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Family Firms' Professionalization: Institutional Theory and Resource-Based View Perspectives

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Our article examines the assumption that family firms are an inferior organizational form as compared to non-family firms by analyzing family firms' professionalization in developed and developing economies. We use institutional theory and resource-based view frameworks to analyze how environmental factors may affect the antecedents and consequences of family firms' professionalization. We put forth three propositions concerning family firms' professionalization and the relationship to competitive advantages in developing and developed economies.

In developed economies, due to the pressure of social conformity, a family firm is more likely to professionalize, but professionalization is not likely to be the driver of competitive advantages because non-family firms are more likely to professionalize and it would not be rare and valuable. In developing economies, employment of professional managers and adoption of professional norms become costly, but valuable. Therefore, we expect that family firms' professionalization is more likely to become the source of competitive advantages in an institutional context of developing economies rather than developed economies. We put forth four suggestions based on our propositions for future research. Implications for practice and those advising family firms, particularly small family firms, in developed and developing economies are discussed.

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, Chrisman & Sharma, 1999, p. 25), family business is the dominant form of business organization around the world (Aldrich & Cliff, 2003; Chrisman, Chua, & Sharma, 2005a; Sharma, 2004; Morck & Yeung, 2003). Up to 80% of worldwide enterprises are family-owned (Gersick, Davis, Hampton, & Lansberg, 1997) and most global economies are controlled by a limited number of wealthy families (La Porta, Lopez-de-Silanes, & Shleifer, 1999). Studies also show that 44% of publicly-held corporations in major European countries (Facccio & Lang, 2002) and up to 33% of the S&P 500 in the U.S. (Anderson & Reeb, 2003) are controlled and/or managed by families.

Although family firms exhibit family involvement in ownership and management, one important decision many family firms have to make is related to professionalization (Chua, Chrisman & Bergiel, 2009; Lee, Lim, & Lim, 2003; Stewart & Hitt, 2012). In this article, we conceptualize professionalization as a family firm's behaviors of adopting professional norms (Hofer & Charan, 1984). There currently exist two, seemingly contrary, perspectives on the antecedents and consequences of professionalization in family firms. On the one hand, scholars in developed economies tend to believe that due to the preservation of socio-emotional wealth (Gómez-Mejía, Núñez-Nickel, & Gutierrez, 2001; Gómez-Mejía, Larraza-Kintana, & Makri, 2003; Gómez-Mejía, Haynes, Núñez-Nickel, Jacobson, & Moyano-Fuentes, 2007; Gómez-Mejía, Makri, & Larraza-Kintana, 2010) and the avoidance of potential principal-agent cost (Chua et al., 2009), family governance exhibits relatively less professionalization, and professionalization often brings in undesirable results such as the rise of agency costs (Chua et al., 2009) and the loss of family socio-emotional wealth (Pearson, Carr, & Shaw, 2008). On the other hand, scholars in developing

economies tend to endorse family firm professionalization because the majority of market players in developing economies are non-professionalized family firms. Thereby, professionalization may yield first-mover advantage and above-average-returns that no other approaches can match and substitute.

Using an institutional theory and resource-based framework, we intend to reconcile these two perspectives by claiming that differences in institutional context, such as developed versus developing economies, may impact both antecedents and consequences of professionalization in family firms. Institutional theory suggests that a family firm's tendency to professionalize is initially impacted by the prevalence of professional norms in its environment (DiMaggio & Powell, 1983; Oliver, 1991; Scott, 1995). A family firm is less likely to professionalize in developing economies than developed economies where the family norm is less prevalent and professional norm is more prevalent (Stewart & Hitt, 2012).

One the other hand, the central question addressed by the resource-based view (RBV) concerns how heterogeneity of organizational resources may differentiate firms from their competitors (Barney, 1991; Penrose, 1959). Thus, the question of whether professionalization can lead to competitive advantages in family firms is contingent upon the value, rarity, imitability, and substitutability of professional norms under a specific institutional context (Barney, 1991). Although family firms are prone to professionalize to a greater extent in developed economies than developing economies as predicted by the institutional theory, professionalized family firms are less likely to obtain competitive advantages because non-family firms are also likely to be professionalized and hence professionalization would not be rare and valuable. In contrast, family norms, such as family social capital and family identity, may be valuable to family firms, and rare, inimitable, and non-substitutable (Chrisman, Chua, Pearson, & Barnett, 2012a; Habbershon & Williams, 1999; Habbershon, Williams, & MacMillan, 2003; Pearson et al., 2008; Pearson & Marler, 2010; Sirmon & Hitt, 2003). These resources are more likely to become the source of sustainable competitive advantages for family firms in developed economies (Barney, 1991; Peteraf, 1993).

Nevertheless, in an environment where most firms, including both family and non-family firms, are non-professionalized, as in developing economies (Peng, 2006; Peng & Jiang, 2010), employment of professional norms either through hiring nonfamily professionals or providing professional education to family principal or other family members may be costly, yet valuable. Owing to the economies of scale and first-mover-advantages facilitated by research and development investment and internationalization (Chen & Hsu, 2009; Dean, Brown, & Bamford, 1998; Claver, Rienda, & Quer, 2008), professionalization may yield above-average-returns that no other approaches can match and substitute. Likely to be driven by educated family members, professionalization in one family firm is not likely to be imitated by others (Chung, 2006; Lin & Si, 2010; Lomnitz & Perez-Lizaur, 1987). Therefore, within an institutional context of developing economies, professionalization may become a source of family firms' competitive advantages.

