal</td>
<td>36.43</td>
</tr>
<tr>
<td>30</td>
<td>Russian Federation</td>
<td>40.64</td>
</tr>
<tr>
<td>31</td>
<td>Singapore</td>
<td>36.85</td>
</tr>
<tr>
<td>32</td>
<td>Slovenia</td>
<td>21.90</td>
</tr>
<tr>
<td>33</td>
<td>South Africa</td>
<td>58.25</td>
</tr>
<tr>
<td>34</td>
<td>Spain</td>
<td>28.78</td>
</tr>
<tr>
<td>35</td>
<td>Sweden</td>
<td>30.69</td>
</tr>
<tr>
<td>36</td>
<td>Switzerland</td>
<td>36.05</td>
</tr>
<tr>
<td>37</td>
<td>Taiwan, China</td>
<td>30.26</td>
</tr>
<tr>
<td>38</td>
<td>Uganda</td>
<td>34.40</td>
</tr>
<tr>
<td>39</td>
<td>United Kingdom</td>
<td>26.44</td>
</tr>
<tr>
<td>40</td>
<td>United States</td>
<td>32.55</td>
</tr>
<tr>
<td>41</td>
<td>Venezuela</td>
<td>40.45</td>
</tr>
</tbody>
</table>

* Missing value
### Table-5.10

**Gross National Income (GNI) per Capita 2002-2006 (PPP in International $)**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Argentina</td>
<td>10,190</td>
<td>10,920</td>
<td>12,460</td>
<td>13,800</td>
<td>15,390</td>
</tr>
<tr>
<td>2</td>
<td>Australia</td>
<td>27,440</td>
<td>28,290</td>
<td>29,200</td>
<td>30,590</td>
<td>34,060</td>
</tr>
<tr>
<td>3</td>
<td>Austria</td>
<td>28,910</td>
<td>29,610</td>
<td>31,790</td>
<td>33,280</td>
<td>35,130</td>
</tr>
<tr>
<td>4</td>
<td>Belgium</td>
<td>28,130</td>
<td>28,930</td>
<td>31,360</td>
<td>32,470</td>
<td>35,090</td>
</tr>
<tr>
<td>5</td>
<td>Brazil</td>
<td>7,450</td>
<td>7,480</td>
<td>8,020</td>
<td>8,140</td>
<td>8,800</td>
</tr>
<tr>
<td>6</td>
<td>Canada</td>
<td>28,930</td>
<td>29,740</td>
<td>30,660</td>
<td>32,770</td>
<td>34,610</td>
</tr>
<tr>
<td>7</td>
<td>Chile</td>
<td>9,420</td>
<td>9,810</td>
<td>10,500</td>
<td>10,920</td>
<td>11,270</td>
</tr>
<tr>
<td>8</td>
<td>Croatia</td>
<td>10,000</td>
<td>10,710</td>
<td>11,670</td>
<td>12,620</td>
<td>13,680</td>
</tr>
<tr>
<td>9</td>
<td>Denmark</td>
<td>30,600</td>
<td>31,210</td>
<td>31,550</td>
<td>34,030</td>
<td>36,460</td>
</tr>
<tr>
<td>10</td>
<td>Finland</td>
<td>26,160</td>
<td>27,100</td>
<td>29,560</td>
<td>32,110</td>
<td>35,150</td>
</tr>
<tr>
<td>11</td>
<td>France</td>
<td>27,040</td>
<td>27,460</td>
<td>29,320</td>
<td>30,540</td>
<td>33,740</td>
</tr>
<tr>
<td>12</td>
<td>Germany</td>
<td>26,980</td>
<td>27,460</td>
<td>27,950</td>
<td>29,510</td>
<td>31,830</td>
</tr>
<tr>
<td>13</td>
<td>Greece</td>
<td>18,770</td>
<td>19,920</td>
<td>22,000</td>
<td>22,950</td>
<td>24,560</td>
</tr>
<tr>
<td>14</td>
<td>Hungary</td>
<td>13,070</td>
<td>13,780</td>
<td>15,620</td>
<td>16,780</td>
<td>18,290</td>
</tr>
<tr>
<td>15</td>
<td>Iceland</td>
<td>29,240</td>
<td>30,140</td>
<td>32,360</td>
<td>35,490</td>
<td>36,560</td>
</tr>
<tr>
<td>16</td>
<td>India</td>
<td>2,650</td>
<td>2,880</td>
<td>3,100</td>
<td>3,430</td>
<td>3,800</td>
</tr>
<tr>
<td>17</td>
<td>Indonesia</td>
<td>3,070</td>
<td>3,210</td>
<td>3,460</td>
<td>3,720</td>
<td>3,950</td>
</tr>
<tr>
<td>18</td>
<td>Ireland</td>
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<td>30,450</td>
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<td>32,580</td>
<td>35,900</td>
</tr>
<tr>
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<td>Israel</td>
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<td>19,200</td>
<td>23,510</td>
<td>25,470</td>
<td>25,480</td>
</tr>
<tr>
<td>20</td>
<td>Italy</td>
<td>26,170</td>
<td>26,760</td>
<td>27,860</td>
<td>28,440</td>
<td>30,550</td>
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Small Family and Non-Family Firms from 2001 to 2003

