

The History of Family Business, 1850–2000. By *Andrea Colli*. Cambridge, U.K.: Cambridge University Press, 2003. 100 pp. Index, bibliography. Cloth, \$40.00; paper, \$15.00. ISBN 0-521-80028-5; paper 0-521-80472-8.

Reviewed by Giandomenico Piluso

According to the traditional view, family firms are condemned to play merely a residual role in economic growth. In fact, during the second and third industrial revolutions, technological constraints called for changes in the ownership and organizational structures of enterprises that were active in the capital-, scale-, and research-intensive sectors. Typically, ownership became separated from control, and founders' families were removed from management positions and often from the premises of their firms as well. Seen from this perspective, family businesses appear only in the first phases of industrialization or in a few industrial sectors (essentially the light ones). Thus, when a national economy is undergoing modernization, the number of family firms must necessarily shrink, and their influence must diminish as well. Thus, the classic dualistic model affirms that family businesses continue to operate only in the light, labor-intensive, specialized industries. This perspective assumes, as a consequence, a long-run convergence in institutional and organizational models. Yet, contrary to this largely accepted view, family businesses have shown themselves to be resilient in almost all developed economies, although they have taken various forms, depending on the cultural, legal, and institutional frameworks of their respective countries.

In *The History of Family Business, 1850–2000*, Andrea Colli presents a clear, systematic analysis, both historical and theoretical, of the emergence and persistence of the family firm. Both transaction cost and agency theories hold that family firms do well in national contexts that value the qualities of trust and reliability associated with the institution of the family. These qualities, which are linked to solid reputations, can significantly reduce the high costs produced by lack of information, uncertainty in commitment, and moral hazard. Empirical evidence suggests that family firms also succeed in the advanced institutional and sophisticated contexts of leading industrialized

countries. Even though there is no simple definition of a family firm—making it difficult to quantify the diffusion of these enterprises—we can observe that, in industrialized countries, large firms owned or controlled by families wield a considerable influence. Their degree of influence can vary, depending on how “family business” is defined, but a certain amount of vagueness is inevitable in the face of so many competing concepts. Colli suggests that we should adopt “a loose definition” that is “flexible enough to cover all the possible situations while also encompassing the changing nature of the family firm itself” (p. 19).

If we assume a broad definition of family business, we must recognize a continuum of organizational and ownership forms, rather than adhering to the idea of a sharp alternative between purely family-owned firms and purely public companies that was put forth by Adolf A. Berle and Gardiner C. Means in *The Modern Corporation and Private Property* [1932]) and has remained the orthodox view ever since. On this continuum, the organizational forms range from informal partnerships and networks to formal managerial hierarchies, but every form contains examples of the family acting as an important institution, creating knowledge, skills, capabilities, trust, motivation, and reputation. The “Buddenbrooks effect,” which is the term for the loss of motivation and decline in capability that is frequently observed in the third generation of entrepreneurs, often produces conservative attitudes toward investment and innovation, leading in turn to negative effects on macroeconomic growth. But several national cases—for instance, “Rheinisch capitalism” in continental Europe, the *zaibatsu* and the *keiretsu* in Japan, and the *chaebol* in South Korea—call this tendency into question, as they demonstrate the persistence of family firms in innovative and profitable sectors: they are “the best demonstration of ‘efficiency’ against a defined institutional framework, rather than failure” (p. 26). The unexpected resilience of large family companies in all the advanced economies up to the present, Colli suggests, is “due to a set of ‘structural’ internal factors which have enhanced their competitiveness and ability to react to market challenges” (pp. 74–5). Family businesses have competitive advantages in certain sectors, such as distribution, services, banking and finance, consumer goods, fashion, and luxury goods. For instance, recent research has demonstrated that, in France and Great Britain, a number of family firms—Rowntree, Cadbury, Peugeot, Michelin, Leclerc, and Cristofle

being some examples—have successfully competed by expanding and modernizing their organizational structures. Similarly, in Italy, the majority of top corporations, such as Fiat, Pirelli, and Olivetti, continue to be controlled and directed by families, as are many new entrants on the scene, such as Benetton, Ferrero, Luxottica (Del Vecchio), Versace, and Armani. Elsewhere, families have promoted industrial development and competitiveness, as exemplified by the *zaibatsu* and *keiretsu* in Japan.

Almost every successful family firm has emerged from a peculiar mix of institutional and cultural forms. Generally, the family firm has managed to expand and modernize in its country's capital- and scale-intensive sectors by creating managerial cohorts and special devices of corporate governance, such as pyramidal holdings, cross-shareholding, voting agreements, and syndicates. By applying these strategies, families have been able to maintain ownership and control of their firms without being forced to impose sophisticated forms of hierarchic organization. Moreover, the presence of family shareholders whose commitment to the company is for the long term can be regarded as a real management asset, especially during periods of crisis and turbulence. Even when large family firms are managerial organizations, medium-sized corporations are seldom synonymous with delegation and managerial hierarchies, as Italian industrial districts demonstrate. The set of "hybrid" configurations of corporate governance and organizational structures depends on the extreme variety of legal, cultural, and political environments. Recent debates have identified success or failure as largely dependent on leadership succession and corporate governance.

With this short but exhaustive book, Colli has demonstrated that the family business is not a mere holdover from the past, but, rather, a successful institution that can combine "the virtues of trust, low transaction costs, and long-term commitment with creative entrepreneurship and management" (p. 72).

Giandomenico Piluso teaches economic history at Bocconi University, Milan, and at the University of Siena. He is the author of numerous articles on the evolution of Italian financial structures from the early nineteenth century to the last decades, including Storia del Banco di Sardegna (1995), with Leandro Conte and Gianni Toniolo, and L'arte dei

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banchieri. Moneta e credito a Milano da Napoleone all'Unità (1999). *He was the editor of the Italian business history review Imprese e Storia from 1999 to 2002.*