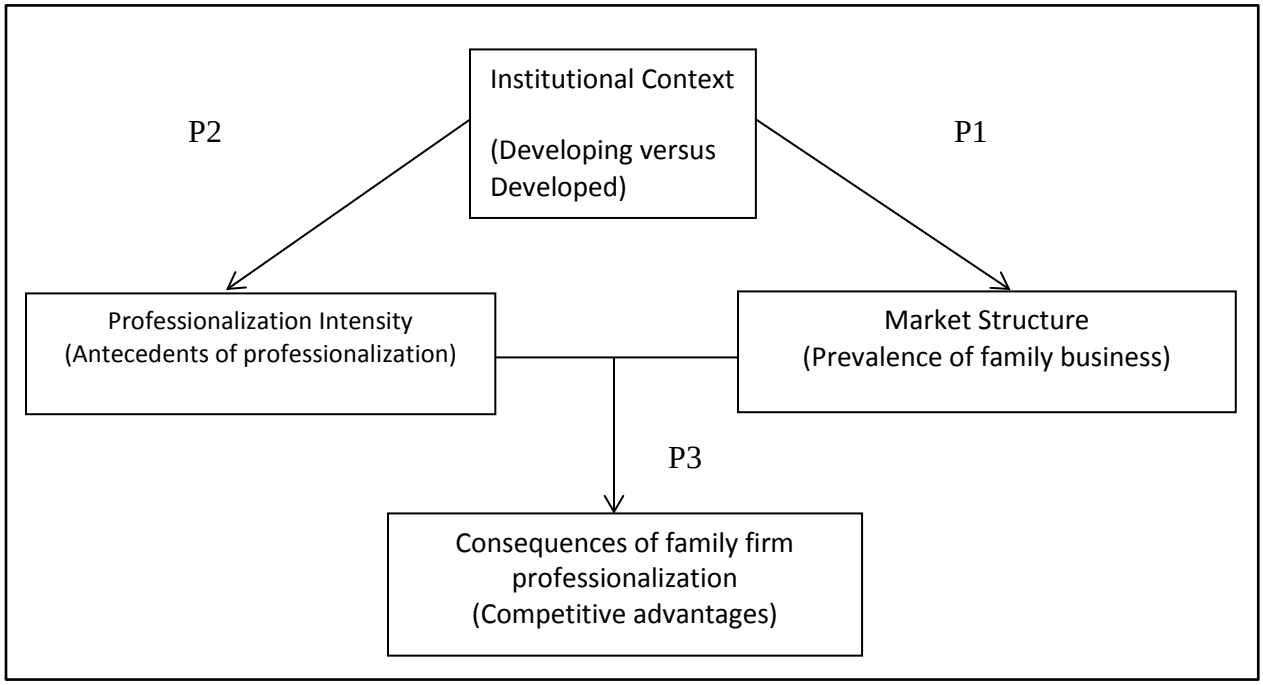
This article attempts to contribute to the family business literature in a variety of ways. First, while previous studies focus primarily on the internal factors, we highlight the importance of the institutional context in regards to its effects on the antecedents and outcomes of family firm professionalization. Second, this paper contributes to strategy research in that institutional theory and the research-based view may provide distinctive yet complementary views. Third, we intend to highlight that the family business studies using the resource-based view need to identify the market conditions, particularly the competitors of family firms.

We begin with discussing our research model and a few key definitions and assumptions we employ in this paper. We then turn to explaining how institutional theory and the resource-based view can be combined to explore the antecedents and outcomes of family firm professionalization and how these may be divergent under different institutional contexts. Then, we discuss the implications for future research.

RESEARCH MODEL

Building upon the institutional theory (DiMaggio & Powell, 1983; North, 1990) and the resource-based view (Barney, 1991; Peteraf, 1993), we develop a model to explain how institutional context may moderate the antecedents and consequences of professionalization in family firms. As will be further discussed in a later section, we define professionalization as a family firm's adoption of professional norms (Hofer & Charan, 1984). While we do admit that employment of nonfamily professionals is sufficient for family firms to professionalize, we argue that this condition is unnecessary. Family firms may professionalize purely by the efforts of family firm founder, successor, and other family members in abandoning family norms and endorsing professional norms.

Figure 1: *Research Model*



Combining these two theories reveals that they are distinctive yet complementary regarding the antecedents and consequences of organizations' behaviors such as professionalization. While the institutional theory draws attention on how prevailing institutional norms may impact market structure in general and organization behaviors in particular, the resource-based theorists highlight the outcomes rather than the antecedents of firm behaviors. Relevant to the topic of family firm professionalization, as illustrated in Figure 1, we intend to argue that institutional context not only impacts the tendency of family firm professionalization (P2), it also moderates the consequence of the professionalization by delineating the value, rarity, imitability and substitutability of professional norms (P3). It should be noted that we believe the value, rarity, imitability, and substitutability of professional norms are partially determined by the structure of the market, i.e. family firm's prevalence which is further influenced by the features of institutional context (Proposition 1). In this regard, we specify Proposition 1 as an initial reasoning for further discussing the consequences of family firm professionalization in developing and developed economies (Proposition 3).

We now develop our model in detail. In what follows, we explicitly state our conceptualization of professionalization regarding its key assumptions and boundary conditions, develop the mechanisms represented by the model in more detail, and then offer propositions that relate institutional context to the antecedents and consequences of family firm professionalization.

LITERATURE REVIEW

PROFESSIONALIZATION, INSTITUTIONAL CONTEXT, AND KEY ASSUMPTIONS

Though often mentioned in the family business literature, the nature of professionalization is still surrounded by ambiguity. Referred to as a "rational alternative to nepotism and familial conflicts that plague a family business" (Dyer, 1986, p. 101), scholars tend to believe that to professionalize is to make family firms more like non-family firms in terms of its ownership, governance, management structure, and human resource policies (De Kok, Uhlaner & Thurik, 2006; Hellmann & Puri, 2002; Stewart & Hitt, 2012). Accordingly, professionalism starts to manifest when a family business replaces family shareholders (Gedajlovic, Lubatkin, & Schulze, 2004) or a CEO (Lin & Hu, 2007) by non-family members, establishes functional structure of hierarchical governance (Chandler, 1990), and adopts professional norms and practices with explicitly defined job positions and task responsibilities (Hall & Nordqvist, 2008; Hofer & Charan, 1984). In this regard, non-family professionals are the key in professionalism because they play an important role in initiating, executing, and spreading the principals of professional management in family business (Daily & Dollinger, 1992; Gedajlovic et al., 2004; Parada, Nordqvist, & Gimeno, 2010).

While non-family professionals undoubtedly play an important role, they are not the only ones contributing to professionalization in family firm. For instance, due to long-term centrality of positions in both family and business systems (Gersick et al., 1997), the family owner may execute his authority by adopting professional processes in firm decision-makings (Kelly, Athanassiou, & Crittenden, 2000; McConaughy, 2000). In addition, professionally educated family business successors may make positive contributions in professionalization (Cabrera-Suárez, Saa-Perez, & Garcia-Almeida, 2001; Gedajlovic et al. 2004; Lee et al., 2003; Steier, 2001; Zahra & George, 2002) in which family firms may abandon certain family traditions that are inconsistent with professional norms (Parada et al., 2010). This is especially true given the condition that either family owners are less willing to hire nonfamily professionals or professional talents are short in supply given an institutional context characterized by the prevalence of family norms.

