Received: 10 July 2022 | Revised: 16 November 2022 | Accepted: 17 January 2023
DOI: 10.1002/sres.2935

RESEARCH PAPER

SYSTEMS RESEARCH and BEHAVIORAL SCIENCE WILEY

Managerialization, professionalization and firm performance in family business: A Systems Thinking perspective

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Abstract

This paper proposes a systemic model on the intertwined relations among managerialization, professionalization and firm economic performance, considering both business- and family-specific features and issues. It sheds light on the role that, in the family business, the firm economic performance may play in favouring a positive development of both the business and the family itself. It aims at understanding how, in family businesses, the firm managerialization and professionalization may represent relevant drivers of firm performance. A Systems Thinking model based on causal loop diagrams was developed, to provide a clear framing of the interrelationships among the various aspects at stake. The conceptual model combines with systemic perspective all the variables and relationships that come into play when considering jointly the growth and development of the company and the family. This paper provides not only a conceptual background but also practical insights for family business' owners, managers and consultants.

KEYWORDS

family business, firm performance, managerialization, professionalization, Systems Thinking

1 | INTRODUCTION

Family business is characterized by the presence of two distinct entities, business and family, which imply different visions, objectives and features, making this kind of organization more complex than a non-family firm (Chrisman et al., 2003). On the one side, the business' characteristics and dynamics are deeply influenced by the firm strategic and organizational complexity and by the firm growth and development (Chenhall & Langfield-Smith, 1998); on the other side, some distinctive features, originating from the family context, characterize family businesses and have an impact not only on families themselves but also on the business, such as family involvement in ownership (FIO), governance (FIG) and management (FIM) (Gersick et al., 1997); generational succession; socio-emotional wealth (SEW) (Gomez-Mejia et al., 2011); and familiness (Habbershon et al., 2003).

Family firms are the majority of businesses in the world, with positive impacts on gross domestic product and employment in all countries (Daspit et al., 2018). However, research evidences that they hardly survive the first generation because of their failure to manage issues such as generational transition in the family and management selection and managerialization of the business (Ng et al., 2019). This evidence raises an important question: *how can a family business with strong involvement and control of the family in areas of ownership and management grow, develop and generate sustainable economic performance?*

This work will try to address this question, by analysing the role of managerial practices and professional managers. As we know, managerialization and professionalization are strictly linked (Abernethy et al., 2010): Professional managers need managerial mechanisms to take their decisions and implement their actions but, on the other hand, the appropriate use of such mechanisms requires specialized skills and knowledge.

We propose that, in family business, managerialization and professionalization should be implemented differently than in non-family firms, because the former constitutes a more systemic and real complex social system (Vallejo-Martos, 2016). In particular, the interplay between managerialization, professionalization and the economic performance of a family business is heavily impacted also by the family dimension. Therefore, another important question is raised concerning how the various dynamic dimensions of family business, namely, business, family and ownership (Von Schlippe & Frank, 2013)—interact among each other and under the relationship among managerialization, professionalization and firm performance.

In other words, *which characteristics of the family, the business and the ownership impact on firm managerialization, professionalization and performance? And how? Which aspects can be considered as advantages or disadvantages of managerialization and professionalization of family businesses?*

Additionally, when moving from a static perspective to a dynamic one, another question emerges when trying to capture those elements that, thanks to an effective management of the generational transition, allow for a profitable and harmonious growth of both the company and the family (Le Breton–Miller et al., 2004): *how to coherently coordinate the family and the business over time by jointly managing the family generational transition and the company's growth and development?*

Literature has dealt only partially with these issues, mostly focusing only on a single mechanism at a time (i.e. strategic planning and managerial incentives) (Craig & Moores, 2005), and mainly considering some kind of professionalization (i.e. involvement of non-family managers [NFMs]) (Chittoor & Das, 2007; Senftlechner & Hiebl, 2015).

The majority of previous studies separately analysed either managerialization (Helsen et al., 2017; Quinn et al., 2018; Senftlechner & Hiebl, 2015) or professionalization (Chittoor & Das, 2007), whereas only few studies investigated them in conjunction (Dekker et al., 2015). Moreover, the literature on the relationship connecting these two aspects with the firm's economic performance is quite scarce (Songini, 2006). Previous studies on these issues only focus on the company (Quinn et al., 2018; Songini, 2006), and to our knowledge, there is no study investigating how the business and the family interact in influencing the firm's managerialization, professionalization and performance. Indeed, only a very few studies have tried to develop a systemic understanding of family businesses' complex structure (Butler & Ko, 2015; Gabriel & Bitsch, 2018).

Moreover, studies have failed so far to address such issues through a systemic perspective, hence by trying to understand their interrelationships and interdependencies through a holistic view, which indeed seems to be necessary in enterprise management.

We decided to develop a conceptual paper as suggested by Jaakkola (2020, pp. 19–20): 'Conceptual papers typically focus on proposing new relationships among constructs; the purpose is thus to develop logical and complete arguments about these associations rather than testing them empirically.'

In particular, we consider that the issues addressed in this study involve the analysis of different concepts as well as a systemic analysis of their interdependencies (which has not been fully explored by the literature). The field of study at the intersection between firm and family dynamics is inherently complex because of the articulated (and not so easy to examine) mutual relationships between these two environments (de Araujo et al., 2016). Many of the analysed variables are non-linear, and their causal interdependencies involve circularity (mostly in the form of information feedback) and delays between cause and effect.

For these reasons, to conceptualize and examine the relationships among firm economic performance, managerialization and professionalization in family business, we adopted the Systems Thinking (ST) approach. In fact, ST allows capturing the real and circular structure of a system, in which mutual influences and interdependencies among various involved aspects/variables are expressly elicited and can be thus easily understood.

The need for systemic approaches in the analysis of family business is suggested also by Qiu and Freel (2020), who described System Dynamics (SD) (Forrester, 1961)—which is an elective quantitative declination of ST—as a 'particularly promising method' (p. 108) to address complexity in the family business field. In turn, Paucar-Caceres et al. (2016) stated that systems theory is particularly suitable for research in the area of family business.

Finally, this paper not only aims at setting a new conceptual background for analysing and understanding family business dynamics but also wants to offer some practical insights to family businesses to manage more consciously the complex relationships among managerialization, professionalization and firm economic performance, while consistently running the development of both the family and the business.

