INTRODUCTION

Family involvement in business may provide the business performance advantages (Anderson & Reeb, 2003) but as the same time family involvement presents unique challenges that could jeopardize business survival (LeBreton-Miller, Miller & Steier, 2004). The entanglement of family and business is so strong in such entities, called family business, that distinction between the family and the business is blurred. In a healthy relationship where family and business are in harmony, the family business enjoys the competitive advantage due to familiness, an unique and inimitable bundle of resources resulting from the interaction of family with the business (Habbershon & Williams, 1999). In other cases, the destructive influence of family relationships such as sibling rivalry is strong that very few family businesses successfully navigating the transition; results in more than 85% of family businesses fail to survive to third generation (LeBreton-Miller, Miller & Steier, 2004).

A high failure rate might give impression that family business are dying entity with low importance to world economy, which is far from the truth. Family businesses are the dominant form of business entity in major economies across the world including the United State of America (e.g. Shanker & Astrachan, 1996). Gomez-Mejia, Larraza-kintana, and Makri (2003) indicated that in the USA, based on prior research, families control anywhere between 80 to 95% of all firms and employ more than 85% of the labor force.

In search for excellence for family firms, the focus of research has on shifted on family identity (e.g. Milton, 2008; Reay, 2009, Shepherd & Haynie, 2009). Most of the researchers indentified positive organizational and family outcomes of family identity in family business. For example, Milton (2008) argued that for family businesses identity confirmation can be a resource providing relational capabilities that differentiates them from nonfamily businesses. Shepherd and
Haynie (2009) focused on conflict between family and business identities, and proposed a new family-business meta-identity construct and explained how it resolves conflict arising due to entrepreneurial opportunities in family businesses. Most of the papers focusing on family or identity are theoretical with authors calling for more empirical research to test proposed

In a recent paper Mahto et al. (2010) found positive relationship between family’s identification with business and family’s satisfaction with business performance. They argued that family with stronger identification with family business is more likely to be satisfied with low business performance and continue involvement in the family entity. This may ensure longevity of such family businesses. Mahto et al (2010) also called for more research to understand the influence of family’s identification with family business on firm behavior and choices. However, empirical research in this area has been lacking. Our paper is in response to call of family business researchers focusing on family identity. In this paper, we argue that family’s identification with family business influences family behavior in community (e.g. philanthropic activities), family (values) and family business (CEO selection and business decisions). We use social identity theory (Tajfel & Turner, 1986) to build our arguments. We also use a sample of North American Family businesses to test our hypotheses.

Besides answering family business researchers’ call for more research on family identity, our research contributes to the family business literature in three important ways. First, in this paper we theoretically link family’s identification with business to selection of family or non-family CEO and empirically test the proposed relationship. Second, we explain and test how family’s identification with business is linked to family’s philanthropic activities. Finally, our research explains how family values are linked to family’s identification with the business.

The paper starts with a brief explanation of the social identity theory. Next we explain the development of linkage between family and business identities. We develop our hypotheses the next. Then we provide description of our sample, measures, and results. Finally we offer discuss our finding and end with conclusion.
SOCIAL IDENTITY THEORY

Social identity theory argues that individuals classify themselves and others into groups in ways that enable them to maintain high self-esteem (Turner, 1982). Uncertainty reduction about one’s identity or desire to create predictable relationships seems to be the primary motivation in social identification (Hogg, 2008). The secondary motivation for the social identity is the status enhancement. The theory argues positive valuation of in-group members reduces the uncertainty about one’s own identity and enhances self-esteem. At the same time, a benefit of maintaining continuity in the identity because of identification with the group reduces uncertainty about one’s own identity and thereby reducing one’s risk.

As social identification is a group level phenomenon focusing on how individuals and groups create shared identity, it fits for understanding the development of identity in families owning business.