In this article, we conceptualize professionalization as family firms' adoption of professional norms (Hofer & Charan, 1984). By this definition, professionalization is a critical family firm strategic behavior to acquire and accumulate professional norms by the functions of non-family professionals as well as family members. This definition also assumes professional norms as a key strategic resource, which may or may not impact family firm's performance depending upon its value, rarity, imitability, and substitutability.

We also assume that family norms may be in contrast with professional norms, and these norms are inclined to crowd out each other in an institutional environment. As will be discussed below, we define family norms as the recognition of subjectivity, privacy, and intimacy without specifying formal and written duties and responsibilities relevant to tasks in business governance (Arregle, Hitt, Sirmon, & Very, 2007; Lansberg, 1983). Family norms are more likely to develop given an institutional context with undeveloped or less developed formal regulative forces (Stewart, 2003). In contrast, the prevalence of formal institutions in a developed institutional context may facilitate the adoption of professional norms of management or "managerial capitalism" (Chandler, 1977, 1990; Peng, 2006). In this regard, family norms and professional norms are mutually exclusive because they are driven by exclusive institutional settings, namely the presence or absence of formal institutional infrastructures (Steier, 2009).

In addition, we also assume that there is a consistency between the formality of institutional setting and the development of functional market such that a formally developed institutional setting should cultivate a functional market in which professional norms can be adopted and implemented at relatively

lower cost (Barney, 1986a). In addition, we assume the rarity and value of adopting professional and family norms are also determined by the market structure: given a market full of family firms, implementing family norms becomes less effective in achieving competitive advantages because many competitors can exploit family norms as well.

Accordingly, we classify countries by the formality of institutional infrastructure and the structure of the market, as we assume that developing or emerging economies tend to have a low degree of institutional infrastructure formality and relatively high prevalence of family firms, and developed or mature economies tend to have a high degree of formality and low family firm prevalence. Though this classification has been applied in both institutional studies (North, 1990) and the family business literature (e.g. Carney, 2007), some scholars tend to believe a uni-dimensional classification may underestimate the complexity in institutional context (Steier, 2009; La Porta et al., 1999).

INSTITUTIONAL THEORY AND RESOURCE-BASED VIEW

Institutional theory in organizational studies provides a theoretical framework to examine the interactions between organizations and the institutional environment (DiMaggio & Powell, 1983, 1991; Scott, 1995). Within the framework of institutional theory, an institution is defined as a collection of "cognitive, normative, and regulative structures and activities that provides stability and meaning to social behavior" (Scott, 1995, p. 33) and "the rule of the game in a society" in general (North, 1990, p. 3). Accordingly, an institutional context consists of regulatory, normative and cultural arrangements that engender, enforce, and limit economic and social activities. This definition outlines both formal and informal institutions. Regulative arrangements are formal and are imposed by authoritative actors often through explicit rules, controls and rewards (North, 1990), whereas normative and cultural ones are informal and introduce prescriptive, evaluative, and obligatory dimensions into social life (DiMaggio & Powell, 1983; Granovetter, 1985).

According to Scott (1995), organizational prevalence and structures are the reflections of the complexity in external institutional contexts in which organizations are initiated but also constrained by social rules. The author (1995) also suggests that organizations follow taken-for-granted expectations of external institutional actors in order to acquire social conformity and legitimate recognition. That organizations are both constrained and enabled by the institutions in their environment has been widely acknowledged in the literature (Scott, 1995). The institutional environment can define and limit prevailing institutional norms, such as family or professional norms, and thus it affects the structure of players in the market like the rate and size of existing organizations as well as the type of emerging new ventures (Aldrich & Cliff, 2003). In addition, organizations tend to follow the demands and expectations of external institutional actors, resulting in convergences of organizational structures and behaviors over time (Aldrich & Ruef, 2006; Baum & Oliver, 1991, 1992; DiMaggio & Powell, 1983; Hodgson, 1998; Scott & Meyer, 1983; Singh, House, & Tucker, 1986). Termed as "isomorphism," institutional theorists highlight that owing to the same set of constraints in external institutional context, organizational behaviors tend to become isomorphic over time (Aldrich & Ruef, 2006; Baum & Oliver, 1991, 1992; DiMaggio & Powell, 1983; Hawley, 1950, 1968; Hodgson, 1998; Meyer & Rowan, 1977; Scott & Meyer, 1983; Singh, House, & Tucker, 1986; Zucker, 1977). Furthermore, incumbent organizations may manipulate institutional norms and traditions to facilitate their long-term survival and new firms' adoptions of socially-accepted routines further strengthen the legitimacy of existing norms and traditions initiated by the incumbent organizations (Lewin & Volberda, 1999; Lewin, Long, & Carroll, 1999). Consequently, the pressures for social conformity are highlighted by institutional theorists as an antecedent of the convergence of firm behaviors.

In sum, the institutional theory yields three relevant predictions. First, the prevalence of organizational types such as prevalence of family versus nonfamily firms, and accordingly the market structure, are initiated and bounded by prevailing institutional norms. Second, behaviors of organizations in an institutional context, such as the adoption of professional or family norms, tend to become isomorphic over time. And third, market structure may further impact organizational development by specifying favorable market incentives and the availability of key resources that may impact firm performance (Foster, 1986).

In contrast to the institutional theory, the resource-based view (RBV) of the firm looks inwardly into the resource heterogeneity in a market and their connections to each firm's competency over other market players (Barney, 1991; Conner, 1991; Dierickx & Cool, 1989; Rumelt, 1984; Wernerfelt, 1984). According to Wernerfelt (1984), a firm's resources are those tangible and intangible assets tied semi-permanently to the firm (p. 172). These include all firm specific assets, capabilities, organizational processes, firm attributes, information, knowledge, as well as professional and family norms that allow the firm to develop strategies benefiting its efficiency and effectiveness (Penrose, 1959). The importance of a given resource can only be assessed in comparison to those held by competitors, since only a relatively unique and superior competency can be a source of above-normal economic profit (Collis, 1991). Thus, firm resources that are more valuable and rare compared to competitors and those that may not be easily imitated and substituted by competitors, are attributed to competitive advantages and strategic success (Barney, 1986a, 1991; Barney, Wright, & Ketchen, 2001; Conner, 1991; Reed & DeFillippi, 1990).