This paper is organized as follows: Section 2 presents the relevant literature. Section 3 highlights research methodology. Section 4 presents our theoretical framework developed according to ST and SD approaches. Finally, Section 5 presents conclusions and future research directions.

2 | RESEARCH BACKGROUND

In this paragraph, we summarize and discuss the main studies to date on family business managerialization and professionalization and on their relationship with firm economic performance. First, a brief summary of the main features of family business is presented that can help in understanding its specific context—and so appreciating the relationship between managerialization, professionalization and firm performance in this kind of organization.

2.1 | Family business

Among the distinctive features that characterize family businesses, the most relevant may be summarized as follows (Songini et al., 2013): (1) *familiness* (Habbershon et al., 2003) and *SEW* or affective endowments (Gómez-Mejía et al., 2007), which identify the family's distinctive intangible capital; (2) *FIO* and *FIM*, which may have an impact on agency conflicts and costs; and (3) the *succession process*, which may represent a critical issue for family business.

In the following, the authors are going to indicate some relevant studies about these typical factors, anticipating what are the key factors for the subsequent systemic analysis.

Familiness (Habbershon et al., 2003) refers to 'the inseparable and synergistic resources and capabilities arising by family involvement and interactions' (Songini et al., 2013, p. 76). SEW (Gomez-Mejia et al., 2011) 'originates from the strong emotional overtone characterizing various dynamics of family business, from strong family values permeating the organization, and from altruistic behavior typically found among family owners' (Songini et al., 2013, p. 76).

The study of the evolution of SEW over generations and its impact on family firms' continuity and performance is a very topical subject (Berrone et al., 2012). However, grasping its evolution and its basic dynamics is far from an easy task. Some authors propose that SEW reduces over time. It is strong when the first generation (founder) owns and manages the family firm and decreases when the baton passes to the next generations (Angulo et al., 2016; Gómez-Mejía et al., 2007).

Both agency theory and stewardship theory explain how FIM and FIO may reduce agency conflicts and so the need for formal managerial mechanisms in family business (Songini & Gnan, 2015). FIO and FIM reinforce family's intangible capital and imply no agency conflicts or opportunistic behaviours of family members. Also, according to a classic agency perspective, when there is a coincidence between ownership and management, family businesses experience reduced agency conflicts and costs (Anderson & Reeb, 2003; Fama & Jensen, 1983). In contrast, other authors have proposed that, in family business, FIO and FIM may cause some inefficient behaviours, such as free riding and entrenchment. Moreover, distinctive agency conflicts may arise from sources other than the classic principal–agent conflict (Songini et al., 2015; Songini & Gnan, 2015), generating a more complex situation in terms of agency conflicts and costs, than in non-family business.

Finally, authors agree on the fact that the move from one generation to the next one is one of the biggest issues for family businesses (Songini et al., 2013). Succession implies many challenges for family business, which are derived mainly from the overlapping of ownership, management and the family (Gersick et al., 1997). Trust and harmony in the family at the time of succession and experience with succession may favour or complicate the succession process (Dyer, 1989; Le Breton–Miller et al., 2004), having impacts on firm continuity and performance.

2.2 | Managerialization

A firm can be defined as managerial if it implements different formal managerial mechanisms, such as *Managerial Control Systems* (MCSs) (Malmi & Brown, 2008) and *Human Resource Management Systems* (HRM) (Flamini et al., 2020).

The adoption of managerial mechanisms allows organizations to define their objectives to be achieved and the related needed resources, in turn providing the company staff with knowledge necessary to take decisions.

To grasp the determinants of managerialization, it is useful to adopt the perspective of contingency theory

(Anderson and Lanen 1999; Chenhall & Langfield-Smith, 1998).

Many contingency factors have been proposed by the literature (Chenhall, 2003; Pavlatos, 2018), such as external environment, culture, strategic choices, market orientation, organizational structure, size, firm life cycle stage and technology.

Over the last three decades, many authors analysed the determinants of the diffusion of managerial systems into private organizations (Chenhall, 2003), whereas very few dealt with the very same issue inside family businesses. A few recent contributions (Flamini et al., 2020) proposed a state-of-the-art analysis of the literature on managerialization in family firms, highlighting how the existing studies are very few and not very conclusive. They show that family businesses are generally characterized by a lower diffusion of managerial mechanisms, as a consequence of widespread entrepreneurship, strong linkages between the family and the business, and by an overlap among FIO, FIG and FIM. However, some authors stated that formal mechanisms may help family business to cope with the interests and issues of both the firm and the family, as well as their specific agency costs, and that they reduce any potential opportunistic behaviours from relatives (Schulze et al., 2001).

2.3 | Professionalization

Professionalization concerns the involvement of professional managers, who have the authority to make decisions (Dekker et al., 2015) and who must be motivated to implement the firm's strategy (Chua et al., 2003).

Professional managers are assumed to be 'expert' in managerial issues and to know what is 'good' for the company. The presence of professional managers within the firm may favour formal training, formalized structures and the adoption of managerial tools (Polat & Benligiray, 2022).

In family business, professionalization may imply different paths, such as the professionalization of family members and/or the employment of professional managers (Dyer, 1989; Hiebl & Mayrleitner, 2019). The last option concerns either/both the professionalization of non-family employees, already working in the family business, or/and the appointment of outside professional managers.

Most literature has accounted for the possibility that only external managers can be considered professional and has often referred to family managers (FMs) as lacking the needed competencies and skills (Bennedsen et al., 2007). This supported the diffusion of the belief that the development and growth of the family business requires the involvement of external NFMs (Dekker et al., 2015). The presence of external NFMs within the firm may favour the adoption of managerial practices, help with the family succession process (Stewart & Hitt, 2012), cause better succession performance and favour the widespread of a managerial culture (Chittoor & Das, 2007).

As suggested by Hall and Nordqvist (2008), external NFMs require both formal/specialized and cultural competence. This last refers to as the capability of understanding the unique sociocultural patterns originating from the family's influence on a business. Songini et al. (2013) underlined how SEW may explain the aversion of some family firms to engage external NFMs members. Finally, the involvement of NFMs in a family business can imply the emergence of classic agency conflicts between owners and managers that needs to be managed through appropriate managerial mechanisms (Li & Zuo, 2020).