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CHAPTER 6
DISSERTATION CONCLUSION

6.1. Introduction

This dissertation, “A cultural perspective on the impact of family and society on the competitive advantage of organizations and nations”, intends to explain the competitive advantage of organizations and nations taking in consideration the culture of family and society. Central to such an explanation is the development of a theory of the family firm. A family firm is viewed as the interaction of the family (the social entity of the family firm) with the firm (the economic entity of the family firm). The heart of strategic management research is explaining and predicting the superior performance of business firms (Porter, 1980) and nations (Porter, 1990). In the case of family business, the interaction of the family as a social entity and the business as an economic entity is a source of distinctiveness; strategy researchers believe that such interaction would impact the performance of firms (e.g., Anderson and Reeb, 2003) and nations (e.g., Morck and Yeung, 2004). Thus, explaining why and how family involvement influences firm and nation performance are within the core of the strategic management domain.

Chua et al. (1999) define a family firm as “a business governed and/or managed with the intention to shape and pursue the vision of the business held by a dominant
coalition controlled by members of the same family or a small number of families in a manner that is potentially sustainable across generations of the family or families” (p. 25). Reviewing the literature of family business reveals two points. The first point is that researchers attempt to develop a theory of the family firm using mainly firm-level theories such as agency theory (e.g., Schulze et al., 2001) and resource based view (e.g., Habbershon and Williams, 1999). This approach falls short in providing a sufficient explanation for the behavior and performance of family firms because it does not incorporate theories of the family. The second point is that there is a dearth of explanation for the phenomenon of family and non-family firms at the national level (e.g., Sharma, 2004; Carney, 2005; Chang et al., 2008). Therefore, this dissertation has two main objectives. The first objective is to provide a better explanation for the phenomenon of family firms at an organizational level using theories of the family and theories of the firm simultaneously. The second objective is to develop a theory of the family firm at the national level. The dissertation’s approach to achieve its two objectives is to use family culture and society culture as bases and frames for building a theory of the family firm at both an organizational and national level.

6.2. A Theory of the Family Firm at an Organizational Level

The first two essays of this dissertation deal with developing a theory of the family firm at the organizational level. As mentioned earlier, the family firm is the interaction of the family and the firm. Explaining the family firm phenomena requires incorporating theories of the firm into theories of the family. Thus, the first essay
attempts to develop a theory of the family in such a way that it forms a basis for a theory of the firm. Then, the second essay uses some theories of the firm to complete the construction started in the first essay. Thus, the outcome of the first two-essays is to have a more rigorously theory of the family firm by using theories of the family and theories of the firm simultaneously.