While it is certainly possible that all types of assets can be a source of above-normal returns, it is intangible organizational resources, typically developed through unique history and with social complexity, that are frequently found to create sustainable competitive advantage (Barney, 1986a). Compared to tangible ones, intangible assets are less likely to be imitated and substituted because they are asymmetrically distributed in an industry. Moreover, the incodifiable nature of intangible assets makes them imperfectly mobile and less accessible in ex post and ex ante competitions (Dierickx & Cool, 1989; Lippman & Rumelt, 1982; Peteraf, 1993). In Barney's (1986a) perspective, intangible assets are embodied in the firm's organizational culture, whereas Wernerfelt (1984) argues that they stem from in-house knowledge of technology. In this article, we consider professional and family norms as two potential resources that may bring in competitive advantages to family and nonfamily firms.

Partially owing to the nature of invisibility, intangible assets are hard to acquire, develop and upgrade (Argyris, 1996; Wernerfelt & Montgomery, 1988). A key challenge facing a firm is to identify the origin of intangible, competitive resources that establish and enhance the firm's sustainable competitive advantage. While previously ascribed to luck (Barney, 1986a), recent studies tend to trace them to the role played by leaders and administers of organizations (Sirmon, Hitt, Ireland & Gilbert, 2011; Zahra, Filatotchev & Wright, 2009). Following this track, we assume that the acquisition and accumulation of professional and family norms are executed by nonfamily professionals as well as family members in family firms. Institutional theory draws attention to the antecedents of firm behavior, whereas the resource-based theorists highlight its outcomes. Social conformity, as institutional theorists suggest, may be an antecedent of firm behavior due to the pressures of social acceptance and recognition (DiMaggio & Powell, 1983). But it is unlikely that this behavior may lead to competitive advantages, because owing to isomorphism, other firms in the same institutional context may exhibit the same behavior. In addition, firm behaviors driven by isomorphism can be easily imitated and substituted because firms as individual market players have no direct control on institutional context and thus could not establish ex post and ex ante limits that strengthen the sustainability of competitive advantages (Peteraf, 1993). Thus, strategic behaviors driven by institutional pressures are not likely to be the sources of competitive advantages because they are not rare and valuable, and may be imitated and/or substituted by competitors (Barney, 1991; Oliver, 1991, 1997).

INSTITUTIONAL CONTEXT, FAMILY FIRM AND PROFESSIONALIZATION

Institutions provide the rules of the game in which organizations are the players bounded by those formal and informal rules (North, 1990). Informal institution refers to normative and cultural arrangements that introduce prescriptive, evaluative, and obligatory dimensions to social life (Scott, 1995). Informal institutions often stem from the government's weak authority to develop formal institutions, or an "institutional void" of formal institutions (North, 1990), which is common in developing transitional economies (Bruton, Ahlstrom, & Li, 2010; Peng, 2004; Peng & Jiang, 2010). Institutional economists suggest that an informal institution in a region can have a strong influence on the organizations embedded within because the absence of professional facilities, norms, and regulations, together with a changing and unstable authoritative enforcement, may cause an increase in business costs (Carroll, 1993; Steier, 2009). Accordingly, the pressure of the increasing costs may motivate organizations to depend on informal institutions, such as family norms, and the approaches associated with these norms, such as family governance and the family kinship network, to conduct business (Ahlstrom & Bruton, 2006; Gupta & Levenburg, 2010; Peng, 2006; Peng & Heath, 1996; Stewart, 2003). From an institutional perspective, informal institutions, such as family norms, are embedded in a society's cultural settings. Family members often expect financial support, life and career security, and altruistic benefits from each other (Schulze, Lubatkin, Dino, & Buchholtz, 2001). As a payback, they provide capital, emotional support, and commitment to their family firms (Bertrand & Schoar, 2006). Based on such reciprocity, frequent daily coordination and collaboration further facilitate exchanges among family members, which eventually reinforce the stability, interdependence, interactions, and closure in families (Arregle et al., 2007). Thus, in a developing economy, family businesses may become the dominant format because family governance based on family norms may provide a solution to firm survival (Burkart, Panunzi, & Shleifer, 2003; Dyer & Mortensen, 2005).

Proposition 1: Family businesses are expected to be more prevalent in an institutional context of developing economies.

Family norms can be at opposition with professional norms of the business (Shepherd & Haynie, 2009; Stewart & Hitt, 2012) because the pursuit of family-centered, non-economic goals to create and maintain socio-emotional wealth (Gómez-Mejía et al. 2003; Chrisman et al., 2012a) and the discretion to achieve these goals (Carney, 2005) may facilitate certain business behaviors inconsistent with professional routines (Gómez-Mejía et al., 2003). For instance behaviors driven by family norms may take the form of engaging in management entrenchment (Gómez-Mejía et al., 2001), linking lower compensation risk to the family manager (Gómez-Mejía et al., 2003), increasing business risk (Gómez-Mejía et al., 2007), and resisting diversification (Gómez-Mejía et al., 2010), all of which are opposed to behaviors formulated by norms of professional management.

On the one hand, an institutional context characterized by informal institutions, mostly in developing and transitional economies, is less likely to foster professionalization (Carney, 2007; Gupta & Levenburg, 2010; Steier, 2009) because family norms can be approached and implemented at a relatively lower cost. This is because family norms often start to bloom from the early-age education of children and develop through the daily interactions among family members (Aldrich & Cliff, 2003; Bertrand & Schoar, 2006; Carney, 2007; Gilding, 2000; Hofstede, 2001; Leaptrott, 2005; Peng & Heath, 1996). Accordingly, studies show that professionalization is greatly limited in Africa (Khavul, Bruton, & Wood, 2009), Confucian Asia (Chung, 2001; Chung, 2006; Lee & Tan, 2001; Lin & Si, 2010), the Middle East (Kadragic & Ludwig, 2008), and Latin America (Lomnitz & Perez-Lizaur, 1987). In these regions, business property is largely regarded as one part of the owning family and family members are exempt from business regulations (e.g., Africa: Gough, Tipple, & Napier, 2003; Mbebeb, 2008; Confucian Asia: Carney, 1998; Chen & Chen, 2009; Wong, 1985; Middle East: Davis, Pitts, & Cormier, 2000; Latin America: Cruz & Howorth, 2008; Hatum & Pettigrew, 2004). Businesses are usually run by the family or a kinship network (e.g., Africa: Gough et al., 2003; Khavul et al., 2009; Confucian Asia: Chen & Chen, 2004; Weidenbaum, 1996; Middle East: Kadragic