Differently from external NFMs, FMs are characterized by strong commitment, sense of belonging and of a common destiny, which increase cohesion and consensus in the top management team (TMT) (Zellweger et al., 2010), thus favouring relations based on trust (Arregle et al., 2007; Pearson et al., 2008). Actually, FMs pursue socio-emotional objectives, whereas external NFMs are more focused on economic goals (Berrone et al., 2012). Jones et al. (2008) affirmed that family firms generally prefer having family executives rather than external managers, so to be able to maintain a degree of control on family values and other elements of SEW. However, some authors showed that FIM may generate benefits only in some specific circumstances and contexts (Daspit et al., 2018; Sciascia & Mazzola, 2008).

Finally, some authors showed that when a managerial position cannot be occupied by a family member, it is mostly the firm internal labour market that gets activated, and an employee already working in the business gets generally preferred to an outsider manager (Chittoor & Das, 2007).

2.4 | The relationships among managerialization, professionalization and firm economic performance

Firm performance is measured through a set of financial and non-financial indicators that provide information on the achievement of objectives and results.

In family business, most contributions focus on economic performance (Gnan & Montemerlo, 2001). Although firm economic performance may be determined by several aspects (i.e. revenues, profitability, leverage, sales growth, investments, current assets and cash flow), in family business, firm performance is also influenced by the family having a positive impact (i.e. lower classic agency costs and family's unique skills, flexibility and motivation) or a negative one (i.e. higher agency costs for conflicting goals, opportunism and adverse selection and lack of talent or inadequate training) on it (Dyer, 2006).

Concerning the literature on the impact of managerialization in family businesses, some authors agreed that it may have a positive influence on firm economic performance (Lavia López & Hiebl, 2015). Some studies found that strategic planning (Ward, 1997) and HRM (Dekker et al., 2015; Stewart & Hitt, 2012) affect positively firm financial performance.

As for the relationship between professionalization and firm economic performance, literature proposes a significantly positive relationship between managerial capabilities and performance (Ng et al., 2019). Managerial capabilities are also important determinants in the firm growth (Barbero et al., 2011), and this relationship has also been established in the context of family businesses (Agyapong et al., 2016). Moreover, Pearson et al. (2008) proposed that family involvement in management could lead to the development of family-specific capabilities, ultimately resulting in better economic performance. Some studies have argued that when family businesses are unprofessionally managed, they are vulnerable to nepotism and entrenchment, which negatively affect financial performance (Rutherford et al., 2008; Schulze et al., 2001).

3 | METHODOLOGY

We stated that firms (whether they are family ones or not) can be considered complex systems because of their features and complexity of relationships among their various organizational aspects (Vollero et al., 2019); thus, as such, they constitute a nice fit for investigation through a systemic approach. The ST approach, through its elective quantitative modelling and simulation methodology, SD, is particularly fit for the representation of a complex system (e.g. organizations) as a series of interrelated processes whose interdependencies are characterized by circular causality, non-linear relationships and delays between cause and effect. ST (through simulation) allows extrapolating information and discovering hidden/counter-intuitive behaviours over time (Sterman, 2000).

Although ST has proved to be useful for knowledge elicitation and organizational learning in big enterprises and organizations management (Bucaro, 2019; Li et al., 2012), as well as for conflicts/paradoxes resolution within business management (Cronin & Bezrukova, 2019), only a few family business studies adopted it to understand family firms' dynamics (Butler & Ko, 2015; Gabriel & Bitsch, 2018). In this work, we address the effect of the duality between managerialization and professionalization on family business' dynamics, with a specific emphasis on the understanding of such effects on firm economic performance. Towards this goal, we will use the causal loop diagram (CLD) tool, typical of ST, that will support the discovery, conceptualization and understanding of various systemic relationships existing in family businesses, as well as how managerialization and professionalization can be factored in such a complex context. The foundations on which the diagram is developed are based on a narrative-based literature review that was partially presented in Section 2 and then intensely used in Section 4 for the proper description of the elements and connections that compose the CLD.

The choice of narrative-based literature review and CLD development comes from the facilitation of addressing the lack of conversation between family business theories and complexity domain. Thanks to causal reasoning, this helps create a broad starting point for further empirical research on the subject. At the same time, ST can help in describing and understanding the structure of family business systems and provide qualitative models that can explicitly address the presence of structures capturing unexpected or relevant dynamics that deserve further investigation.

CLDs are in fact fit to describe the many interactions in complex systems, and notwithstanding their qualitative value, they allow for a wide perspective, linking and eliciting several, even heterogeneous, system's aspects with the aim of triggering a learning process and eventually modifying mental models of decision-makers (Mollona, 2008), hence constituting a valid alternative to analytical approaches working on a sectoral basis.

CLD design relies on participatory modelling sessions (Vennix, 1999): They are (mind-) maps that combine various oriented links (represented as 'arrows') that causally tie together the various relevant aspects (the model variables) of a system. Hence, a causal loop diagram is defined as a 'directed di-graph', a graph whose arcs—connecting two variables—have a direction (of causality) and a polarity. Closed causal relationships may also determine some 'feedback loops': Feedback loops are basic systemic structures that can be of two types: reinforcing (indicated by + inside the loop and determining an exponential growth/decay) and balancing feedback loops (indicated by − inside the loop and determining a limited growth/decay and promoting a settling to equilibrium by reducing the effects of possible perturbations).

In this paper, we use an 'enhanced' version of the typical CLDs, by introducing the notation of stocks and flows, so to better represent certain specific processes. Stocks represent points of accumulation and movement of quantities (from a mathematical point of view, they represent the integral, over time, of their associated flows). Flows, in turn, are continuous values that cause an increase, or decrease, of stocks' values. A typical stock and flow representation inside organizations is constituted by the processes of human resources acquisition (inflow) or loss (outflow), which are the two main logical components defining the behaviour over time of the amount of human resources (the stock) inside a company.

4 | THE RELATIONSHIPS AMONG FIRM ECONOMIC PERFORMANCE, MANAGERIALIZATION AND PROFESSIONALIZATION IN FAMILY BUSINESS: A SYSTEMS PERSPECTIVE

Building on the literature discussed in par. 2, we developed a novel CLD to study the structural interdependencies among managerialization, professionalization and firm performance, inside the specific complex environment of family business. The model is presented, step by step, by gradually introducing and explaining the existing systemic structures and feedback loops.