6.2.1. Building a Theory of the Family

Chrisman et al. (2005) explained that the development of a theory of the family firm requires identifying the distinctive nature of family firms and how it forms by family involvement. Researchers identify two critical distinctions of family firms: (1) the presence of altruism and (2) the presence of non-economic objectives, both of which either do not exist, or are much less prevalent in non-family firms (Chrisman et al., 2005). Strategy researchers believe that such distinctiveness impact the performance of family firms. This essay argues that understanding this distinctiveness and hence the performance of family firms requires understanding the family culture that creates such distinctness. The first essay proposes that family marriage rationales and love styles play major roles in shaping the family culture that ultimately impacts family firm performance. In this essay, marriage rationales represent the objectives for creating the family, whether the objective is self-interest (economic objective) or other-interest (non-economic objective). Marriage rationales are determined by the degree of formality of a marriage (e.g., formal or informal union). The essay argues that family firms are likely a
result of families focusing on other-interest objectives, and non-family firms are likely a result of families focusing on self-interest objectives.

On the other hand, love styles represent the founders’ values embedded in the family. They characterize the orientation of relationships of one family founder to another. The essay argues that altruism, a sacrifice by one family member for the welfare of another, is shaped by the values (i.e., love styles) embedded in the family. This essay uses the color typology of love (Lee, 1973) – as a proxy for altruism type – to distinguish among six types of household cultures: one for households which may form or work in non-family firms and five for households which may form family firms. The essay argues that partners who endorse Storge love focus on economic benefits, which makes them more inclined toward non-family firms. Moreover, the essay argues that parents who endorse Eros, Mania, Pragma, Ludus, or Agape love attain non-economic benefits as well as economic benefits, which make them more inclined toward forming family firms. Moreover, the essay shows that Eros and Mania love represent reciprocal love that induces reciprocal altruism among family members. Also, Pragma, Ludus, and Agape love represent asymmetric love that induces asymmetric altruism among family members. The key contribution of this essay is to provide a theoretical model about family culture and its relationship to family behavior and performance to be used in a later step in building a theory of the family firm.
6.2.2. Linking a Theory of the Firm to a Theory of the Family

This essay argues that a family firm and hence its performance are functions of the family culture (i.e., marriage rational, love style) that is involved in that firm. Thus, this essay links the theory of the family developed in the previous essay to selected theories of the firm (i.e., transaction cost theory, agency theory). Specifically, this essay performs two links. The first link is between marriage rationales and transactions cost theory. It is concluded that family firms are likely a result of families that prefer to be formally engaged, and non-family firms are likely a result of individuals prefer to be informally engaged. Moreover, the rationales for forming family and non-family firms resemble the ones for engaging in formal and informal marriages, respectively. Family firms are formed in order to (1) minimize their transaction costs when the business contains some vulnerable attributes that agents could take advantage of, and/or (2) attain the non-economic objectives of the family. The members of those family firms are seen as motivated by family values, such as other-interests and collectivism. However, non-family firms are formed in order to attain pure economic objectives when the business contains invulnerable attributes that agents unable to take advantage of. The members of those non-family firms are seen as motivated by market values, such as self-interests and individualism.

The second link is between love styles and agency theory. The previous link dealt with the rationales of forming efficient family and non-family firms; however, the real world includes efficient as well as non-efficient firms. Efficient is a term used in this essay to refer to firms with the lowest possible governance costs. Thus, this link extends
the above rationales to include non-efficient family and non-family firms. The argument is that altruism style and agency costs influence the attainment level of economic and non-economic gains. This essay argues that love styles in families could be used as proxies for altruism styles in firms. Accordingly, the performance of a firm (i.e., family firm, non-family firm) is a function of the altruism style (i.e., self-interest altruism, other-interest altruism) and agency costs in that firm.