& Ludwig, 2008; Kanoo, 1997; Latin America: Kertesz, Atalaya, & Kammerer, 2008; Lomnitz & Perez-Lizaur, 1987) and later generations start engaging in business activities early (e.g., Africa: Mbebeb, 2008; Confucian Asia: Chung & Yuen, 2003; Tsui-Auch & Lee, 2003; Tsui-Auch, 2004; Middle East: Nassar, 2008; Latin America: Lomnitz & Perez-Lizaur, 1987). Also contrary to professional norms, females are largely excluded from business activities and their occupational prospects in business are often restricted (e.g., Africa: Mbebeb, 2008; Vijverberg, 1995; Confucian Asia: Wong, 1985; Middle East: Davis et al., 2000; Latin America: Lomnitz & Perez-Lizaur, 1987).

On the other hand, despite the contradiction between family norms and the formal institution, family firms tend to professionalize in an institutional context characterized by formal institutions (Melin & Nordqvist, 2007; Parada et al., 2010). Formal institution refers to explicit regulations and rules officially proposed by authoritative entities, such as rule-setting, monitoring, and sanctioning arrangements (North, 1990; Scott, 1995). The rise of formal institutions facilitates the rise of professional norms of management, or "managerial capitalism" in most developed economies (Chandler, 1977, 1990; Peng, 2006; Steier, 2009).

While Chandler (1977, 1990) suggests that professionalization is more likely to take place among non-family firms, family business literature has started to recognize that family firms in developed economies may be active in professionalization (Melin & Nordqvist, 2007; Nordqvist & Melin, 2002; Parada et al., 2010; Zhang & Ma, 2009). Formal institutions are expected to impact the symbolic systems of organizations (Cappelli & Shere, 1991; Mowday & Sutton, 1993; Rousseau & Fried, 2001; Schneider & White, 2004), especially those of family firms (Ellul, Pagano, & Panunzi, 2009; Feito-Ruiz & Menéndez-Requejo, 2009; Hatum & Pettigrew, 2004; La Porta et al., 2009). Professional norms often provide precise descriptions regarding the rights and responsibilities associated with business ownership, and often encourage the separation of ownership and management where nonfamily professionals, rather than potential family members are expected to take the control of the firm after the retirement of the first-generation entrepreneur. Employment and promotion of business administrators are dependent upon the evaluation of managerial qualifications such as working experience and educational level rather than family status, gender, or other demographic characteristics. Although professionalization of family firms is often facilitated via non-family professionals (Barnett & Kellermanns, 2006; Chua et al., 2009), the adoption of professional norms may take a variety of forms. Family firms may voluntarily professionalize due to the pressures of social conformity in developed economies where family firms may abandon certain family traditions inconsistent with professional norms (Parada et al., 2010). Formal institutions may be transferred due to business education and the family firm founder and the successor with prevailing professional education may become the supporters of professional norms (Chua et al. 2009; Gedajlovic et al. 2004; Parada et al., 2010), which may elevate equality and justice in family business governance (Barnett & Kellermanns, 2006; Craig & Moores, 2004; Moores & Mula, 2000).

Moreover, formal institutions in developed economies may impose the pressure of market competition that motivates family firms to consciously employ non-family managers (Anderson, Mansi, & Reeb, 2003; Bennedsen, Nielsen, Pérez-González, & Wolfenzon, 2007; Villalonga & Amit, 2006). External shareholders and stakeholders, whose cognitive expectations are standardized by formal institutions through professional unions, business schools, and the public media, may facilitate professionalization in family firms (Parada et al., 2010; Tsao, Chen, Lin, & Hyde, 2009; Zhang & Ma, 2009). For example, independent board members may mitigate owning-family nepotistic and opportunistic behaviors that expropriate minor shareholders' interests (Anderson & Reeb, 2003).

Therefore, an institutional context characterized by formal institutions, mostly in developed economies, is more likely to facilitate professionalization of family firms (Gupta & Levenburg, 2010; Steier, 2009).

Proposition 2: Family firms are less likely to professionalize in an institutional context of developing economies than in developed economies.

RBV, FAMILY FIRM PROFESSIONALIZATION AND ITS CONSEQUENCES

RBV theorists largely recognize that the interactions among family unit, business entity, and individual family members, can lead to competitive advantages or "familiness" in family firms over nonfamily competitors (Chrisman, Chua, & Steier, 2005b; Habbershon & Williams, 1999; Habbershon et al., 2003; Pearson et al., 2008). In this regard, "familiness" often stems from the spillover of family norms to family business decision-making by converging family member behaviors, creating and maintaining family business identity, implementing informal human resources practices and manipulating the overlapping of social networks between the family and the business systems (Arregle et al., 2007; Gersick, et al., 1997; Shepherd & Haynie, 2009). The adoption of family norms can facilitate the manifestation of family socio-emotional wealth in planning for strategic behaviors so that oftentimes family-centered non-economic goals, rather than the economic rationality of the firm, dominate decision-makings in family firms (Gómez-Mejía et al., 2003; Chrisman et al., 2012a). In addition, family-centered strategic behaviors may further differentiate family firms from non-family firms by developing family norms (Eddleston, Kellermanns, & Sarathy, 2008; Sirmon & Hitt, 2003). For example, family firms are inclined to exploit family and kinship networks (Lester & Cannella, 2006), exhibit informal corporate governance (Carney, 2005), tacit knowledge transfer (Cabrera-Suárez et al., 2001), supplier and customer orientation (Tokarczyk, Hansen, Green, & Down, 2007), family reputation (Dyer, 2006), and family social capital (Pearson et al., 2008) that nonfamily firms are less willing and/or less capable to develop. Because family norms are intangible yet valuable, nonfamily firms are not likely to perfectly imitate or find appropriate substitutes. Hence, family scholars tend to believe that the adoption of family norms are the fundamentals of competitive advantages in family firms (Chrisman et al., 2005b; Habbershon & Williams, 1999; Habbershon et al., 2003; Pearson et al., 2008).