In Figure 1, the relationships between firm economic performance and managerialization are represented: namely, a change in the firm economic performance (a stock) affects strategic and organizational complexity (through a firm's growth and development) as well as the need for formal tools. This is because, due to an increase in economic performance, the firm has more resources to invest in its development and growth, thanks to self-financing through reinvested profits. Because of the willingness to maintain family control and influence in the long term, the objective of SEW preservation and the focus on non-economic returns, many family firms tend to reinvest profits instead of distributing dividends to shareholders (Caspar et al., 2010).

Thus, accumulated profits often represent the biggest source for financing investments in family businesses, as family shareholders are not willing to open shareholding to non-family actors or to leverage on debt (Romano et al., 2001). So the higher the profits to be reinvested, the bigger the firm growth and development will be. We call the reinforcing loop explaining this dynamic (R1 in Figure 1) the 'Increasing performance' loop.

Additionally, the development and growth of the firm implies a higher level of strategic complexity. According to contingency and organizational theories (Chenhall, 2003), strategic complexity also determines a higher level of organizational complexity (a need for new roles, new structures, competencies, delegating to a larger number of supervisors). So, if the firm's economic performance increases over time, the strategic and organizational complexity also increases (positive relationship), leading to the need for new, more efficient and effective managerial mechanisms. In turn, the adoption of managerial mechanisms increases firm efficiency and effectiveness, hence providing benefits to the overall firm's performance. This results in a reinforcing loop (R2) that we call 'Managerialization'.

However, as the firm achieves good performance, it may start losing its real need to change. As a consequence, this 'success syndrome' could lead to

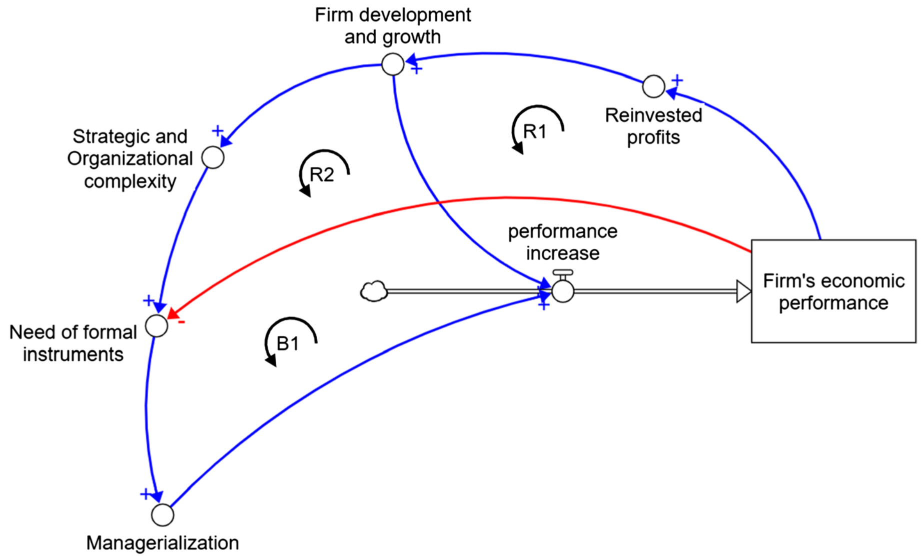

FIGURE 1 Increasing performance loop (R1), managerialization loop (R2) and success syndrome (B1) loop. [Colour figure can be viewed at wileyonlinelibrary.com]

organizational inertia (Gilbert, 2005) and consequently block any managerial innovation, including the adoption of managerial tools (MCSs, HRM). In contrast, the firm should feel the need for introducing managerial mechanisms under poor economic performance, because of the need to monitor and manage costs and profitability. This generates an equilibrium between performance and managerialization, captured by a balancing loop (B1) called 'Success syndrome'. These kinds of relationships and loops can commonly be found in any kind of growing firm, and they are the natural result of the improvement cycle triggered by the performance feedback.

Moving to the link between managerialization and a firm's economic performance in family businesses, we propose that among the various benefits that managerialization generates for the family business economic performance, there is also a mitigation of opportunistic behaviours by the family members (Figure 2).

When managerial roles are fulfilled by family members, opportunistic behaviours may emerge as a consequence of parental altruism (as unjustified benefits and professional advances compared with capability and reached performances, free riding and entrenchment by family members). Altruism may imply agency conflicts and costs (Schulze et al., 2001) that can lead to strong negative impacts on a family business economic performance. As suggested by O'Brien et al. (2018), as family members expect lower sanctions' severity and likelihood of being reported, the family business owner should protect against opportunism by all employees, including genetic relatives. In this situation, managerialization can play a role in mitigating (negative link) opportunistic behaviours of family members, in turn improving (two negative links mean a positive effect) the firm's economic performance and generating a reinforcing loop called 'Opportunistic behaviors mitigation' (R3, Figure 2). In fact, managerial tools may be used to assign goals to family (and non-family) managers and to objectively evaluate their performance. By introducing the concept of opportunistic behaviour and related agency conflicts and costs arising from asymmetric altruism (Schulze et al., 2001), the model can be extended by integrating specific family issues. Hence, the model outlines that managerial practices, generally considered to be firm mechanisms, may play as substitutes of other family mechanisms, such as family governance, generally suggested by literature to be the most appropriate tools to cope with family issues (Suess, 2014). So the model evidences a double role of managerial mechanisms, both in business and in family contexts. This implies that investing in firm managerialization allows family businesses to gain advantages for the firm and for the family.

Now, we see how firms' economic performance may also affect the family side, in particular FIO (Figure 3). In fact, as highlighted before, the higher the firm economic performance, the higher the financial resources that can be devoted to business growth, without involving non-family shareholders to support the firm development and without getting into debt (Caspar et al., 2010). Moreover, the higher the firm's profits, the higher the potential dividends that the family owners may receive. This reinforces the family commitment towards the business, over the following generation and beyond, with evident consequences on the so-called transgenerational control intention, a pivotal characteristic of many family firms (Chrisman et al., 2012).