This link shows that family firms could be classified into five types according to altruism styles. Eros and Mania family firms are efficient family firms because they have both zero agency costs and the lowest altruism costs. While Eros and Mania family firms are characterized by the existence of reciprocal altruism among their family members, Eros family firms are formed when firm agents possessing low bargaining power and Mania family firms are formed when firm agents possessing high bargaining power. The remaining three types of family firms are non-efficient because their altruism costs are higher than the possible minimum cost. These three types are Pragma, Ludus and Agape family firms. All the three types are characterized by the existence of asymmetric altruism, where Agape family firms attain its non-economic objectives at a higher cost than Pragma and Ludus family firms, and Ludus family firms attain non-economic objectives at a higher cost than Pragma family firms. Moreover, Pragma, and Ludus, family firms are formed with firms’ agents possessing high bargaining power while Agape family firms could be formed when firm agents possessing either low or high bargaining power.
This link shows also that non-family firms could be classified into five types according to agency costs. Storge non-family firms are efficient non-family firms and characterized by the existence of self-interest altruism and zero agency costs. Storge non-family firms could form with low or high agent’s power. The economic performance of Storge non-family firms formed with low agent’s power is higher than that of Storge non-family firms formed with high agent’s power. While both types of Storge non-family firms have no agency costs, the difference in their performance is due to an increase in transaction costs for the firm that formed with high agent’s power. The remaining three types of non-family firms are non-efficient due to increases in agency costs.

6.3. A Theory of the Family Firm at a National Level

The last two essays of this dissertation deal with developing a theory of the family firm at the national level. A key question at this level is how and why a family mode of governing businesses impacts nation performance. This dissertation uses a cultural perspective and answers this question in the last two-essays. The third essay attempts to establish a framework for the relationship between societal culture and the culture of family and non-family firms. The fourth essay builds on the previous essay and explains the cultural competition among nations and the role of mode of governing businesses on achieving a nation’s competitive advantage.
6.3.1. Linking a Theory of the Family Firm to a Theory of the Society

The purpose of this essay is to elaborate on societal situations in which family and non-family modes of governing businesses are (or are not) appropriate economic systems to achieve their societies’ objectives and preserve their values. The key argument of this link is that incongruence between the culture of a firm (i.e., family or non-family firm) and the culture of the society that the firm operates in (i.e., traditional, modern, or postmodern) will increase the costs of achieving the ultimate objectives of the society (i.e., satisfaction, happiness). Efficiency in achieving people’s objectives is a very important concept because people are living on a planet with limited resources. People are supposed to be rational creatures; they select the form of business (i.e., family or non-family) that would reduce their costs. This essay identifies two types of costs that result from cultural incongruence: the cost of incongruent values and the cost of incongruent objectives. Thus, this essay argues that people select the form of business that is in harmony with the values and objectives of their societies.

Family firms are distinguished from non-family firms by their inclusion of non-economic objectives and the presence of collectivistic value among its members. Thus, family firms could be seen as more appropriate than non-family firms in societies whose non-economic objectives have a higher priority than economic objectives and whose members prefer collectivistic over individualistic values. This essay argues that family firms closely fit traditional and postmodern societies. The traditional society prioritizes its social order over individual economic accumulation. Its social order is based on the achievements of families rather than the achievements of individuals. While economic
objectives are important for their survival and growth, traditional people need to achieve these objectives without disturbing their society’s social system. One possible way is through familial economic accumulation. Accordingly, family businesses would help in achieving the economic objectives of the traditional society and would preserve the social status of the society’s families. Similarly, the postmodern society shows a decline of individualistic values and a rise of collectivistic values. Post-modernized people need others to identify with rather than living for the self. Accordingly, this essay argues that non-family firms will not be appropriate for the postmodern society because non-family firms are characterized by the dominance of individualistic values. Family firms are characterized by the prevalence of collectivistic values among its members which make them more compatible with the culture of the postmodern society.