Partially owing to the optimistic belief about "familiness," researchers tend to attribute professionalized family firms with inferior firm performance in developed economies (Chua et al., 2009). One of the reasons is that the professionalization in developed economies is often initiated and facilitated by nonfamily professionals owing to their prevalence in the market and comparatively lower cost of employment compared to family counterparts in developing countries. Because of their natural incompatibility to family norms, employment of non-family professionals may bring additional costs in merging their interests with those of family owners and monitoring their self-serving behaviors (Chrisman, Chua, & Litz, 2004; Fama & Jensen, 1983; Jensen & Meckling, 1976).

On the other hand, owing to family's altruism toward family members, non-family professionals, despite their superior qualifications, are less likely to be fairly paid in comparison to family managers (Chrisman, Memili & Misra, 2012; Chua et al., 2009). Non-family managers may experience unjust and unprofessional treatment and perceive that employment in a family firm may limit their career prospects within both the family firm and job market (Barnett & Kellermanns, 2006; Lubatkin, Durand, & Ling, 2007; Sirmon & Hitt, 2003). While family firms may have agency problems deriving from altruism that may harm firm performance, professional executives who are not members of the owning family can be treated as scapegoats and condemned for inferior firm performance (Barnett & Kellermanns, 2006; Chrisman et al., 2012b). Organizational injustice can make family firms less attractive to non-family professionals. Consequently, non-family agents may require a higher level of compensation than that in non-family firms, leading to a higher cost of obtaining and accumulating professional norms compared to nonfamily firms in developed economies (Chua et al., 2009; Chrisman et al., 2012b; Gibbons & Murphy, 1992; Gomez-Mejia et al., 2003; Holmstrom, 1979; Lee et al., 2003; Memili & Barnett, 2008). Hence, although professional norms are easy to obtain by family firms in developed economies, it would be easier for nonfamily firms. Moreover, owing to the prevalence of business education and professionalism, professional managers are easily accessible and tradable in the developed markets (Parada et al., 2010). Consequently, family firms are unable to create *ex ante* and *ex*

post limits to competition based on professionalization. Thus, although professionalization may be critical to firm performance, especially when firms grow from small scale to medium and large size, it may not be the source of competitive advantage in family firms in the context of formal institutions.

Comparatively, in an institutional context characterized by informal institutions, such as developing economies, professionalization can be the source of family firms' strategic success (Chung & Yuen, 2003; Zhang & Ma, 2009; Weidenbaum, 1996). Different from developed economies, developing countries are characterized by the adolescence of factor markets with professional norms. Professional education is less prevalent and professional talents are less available. Hence, family firm professionalization is often catalyzed by family business founder, successor and other family members, making the professionalization less imitable and substitutable by both nonfamily firms and other family firms. In this section, we follow the framework of value, rarity, imitability and substitutability proposed by Barney (1991) in further discussing the consequences of family firm professionalization in developing economies.

Valuable. Employment of professional managers may improve organizational efficiency that owner-manager governance is unable to provide (Fama & Jensen, 1983). Although not fully valuable to small-sized family firms (Ainsworth & Cox, 2003; Bjuggren & Sund, 2001; de Lema & Durendez, 2007; Getz & Petersen, 2004; Johannisson & Huse, 2000; Venter, Boshoff, & Maas, 2005), professionalization is important to firm growth, especially when firms grow from small to large (Fiegener, Brown, Dreux, & Dennis, 2000; Miller, LeBreton-Miller, & Scholnick, 2008; Van den Heuvel, Van Gils, & Voordeckers, 2006). This may be more important in developing economies because most firms in emerging countries are small in size. Therefore, the economies of scale may bring in larger above-average rents to large size firms in developed economies (Audretsch & Thurik, 2000; Dean et al., 1998; Peng, 2004, 2006). Furthermore, professionalization in developing economies may provide family firms opportunities to acquire and accumulate functional resources, such as resources relevant to research and development (R&D) and internationalization (Chen & Hsu, 2009; Chrisman, Chua, & Kellermanns, 2009; Daily & Dollinger, 1992; Gedajlovic & Carney, 2010; Gedajlovic et al., 2004; Graves & Thomas, 2006; Peng & Jiang, 2010). Functional resources are vaulable to firms in developing economies, because most of firms are unable to invest in functional resources (Peng, 2004, 2006), R&D (Miller & Le Breton-Miller, 2005; Zahra, 2003), and internationalization (Claver et al., 2008; Fernandez & Nieto, 2005; Graves & Thomas, 2008), which can lead to futher first-mover advantage and higher profits.

Rarity. As suggested by Proposition 1 and 2, family business professionalization is expected to be rare in developing economies. Firstly, as indicated in Proposition 1, most of the players in developing markets are family firms, making the adoption of professional norms rare by nature. In comparison, informal institutions of family norms motivate family firms in developing economies to use family values and family networks to expand business (Light, 2005; Karra et al., 2006; Yeung, 2000) and the absence of professional education further deteriorates the lack of professional managers in the factor market (Stewart & Hitt, 2012). Owing to weak property rights protection, professional managers' interests may be easily expropriated (Barnett & Kellermanns, 2006; de Kok et al., 2006; Doh, Smith, Stumpf, & Tymon, 2011; Memili & Barnett, 2008), making them more inclined to develop turn over intentions compared to their colleagues in developed economies (Firth, Fung, & Rui, 2006; Wierdema & Bantel, 1993).

Inimitability and non-substitutability. Professionalization in developing economies tends to be inimitable. Due to the limited labor in the factor markets, professionalization in family firms is generally initiated by family founder, successor, or other family members whose interests are closely linked to the fate of the family (Chung, 2006; Lin & Si, 2010; Lomnitz & Perez-Lizaur, 1987). Hence, family firms in developing economies largely professionalize by sending family members to receive professional education which is not only costly but also time-consuming. Hence, professional norms, as a critical competitive resource, are not likely to flow from one family firm to another simply because they are

limited by the scope of the family. In addition, while family members can obtain business education for the purpose of professionalization, this approach is not likely to be replicated by nonfamily firms. This is because employees in nonfamily firms may choose to move to other firms in exchange of better compensating conditions or choose to start their own ventures after receiving high-quality business education, and this possibility may hinder nonfamily firms' motivation to professionalize. Furthermore, since professionalization of family firms is costly and time-consuming, it is not likely to be imitated by other family firms immediately, providing a foundation for at least temporary competitive advantage.