Generally, in family business, family members are involved not only in the firm ownership but also in managerial roles, because this allows them to preserve and

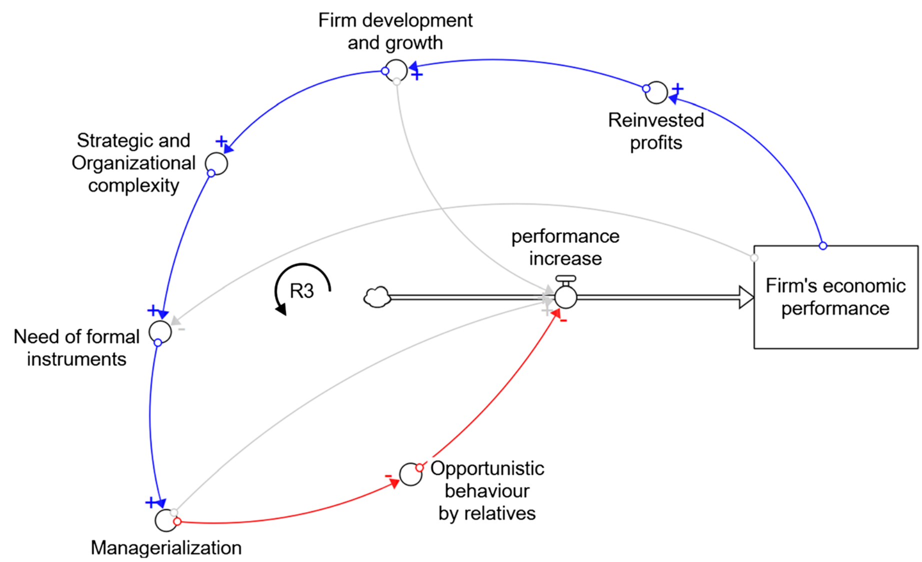

FIGURE 2 Opportunistic behaviours mitigation loop (R3). [Colour figure can be viewed at wileyonlinelibrary.com]

pursue family values and objectives and assure the long-term survival of both the family and the business (Songini & Gnan, 2015). The strong involvement of FMs in the management of the firm (FIM) enriches the average commitment of the managers and the SEW, reducing in turn family members' opportunistic behaviours, which then produces benefits for the firm economic performance (Rubino et al., 2017). This configures a reinforcing loop (R4) called 'Family involvement in management' (Figure 3). FIM has also a positive impact on firm economic performance as it reduces the classic agency conflict between owners and managers and thus its related agency costs (see reinforcing loop called 'No classic agency conflicts'—R5).

However, one of the main typical characteristics of family business, along with SEW (Gomez-Mejia et al., 2011) and specific agency conflicts (Schulze et al., 2001), is represented by the generational succession (Songini et al., 2013). The tendency to preserve the family characterization of the firm through family involvement (not only FIO but also FIM), and the consequent generational change over time, may create an imbalance and heterogeneity in the involved generations. Different generations may have different aims, points of view and education, making the firm management more complicated and increasing the possibility of conflicting agendas among family members. This could easily lead to a misalignment in family's strategic objectives and policies, which fuels harmful SEW goals, causes opportunistic behaviours and finally reduces firm's economic performance (Kellermanns et al., 2012). This balancing loop (B2), called 'Generational replacement' opposes R4 and represents the other side-effect of preserving the family nature of a firm over generations (Figure 3).

Moving on to the introduction of the professionalization aspect, FIM itself represents one of the three main ways in which family businesses can become professionalized. In fact, Dyer (1989) suggested that professionalization of family businesses implies different paths: the professionalization of family members and/or internal employees, and the employment of professional managers from outside the organization. Moreover, professionalization is linked to managerialization as the adoption of managerial mechanisms requires appropriate knowledge and competencies (Abernethy et al., 2010).

Considering the professionalization path related to the involvement of family members in managerial roles (FIM, Figure 4), one of the biggest challenges for family businesses is the issue of training family members involved in the business, to avoid nepotism and unqualified management (Hoffmann et al., 2019). In fact, the family business should avoid choosing FMs not suitably educated for the role, because of their family relationships and emotive (irrational) criteria for their

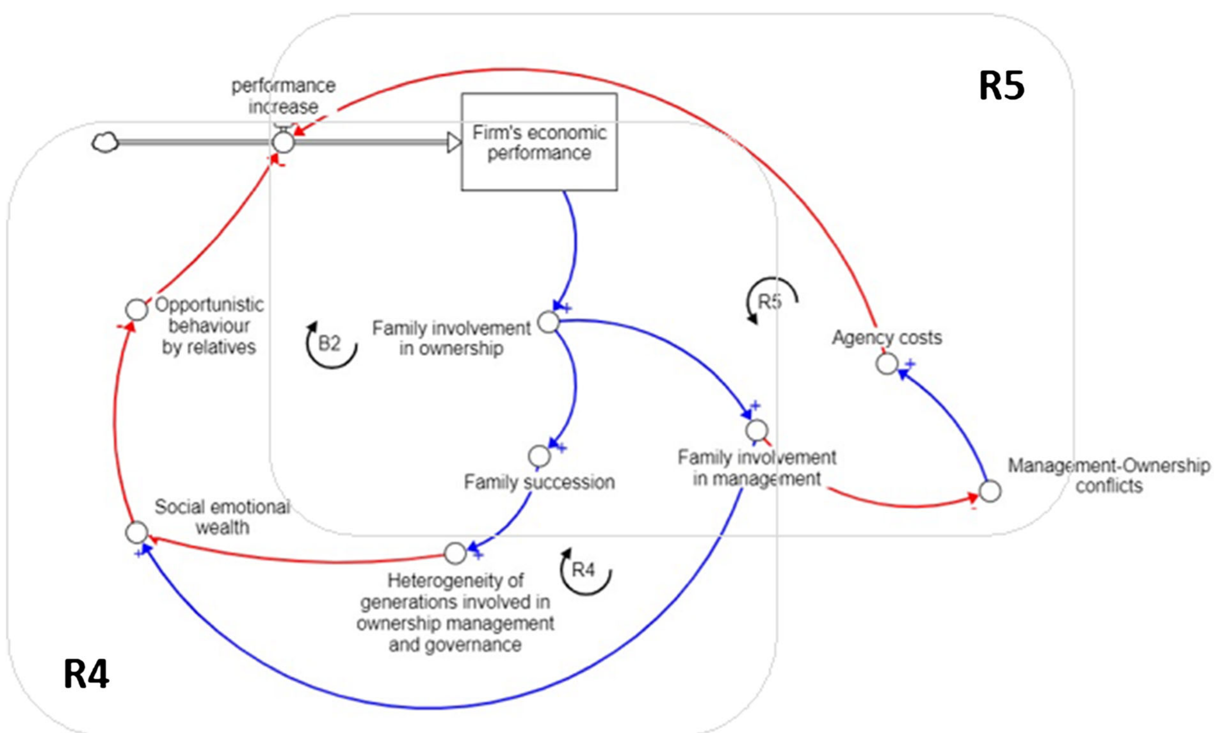

FIGURE 3 Family involvement in management loop (R4), no classic agency conflicts loop (R5) and generational replacement loop (B2). [Colour figure can be viewed at wileyonlinelibrary.com]