On the other hand, non-family firms are firms that exclusively focus on economic objectives. These firms are characterized by the prevalence of individualistic values among their members. The modern society is more interested in economic progress than the other two societies. To achieve its economic objectives, the modern society transfers the people’s focus from others (i.e., superior power, family) to the self. Accordingly, the modern society is characterized by the dominance of the individualistic values that support individual economic accumulation and entrepreneurial activities. Therefore, non-family firms, which prioritize economic objectives over non-economic objectives, could be seen as more appropriate than family firms in the modern society where economic progress is its first priority.
6.3.2. Building a Theory of the Competitive Advantage of Nations

This essay argues that competition among nations is cultural in nature. It supports the view that competition is more likely among nations of similar cultures than nations of different cultures; because nations with similar culture produce similar products and use similar resources. A nation to achieve a superior performance in the cultural domain which is selected by its people requires implementing a competitive strategy. Porter (1980) explains a competitive strategy as the strategy that is dictated by the domain of competition. This essay defines the competitive strategy as (1) the strategy that generates the cultural outcomes desired by the selected society, (2) does not produce undesired cultural outcomes by the selected society, and (3) its cultural values match the cultural values of the selected society. Accordingly, the essay argues and empirically tests the propositions that view modes of governing businesses, including the family one, as alternative competitive strategies used by nations in their cultural competition. This essay focuses on three types of cultural competitions, traditional, modern, and postmodern.

In traditional cultural competition, this essay demonstrates that the traditional society emphasizes the attainment of non-economic objectives over economic objectives. Specifically, the traditional society attempts to maintain the social status of its families without regard to its economic objectives. Moreover, the people of the traditional society prefer collectivistic over individualistic values. This essay finds that the family mode of governing businesses is able to achieve traditional nations’ operational objective (e.g., income inequality) and ultimate objective (efficient well-being).
In modern cultural competition, this essay shows that the modern society emphasizes the attainment of economic objectives. Particularly, the modern society attempts to attain economic progress even if it goes against human progress or protecting the environment. Furthermore, the people of the modern society prefer individualistic over collectivistic values. This essay finds that the non-family mode of governing businesses is able to achieve modern nations’ ultimate objective (efficient well-being), but, is not able to achieve modern nations’ operational objective (e.g., gross national income). This essay expects that the current non-family firms have severe agency problems. However, even if non-family firms are not able to achieve the operational objective of modern societies for one reason or another, non-family firms are able to achieve the ultimate objective of modern societies because the values of family firms match the values of modern societies.

In postmodern cultural competition, this essay shows that the postmodern society emphasizes the attainment of non-economic objectives over economic objectives. Specifically, the postmodern society attempts to support the self-expression of its people after it has achieved most of its economic objectives. Moreover, the people of the postmodern society prefer collectivistic over individualistic values. This essay argues that both the family and state modes of governing businesses are able to achieve the main objective of the postmodern society and are congruent with the collectivistic values of the postmodern society, too. This essay finds that neither the family nor the state mode is able to achieve the operational objective (e.g., lack of corruption) of postmodern nations. One explanation is that this variable ‘lack of corruption’ may not be the optimal
operational objective for this society. Moreover, this essay finds that the family mode is not significant in attaining the ultimate objective (e.g., efficient well-being) of the postmodern society while the state mode is significant in doing that. There are two possible interpretations for these findings. The first interpretation is that the state mode is the only mode that fits the culture of the postmodern society. The second interpretation is that at the current time where the postmodern society is evolving, it is too early to judge the suitability of the family mode of governing businesses for the postmodern society. Therefore, future empirical research should investigate the possibility that the family mode of governance businesses may fit the postmodern society at a later stage of evolution.