Similarly, professionalization tends to be non-substitutable in developing economies. Although family norms may provide capital that help firms survive (Sirmon & Hitt, 2003), it is less likely to be the source of growth (Chandler, 1977, 1990). Family and kinship networks may motivate family firm's growth in smaller size firms, but increasing likelihood of conflict and altruistic behaviors towards the family may harm the family firm in the long run (Karra et al., 2006). Therefore, professionalization of family firms in developing economies is not likely to be substituted by family-centered governance stemming from family norms. In sum, because professionalization of family firms in developing economies is rare, value, inimitable and non-substitutable, it could be the source of competitive advantages for family firms in developing economies.

Proposition 3: Family firms' professionalization is less likely to become the driver of competitive advantages in an institutional context of developed economies than in developing economies.

DISCUSSION

Combining institutional theory and the resource-based view, we attempt to outline the effect of institutional context on the antecedents and consequence of family firm professionalization. In developed economies, due to the pressure of social conformity, a family firm is more likely to professionalize, but professionalization is not likely to be the driver of competitive advantages because non-family firms are more likely to professionalize than family firms and professionalization would not be rare and valuable. Nevertheless, in an environment where most of firms are not professional and would fit the classification of small businesses as in developing economies, adoption of professional norms becomes costly and time-consuming yet valuable. Therefore, we expect that family firm professionalization is more likely to become the source of competitive advantages in an institutional context of developing economies rather than developed economies. In this section, we discuss the implications of this study and suggestions for future research.

First, while prior studies primarily focus on the internal factors, we highlight the environmental factors that may contribute to the variety of family business behaviors. The family business literature starts to recognize that although the family firm is ubiquitous, owing to the discretion to pursue family-center goals (Carney, 2005), firm specific assets (Gedajlovic & Carney, 2010), transaction costs (Memili & Barnett, 2008) and agency costs (Shleifer & Vishny, 1997), environmental factors may cause heterogeneity among the family business population (Chang et al., 2008). Therefore, future research on family firms needs to consider both the economic and institutional contexts (Sharma, 2004) and how environmental factors may impact the behaviors and performances of family firms and the effect of size, if any. Implications for family businesses that are small businesses could be further explored.

Second, previous studies on family firm professionalization assume that the decision-making is driven by the rise of agency costs (Jensen & Meckling, 1976) and loss of family-centered values and/or socio-emotional wealth (Chrisman, et al., 2012; Gómez-Mejía et al., 2003; Gómez-Mejía et al., 2007). This rationalist perspective suggests the potential outcomes of family firm professionalization motivate/impede family firms to professionalize whereas the antecedents and outcomes of family firm

professionalization may not be the same. In this article, we attempt to outline that the pressure of isomorphism may initially impact the likelihood of family firms' professionalization, but professionalization for social conformity does not provide firms with competitive advantages. On the other hand, family firms in developing economies, though less likely to professionalize owing to the prevalence of informal institutions, may gain competitive advantages by strategically professionalizing their business.

Third, we outline the significant roles of family founders and successors in the process of professionalization (Cabrera-Suárez et al., 2001). In this concern, we suggest that employment of nonfamily professionals is a sufficient but unnecessary condition for family firms to professionalize. Instead, we believe that the true catalyst is the family founder, successor and/or other family members who not only dominate the decisions regarding the employment of nonfamily professionals, but also implement professional routines and approaches by themselves. Hence, although the pursuit of family-centered goals of socio-emotional wealth hinders professionalization in developing economies, family founders and successors who are influenced by professional norms through labor unions, business schools, and public media (Handler & Kram, 1988; Parada et al., 2010) may consciously adopt professional norms by themselves.

Fourth, we highlight the difference between antecedents and outcomes of professionalization in terms of their stage at the life cycle of family firms. Isomorphism is likely to rise in the entrepreneurial and adolescent stages of organizations as they adjust their structures according to socially accepted norms (DiMaggio & Powell, 1983), while the pursuit of competitive advantages may take place after firms fulfill social conformity needs. Thus, isomorphism in institutional theory may represent the social pressures that a firm must bear in the beginning of its life, while seeking for competitive advantages represents the tasks in an older and more mature stage. Moreover, the pressure to conform to social norms and the need to obtain competitive advantages may also suggest that firms must dynamically manage their portfolio of resources in different stages in the life cycle. Future research can explore how, when, and to what extent the resource management may conform to social norms and seek for competitive advantages.

OPERATIONALIZATION OF PROPOSITIONS

We developed our propositions by drawing upon institutional theory, the RBV and the extensive family business literature. An important next step would be to test our propositions empirically. As we work toward building cumulative knowledge on family business studies, it is extremely important to share in detail the methods used, definitions of variables of interest and their operationalization, and research instruments such that the validity and reliability of empirical findings can be verified by future repetition (Handler, 1989). In this section, we discuss the potential ways to operationalize our constructs and approaches to empirically test our predictions.

First, our discussion follows the logic that it is the extent of adopting family norms that indeed differentiates family firms from nonfamily firms. This condition signifies that the essence approach is more appropriate than the components-of involvement approach in operationalizing family firms (Chrisman et al., 2005a). The components-of involvement approach is based on the belief that family involvement in business, such as family owners and managers, is sufficient to make a firm a family business, whereas the essence approach suggests that family involvement must be directed toward behaviors that are different from those of nonfamily firms. Accordingly, a firm lacking the intention, vision, familiness, and/or behaviors that constitute the essence of a family business should not be operationalized as a family firm.

Second, we define professionalization as family firm's adoption of professional norms. This definition clearly states that hiring nonfamily professionals in family firms is not the necessary condition to signal family firm's professionalization. Instead, an operationalization consistent with our argument should measure the introduction and enforcement of professional routines and approaches, often in an explicit and precise manner that both firm managers and common employees can understand and utilize.

Third, when discussing competitive advantages, we intend to emphasize that nonfamily business is not the only competitor of family business, and family firms may compete with one another when they form the majority in the market. Thus, operationalization of competitive advantages according to this study should neither be completely based on internal measures, such as return on assets or sales, nor a simple comparison between family and nonfamily firms. Rather, we suggest that a thorough understanding of competitive advantages in family firms should consider the competitors of both family and nonfamily firms (Armstrong & Shimizu, 2007). Accordingly, we believe that operationalization of competitive advantages in family firms should address these concerns as well.