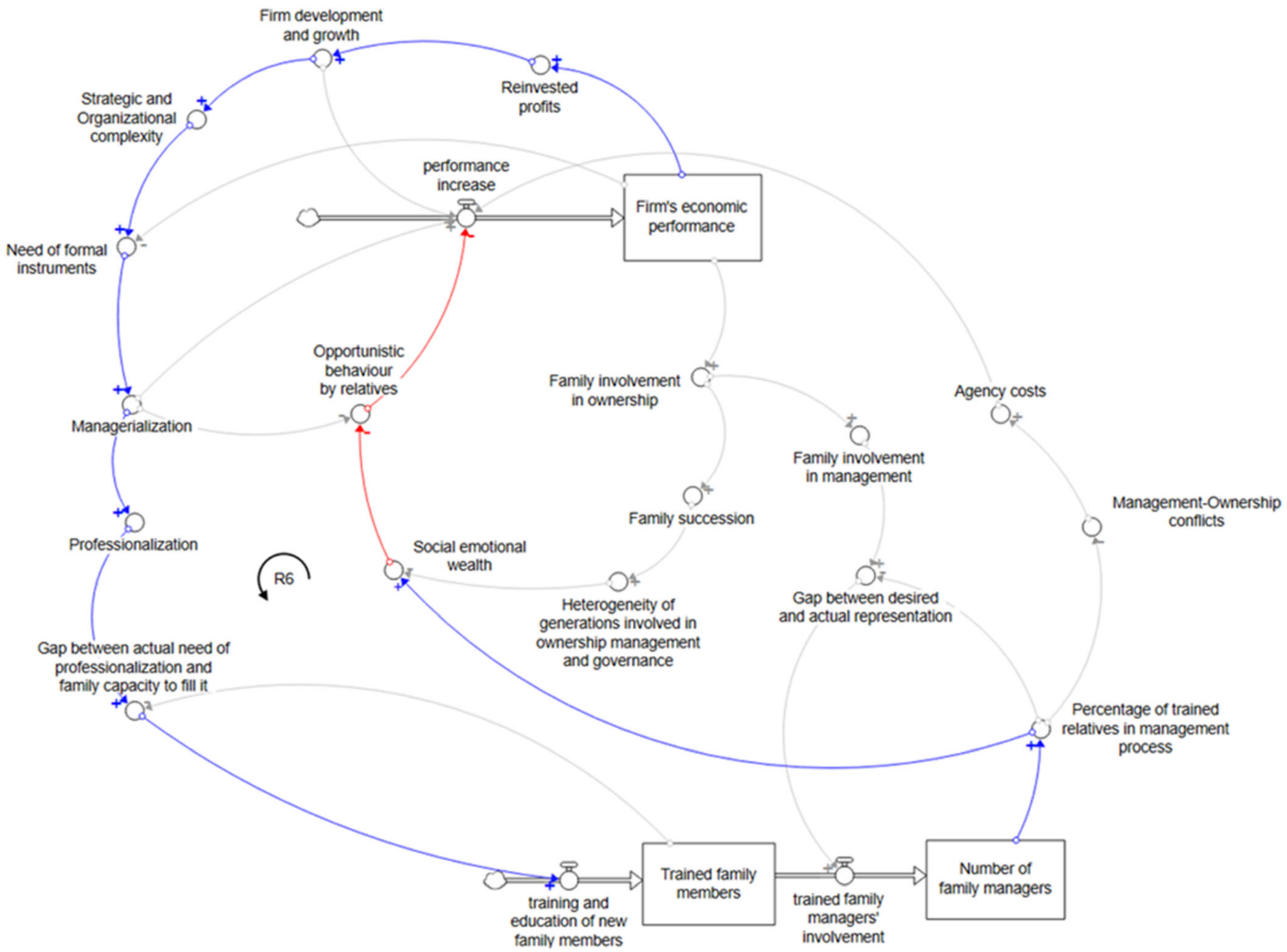

FIGURE 4 Professionalization of family members loop (R6). [Colour figure can be viewed at wileyonlinelibrary.com]

appointment (Rizzotti et al., 2017). Education of family members produces (with a certain delay that we can assume more or less equal to the mean time for higher education graduation) new professional FMs who will be integrated into the firm's management process, with the advantages just outlined in terms of increasing SEW and reducing opportunistic behaviours (Gomez-Mejia et al., 2011; Schulze et al., 2001).

We argue that the presence of professionally trained FMs helps both in preserving the family nature of the firm as well as SEW and at the same time in coping with firm managerialization. Therefore, it would be appropriate to properly educate family members so to have benefits on both firm economic performance and SEW, as described by the reinforcing loop 'Professionalization of family members' (R6 in Figure 4).

However, the growth and development of the firm increases the need for more specialized roles, but the family may not be able to cover all of the firm's needs in terms of managerial roles, either because there are too few family members or because they may be unsuitable (Dyer, 1989). On the other hand, not all family members can be assumed to be interested in becoming managers of the FB (Dyer, 1989). Therefore, the family business will not necessarily involve potential family candidates in management. This situation may push newly interested family members towards training and education about managerial competencies, but this is a process that generally takes time (as captured by the stock and flow structure depicting the education process of family members). Therefore, family firms may need to recruit NFMs, both/either from outside (Figures 5 and 6) and/or inside the organization (Figure 7).