HYPOTHESIS

Tannenbaum (1983) in his work on employee stock option theory proposed that identification is the key to understanding changes in employee attitudes like commitment. Since then, a stream of research has continued to suggest that identity produces positive attitudinal changes in individuals, such as higher commitment (Ashforth & Kreiner, 1999) and cooperation between group members (Milton & Westphal, 2005). Ashforth and Mael defined “social identification as the perception of oneness with or belongingness to some human aggregate” (1989:21). The close involvement of the family in the business makes it normal for family role to spillover into the business and vice versa, implying that family members’ perception of self could be based on their affiliation with their family business. To some extent, family members’ self-esteem may be related to the continuance of family business (Brown, 1997; Elsbach & Kramer, 1996). As the family members’ identity links the reputation of the family with business survival (Anderson et al., 2003) any threat to the business’s reputation will appear as a threat to individual’s identity. Once the family members’ reputations are linked with the business, a threat to the business’s survival becomes a threat to the existence of the family itself (Kets de Vries, 1993).
Stronger family identification with the business is also reinforced by the association of the family’s name with the business. It is quite common that the family name (e.g. last name) is shared by the business (Kets de Vries, 1993), thereby visibly linking the family to the business in the external environment. Over time the linkage becomes so strong that people outside the business fail to differentiate between “the family” and “the business”. This construed external image (Dutton & Dukerich, 1991) not only creates a strong cognitive connection between the family and the business in people outside the family but also creates a similar cognitive effect in family members. In constructing a particular organizational identity for presentation to outsiders, family members reinforce the inseparable part of family and business.

Family members’ common genetic origin provides them a sense of shared common identity. The family business is often the primary, even the sole source of the livelihood and wealth for family members. Because their fortune is associated with the business, family members meet to discuss future business directions and plans (Habbershon & Astrachan, 1997). During these family meetings, family members often discuss their common history and heritage, beliefs and values, thus reinforcing feelings of shared identity and increasing the potential for collective action (Habbershon & Astrachan, 1997). Ownership among the family members reinforces the feelings of shared identity among them (Gomez-Mejia et al., 2001) as well as ensuring that family members share similar values.

**H1:** *Families that identify more strongly with their family business are more likely to share similar family values.*

This higher identification or the perception of “oneness” with the business (Ashforth & Mael, 1989) encourages family members to maintain the business in family ensuring the legacy to future generations (Anderson et al., 2003). Thus, the commitment to preserve the family business will be higher. At the same time, the higher social identification means family will search a good between CEO leading the family entity and the family. The family CEOs reduces the risk mismatch between family identity and nonfamily CEOs. Therefore we propose:

**H2:** *Families that identify more strongly with their family business are more likely to (a) choose family members as successor and (b) prefer to maintain family control over the business.*
Kepner (1991) said, “The family may feel responsible for protecting and projecting their image.” As family members derive their status and recognition because of the membership in the family that owns the business, they are likely to not only protect the current identity of the family but also enhance the identity with positive image in the society. So the family is more likely to engage in activities that preserves and enhances the existing identity of the family. A non-business activity commonly used to enhance family identity in the community is philanthropic activities. It is logical to believe families interested in enhancing their identity are likely to increase their philanthropic activities.

**H3:** *Families that identify more strongly with their family business are more likely to engage in philanthropic activities.*

**Control Variables.** As the family size increases, the potential for conflict among family and the dispersion of business ownership increases (e.g. Davis & Harviston, 2001). This may affect the family cohesion and ability to take collective action (e.g. Habbershon & Astrachan, 1997) and the development of shared identity in families. As a result, the lack of cohesion and unity in the family may have detrimental consequences on the family’s identification with the business. In order to remove the potentially biasing effect of ownership dispersion in the family, we controlled for the effect of the number of adult family owners in our model. In addition, family business size may influence the choice of CEO, desire of family control, development of similar values, and family’s ability to engage in philanthropic activities (Mahto, Chen, & Davis, 2006). Family businesses in later generations are more likely to be larger and have larger number of family owners. So, we also controlled for the family business generation in our model.

**METHODS**

**Sample**

We tested our hypotheses using a sample of North American family businesses obtained through a survey in 2002. Survey sponsors, the George & Robin Raymond Family Business Institute, the Raymond Institute, Loyola University of Chicago, Kennesaw State University, Babson College, and the Family Business Enterprise at the Mass Mutual Financial Group, randomly selected a sample
from a comprehensive, nationwide database of family-owned businesses maintained by Dun & Bradstreet. Sampled firms had to have annual revenues of at least two million dollars, and have founded at least ten years prior to the survey.