PRACTICAL IMPLICATIONS

This article has important implications for family business practitioners and small business advisors. First, this article has implications regarding the possible strategies of professionalization that small firms could execute. We intend to present that employment of professional managers is neither the only way, nor the optimal way, of family firm professionalization given the heterogeneity of external contexts. This conclusion is critical to small firms because they are often limited in capital and resources and recruiting nonfamily professional managers can be very costly (Chrisman et al., 2012). Our discussion suggests that family firms may professionalize through the efforts of family business founders and other family members. In this regard, educated family leaders may advocate professionalism in the venture creation stage, and family firms may embrace professional norms, approaches, and routines even though they may still be small in size.

Second, development of small firms is partially path-dependent, meaning that the strategy employed in the early stage may have continuous effects upon strategic decision-makings in later stages. Hence, one pivotal challenge small firm practitioners must confront is how to make the transition from family management to professional management given the increasing complexity of task responsibilities as firms grow larger. Thus, the difficulty of professionalization in family firms not only stems from owning family's unwillingness in adopting professional norms, but also family firm's incapability to switch from nepotism- and altruism-centered decision-making to a professional approach owing to the nature of path dependence. Our discussion suggests that small-sized family firms can encourage family successor(s) and other family members to obtain professional business education, thus the occurrence of family succession may become the turning point regarding the renewal of business policy and management practices and in small-sized firms. We further argue that this way is relatively more inexpensive and independent of moral hazard risk because family members are generally loyal and thus unlikely to quit after the training.

Third, this article also implies that the optimal strategy that small family as well as nonfamily firms should apply is partially determined by external contexts. The majority of small firms in the world are family firms and they grow by the support of family capital, family resources, and family or kinship-based networks. Hence, by nature, small firms are inclined to apt for family-centered approaches to development. While family-centered approaches may be effective in reducing environmental uncertainty and increasing the possibility of survival when firms are still young, they are not the optimal way if small-sized family firms intend to grow larger and gain advantages over their competitors. In this regard, a relative question is "who are competitors of family businesses?" This question is important because when small-sized family firms are more prevalent in developing economies, competitors of

family firms are likely to be family firms as well. Thus, in developing countries "familiness" driven by family norms is not likely to be the drivers of family firms' competitive advantages since the competitors may also have "familiness". Therefore, family-centered norms would not differentiate a family firm from its competitors. As such, practical recommendations based on previous family business studies using the resource-based view are more appropriate in an institutional context of developed economies, in which family businesses are less prevalent. Family businesses in developed economies could gain competitive advantages over non-family competitors by intentionally capitalizing on family firm specific norms that build firmly upon the advantages of family governance such as family identity, family social capital, and inclusive family network. Advisors to family firms in developed economies should stress the advantages that family norms provide to the long term viability of the business.

Fourth, this article also suggests that family business practitioners in developing economies could gain competitive edge by imitating valuable and rare features of non-family businesses. Nevertheless, simply hiring non-family professionals may not sustain competitive advantages in the long-run owing to the mobility of professionals in the labor market. Hence, family businesses can attain sustainable competitive advantages only if professionalization is initiated and maintained by family members, such as family business founders or successors. Advisors should work with the family business to encourage professionalization, which would give a competitive advantage to the small family firm in developed economies and would increase the likelihood of sustaining a competitive edge.

LIMITATIONS

Our research agenda contains a number of limitations owing to the assumptions and bounded conditions we proposed in the beginning of this article. In this section, we further discuss the limitations of our assumptions.

First, we made the assumption that family norms may contrast with professional norms and the presence of one should crowd out the presence of the other. While this assumption may seem valid, it overlooks certain economies where family tradition and business practice are closely intertwined and may not be specified separately. For instance, in Latin and Nordic Europe, although family members are highly incorporated in the daily operations and family values are closely linked to firm behaviors, decision-making processes are still under strong professional regulations (Howorth & Ali, 2001). In this concern, family norms and professional norms are "activated together but not to act in a way consistent with on currently requires actions in consistent with the other" (Shepherd & Haynie, 2009). Hence, it is likely that one institutional context exhibit a mix of professional and family norms. While our framework may provide a foundation for further discussion, special attention should be paid when analyzing a specific institutional context.

Second, we also assumed that the prevalence of professional norms is internally related to the prosperity of professional labor market, but this assumption overlooks certain transactional economies in which the market structure is not necessarily compatible with its institutional context. For instance, while family norms prevail in Eastern Europe (Karra et al, 2006), the labor market of professional talents is flourishing as well (Vadnjal & Glas, 2008). In this case, while family firms are relatively less likely to use professional approaches, professional norms can be adopted and developed at a relatively lower cost. In addition, strategic advantages through professionalization are further reduced, because competitors can easily imitate professionalization and it can become substitutable.

Third, we articulated our discussion based on a binary classification of institutional contexts. In the manuscript, we draw most of our attention to two institutional settings, namely developing and developed economies that we believe are internally contrasting with each other. Nevertheless, a significant portion of world economies may exhibit a combination of these two extremes. In particular,

the role of the government, and consequently the function of "state capitalism" have been highlighted in the literature as family governance may become the initial driver and later interest-sharer (Steier, 2009). For example, Rajan and Zingales (2003) describe how first generation entrepreneurs raised money to finance industrialization at the beginning of the century, and subsequently they or their heirs formulated for government policies that impaired their countries' financial systems to prevent competitors from raising capital. Political connections could help family business groups attain and maintain their positions by overcoming government-imposed regulation and bureaucratic oversight. Given a high level of institutional informality and weak enforcements of government regulations, corruption abounds, and black and grey markets constitute a significant portion of economic activities. In this regard, wealthy families may collaborate with the elite group engaging in rent-seeking activities such as obtaining government contracts, import or export rights, protection from competition, or monopoly power.

CONCLUSION

Our paper draws upon both institutional theory and the resource-based view to outline the effects of institutional context on the antecedents and consequences of family firm professionalization. In developed economies, due to the pressure of social conformity, a family firm is posited to be more likely to professionalize. Professionalization, however, is not likely to be the driver of competitive advantages because other firms, especially non-family firms, are more likely to professionalize. Thus, professionalization becomes less rare and valuable. Nevertheless, in an environment where most firms, including family and non-family firms, are non-professionalized, as in developing economies, most firms are non-professionalized, and employment of professional managers and adoption of professional norms become costly yet valuable. Therefore, we expect that family firm professionalization is more likely to become the driver of competitive advantages in an institutional context of developing economies rather than developed economies.

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