6.4. Implications and Future Research

The following are the important implications of this dissertation, taking the four essays as a whole:

(1) Culture is a very important concept in strategy formulation and implementation. Specifically, the cultural fit among systems of different levels (i.e., the family, firm, nation, and society) is a key factor in creating and sustaining a competitive advantage. This dissertation posits that such an implication is not given enough attention. By stressing such an implication in this dissertation through building and testing a theory of the cultural fit among systems of different levels, decision makers, researchers, and practitioners will be able to enhance their roles.
(2) From a strategic perspective, there is no superiority for one culture over another. The ultimate objective for all people is the same, efficient well-being, whether they endorse one culture or another.

(3) A culture should be taken as a whole, its advantages with disadvantages. Enhancing the advantages and/or minimizing the disadvantages of a culture should be done within the components of the culture.

(4) The objective of attaining the best traits, by blending different cultures, seems to be infeasible. Each culture is distinct from and mostly contradicts other cultures. Thus, it is expected that the outcome of blending different cultures may create chaos or lead to the collection of unpleasant traits from each blended culture.

In sum, decision makers should consider these implications if they are really interested in creating and sustaining a competitive advantage for their organizations (i.e., social, economic, political) or nations. Also, these implications would be helpful for researchers and practitioners in explaining their phenomena of interest and providing proper consultations for their clients, respectively. For example, attempting to promote strong family ties and high economic achievement simultaneously is not feasible because of contradiction in cultural values.

The following are suggested directions for future research, taking the four essays as a whole:

(1) This dissertation develops theoretical models for systems of different levels in order to link them. While this dissertation is interested in testing the fit among these systems, it does not test the constructed models for each system alone. For example,
the theoretical models for types of families and firms are not tested. As with every theoretical model, verifying its propositions is essential in confirming or modifying the relationships among its proposed concepts.

(2) Some of the discussed concepts in this dissertation, such as the economic and non-economic objectives of families and family firms, do not have measurement scales. Thus, developing measurement scales for these concepts will help in advancing our knowledge of these phenomena.

(3) There is a shortage in cross-nation data, such as social mobility, marriage types, love styles, economic and non-economic objectives, and modes of governing businesses. Collecting these data and at regular bases will enhance our knowledge of the discussed systems in this dissertation.

(4) This dissertation addresses a few research questions about these systems and the relationships among them. However, many questions are left for future research. For example, do the family differences among nations influence their probability of forming family firms, and how do these differences influence the performance of the firms formed? How can agency costs of family firms that results of pursuing non-economic objectives which are not within the owners’ goals of family firms be included in the dissertation proposed model of family and non-family firms? How can state firms be included in the dissertation proposed model of family and non-family firms? Is the cost of incongruent objectives equal to the cost of incongruent values? What are the other competitive strategies used by leading nations in their
societies? What are the effective strategies to transfer a nation from one society to another?

In sum, the topic of why and how the culture of family and society impacts the competitive advantage of organizations and nations is at an early stage of development. Hopefully, this dissertation creates an interest to explore this topic from different perspectives.

6.5. Conclusion

The purpose of this dissertation is to develop a theory of the family firm from a strategic management perspective at both an organizational and national level. It consists of four essays, and each group of two essays focuses on one level of analysis. The first two essays of this dissertation deal with developing a theory of the family firm at the organizational level. The first essay shows how family love and marriage culture shapes altruism and objectives among family members. The second essay shows how the altruism among family members influences the behavior and performance of the family firm. The last two essays of this dissertation deal with developing a theory of the family firm at the national level. The third essay shows how the family and non-family firms fit into the culture of traditional, modern, and postmodern societies. The fourth essay is an empirical test of how and why modes of governing firms (e.g., family, non-family, the state) impact the competitive advantage of nations. It shows that the family mode of governance is the most appropriate mode for nations competing in traditional societies, the non-family mode of governance is the most appropriate mode for nations competing
in modern societies, and the state mode of governance is the most appropriate mode for nations competing in postmodern societies.
6.6. References