Most of the literature on family businesses generally suggests the involvement of external NFMs as a positive aspect, with the assumption that, as they are chosen by means of objective criteria, they could bring an added value and professional competencies and skills for that role (Gersick et al., 1997). This brings advantages in family firms because there is a proper use of managerial tools and a more rational and less emotional management. External NFMs ensure economic sustainability of the

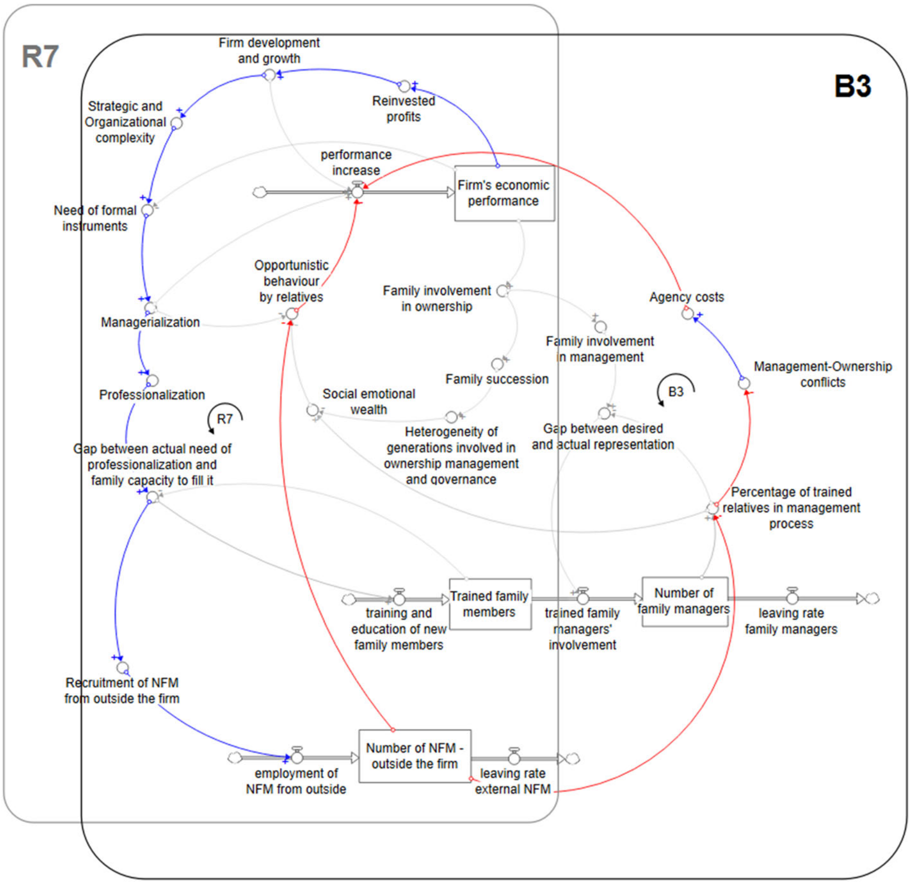

FIGURE 5 Family members' opportunistic behaviour reduction thanks to external managers loop (R7) and classic agency conflicts–external managers loop (B3). [Colour figure can be viewed at wileyonlinelibrary.com]

firm, differentiate between business and family issues and contexts and have greater familiarity with and confidence in governance and management systems. They do not only bring relevant expertise and competencies into the company, but they also counterbalance opportunistic behaviour and agency hazards of family members (Dekker et al., 2015). In fact, the need for the family owners to monitor and control NFMs' performance in an objective way leads to the use of performance measurement mechanisms and incentives, which should be used to evaluate all managers, both non-family and family ones.

This is a very beneficial effect for the firm, depicted by the loop (R7, Figure 5) called 'Family members' opportunistic behavior reduction thanks to external managers'.

However, involving external NFMs may also imply issues generated by the emergence of the classic agency conflict between shareholders and managers, depicted by the loop called 'Classic agency conflicts–external managers' (B3, Figure 5). Aside from the emergence of classic agency costs, introducing external NFMs may also have a negative impact on SEW. Actually, external NFMs need to have not only formal and specialized competencies and skills but also a general cultural, referred to an understanding of the unique sociocultural patterns originating from the family's influence on a business (Hall & Nordqvist, 2008).

On the other hand, an increase in the number of external NFMs produces a loss in the percentage of family members involved in management activities, and this may impact negatively on SEW, as described by the loop called 'SEW and external managers' (B4, Figure 6). Thus, family firms need to bring in external NFMs capable of understanding their specific features, appreciating the environment into which they are introduced, effectively communicating their initiatives and sharing core values that are consistent with family culture (Hall & Nordqvist, 2008). Therefore, managerialization in family business, with particular reference to HRM practices, plays an important role in ensuring effective involvement of external NFMs and coordination between NFMs and FMs.

Finally, compared with previous ones, there is an intermediate situation that we can consider the 'third path' of family business professionalization, and that is related to the promotion of non-family employees to managerial roles (Figure 7).

In family firms, relying on the firm's internal labour market is a common practice, not only because of costs