The sample contained 1,143 family firm respondents representing different family firms. In this study, we imposed an additional constraint on this data such that respondents had to be a member of the top management team. We imposed this constraint consistent with Huber and Power’s (1985) recommendation that “if only one informant per organization is to be questioned, attempt to identify the person most knowledgeable about the issue of interest” (1985: 174). One would expect a TMT member to possess considerable knowledge about the family and its influence, as well as the firm, and its performance, both as achieved and as aspirations. Although sometimes criticized as being subject to possible bias and distortion (Phillips, 1981), key informants have been found to provide generally reliable measures of organizational phenomena (Dess & Robinson, 1984; Golden, 1992). After removing observations with missing variables, we obtained a final usable sample of 1,038 family firms participating in a cross-section of industries including manufacturing, financial services, retail, construction, mining/oil and gas, telecommunications, hi-tech/bio-tech, transportation, and agriculture/forestry.

**Measures**

**Family’s Identification with Business.** We measured family’s identification with business by asking respondents, “How much does the business contribute to the family’s identity in the community and elsewhere?” Respondents indicated their preference on a 5-point Likert scale ranging from 1= not at all to 5=very much so.

**Family Values.** We measure similarity in family values by asking respondents to indicate on a five-point Likert-type scale (ranging from 1 = Not at all to 5 = To a large extent) if family members share similar values.

**Successor Choice:** Asked the respondents to indicate whether the successor is from the family. In response, the respondents selected ‘Yes’ or ‘No’ options. We coded ‘Yes = 1’ and ‘No = 2’ for our analysis.
Family Control. We measured family control by asking respondents, “Do you believe that your business will be controlled by the same family(ies) in five years?” Respondents selected Yes, which was coded as 1 or No, which was coded as 2.

Philanthropic Activity. We assessed family’s philanthropic activity by asking respondents, “Do you have any coordinate family philanthropy?”. Respondents selected Yes, which was coded as 1 or No, which was coded as 2.

Control Variables. Respondents indicated the number of family members on the survey that we used to operationalize family size. For firm size, we take a log transformation of the number of full-time employees, accounting for the fact that the impact of size diminishes with the organization’s scale. We measured firm generation by asking, “Which is the most recent generation that actively manages the company?”.

ANALYSIS AND RESULTS

We used simple correlation for testing the hypotheses. The correlation among study variables along with mean and standard deviation, are shown in Table 1.

As can be seen in the table 1, family’s identification with business (negatively coded) is significantly related to the family values. The relationship is negative, suggesting a positive relationship (due to negative coding) between family’s identification with business and family values. Therefore, hypothesis 1 is supported.

Family’s identification with business is significantly related to family’s desire to maintain control over the family business. The relationship is positive (both items negatively coded) suggesting stronger family identification leads to higher desire for family control of family business. However, family’s identification with business is not related to family CEO selection. Therefore, hypothesis 2 is only partially supported.
Family’s identification with business is significantly related to family’s philanthropic activities. The relationship is positive (both items negatively coded) suggesting families with stronger family identification with business are more likely to engage in higher philanthropic activities.

**DISCUSSION AND CONCLUSION**

Our findings indicate that family’s identification has a significant influence on family business and family behavior. The higher family identification is associated with similarity of family member values. The finding empirically support Milton’s (2008) and Shepherd and Haynie’s (2009) arguments for positive impact of family identity on family business outcomes. Our findings also suggest that stronger family identification results in stronger desire for control of family firms, a benefit touted by previous researchers such Mahto et al (2010), who suggested higher family identification leads to higher satisfaction with business financial performance and motivates family owners to remain engaged in the family business.

A unique finding our study is that the stronger family identification leads business to be more active in their community to enhance the image of their consistent with the arguments of social identity theory. This may have implications for communities who are looking to benefit from the presence of family entities. These communities should highlight family businesses in their community so as to enhance the family identity that motivates family businesses to become more active in philanthropic activities.

We believe research makes significant contribution to the family business literature. However, we caution readers for generalizing the findings of this study due to some limitations. The use of single respondents for getting data for family businesses is a major weakness of this study. Use of single respondent is a common practice in human resource, psychology, and organizational behavior research. Despite the acceptance of single respondent per organization in many field, we were careful to select only those respondents who are likely to possess significant organization knowledge.
REFERENCES


Table 1. Correlation Table

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**. Correlation is significant at the 0.01 level (2-tailed).

*. Correlation is significant at the 0.05 level (2-tailed).