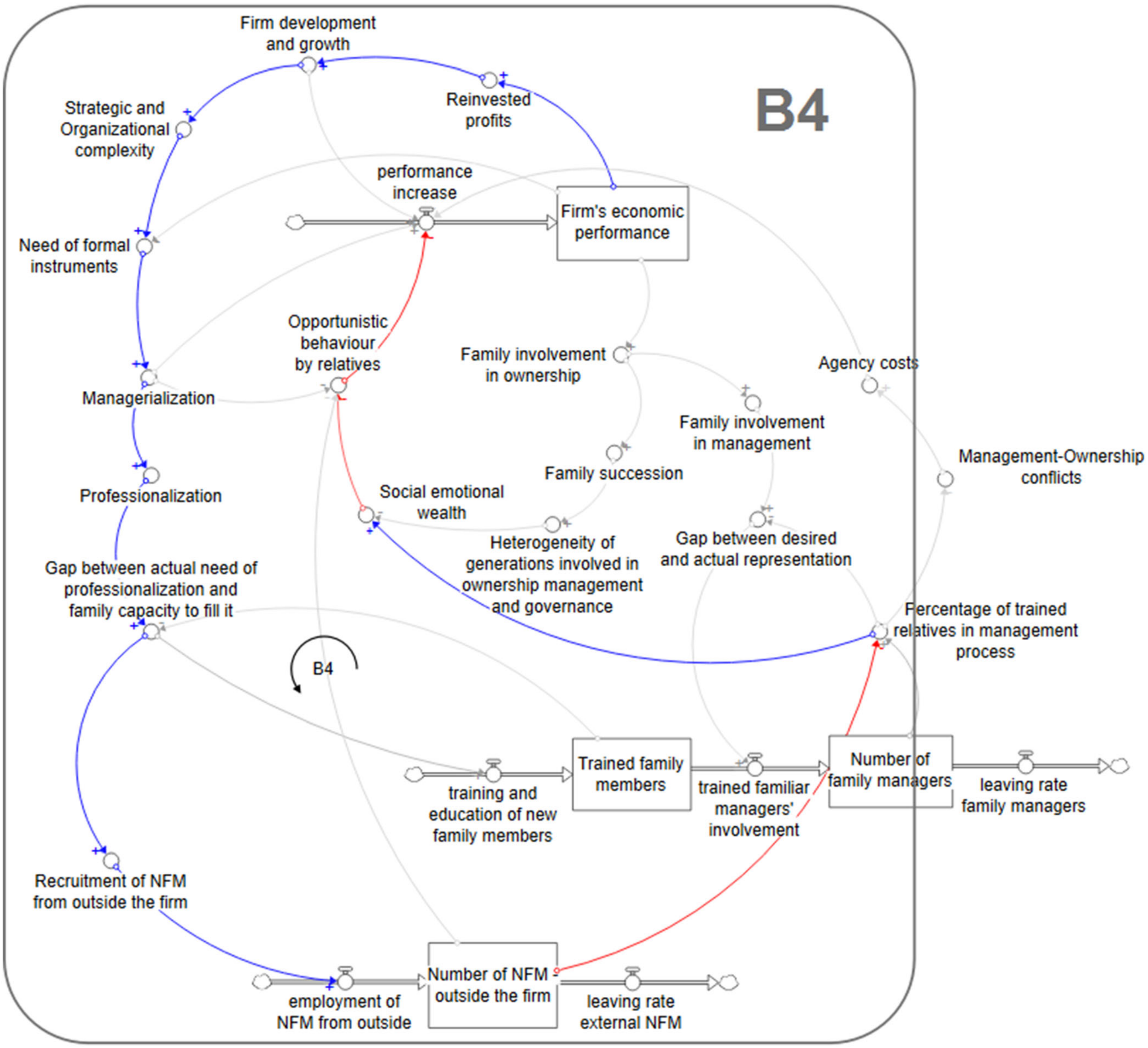

FIGURE 6 SEW and external managers loop (B4). [Colour figure can be viewed at wileyonlinelibrary.com]

but also because an inside employee is already aligned to the organizational model. Just like FMs, internal NFMs understand and share the culture, values and often informal context of the family business, positively nurturing the SEW, but they must be properly trained, so to prevent unsuitable people filling top management roles, with a conservative attitude and a little inclination to innovate managerial practices. This creates a reinforcing loop called 'SEW and internal employees' (R8, Figure 7). However, internal NFMs may find themselves in a position of classic agency conflict with respect to family shareholders, as described in the balancing loop called 'Classic agency conflicts–internal employees' (B5, Figure 7).

The full model shown in Figure 8 helps us draw some further considerations on firm professionalization.

By including external NFMs, the firm can manage complexity by means of professional competencies and can mitigate opportunistic behaviour within the family, but this situation tends to cause classic agency conflicts and costs as well as a SEW reduction. This scenario mostly occurs in family businesses that do not have suitably educated family members that can properly manage the complexity of the company and thus do not display the required managerialization. In contrast, if the family business is able to train and educate its internal resources so to make them become qualified for management activities, there is no need (or at least there is a heavily

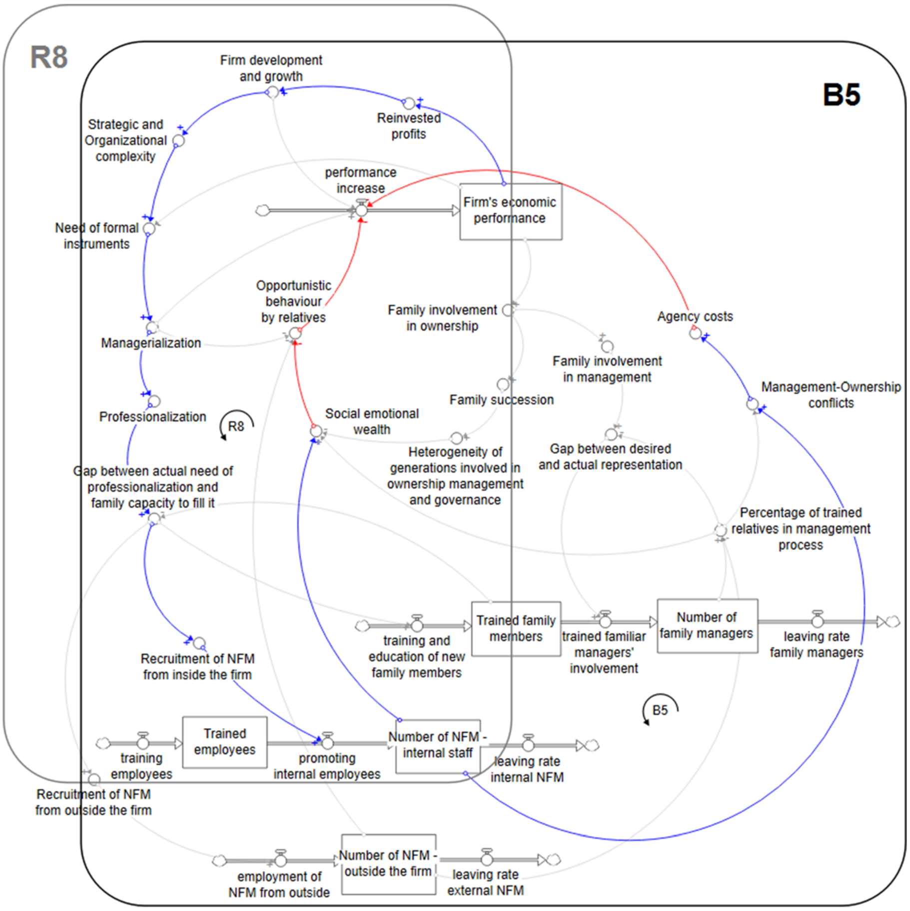

FIGURE 7 SEW and internal employees' loop (R8) and classic agency conflicts–internal employees loop (B5). [Colour figure can be viewed at wileyonlinelibrary.com]

reduced need) to rely on external NFMs, hence avoiding the owner–management agency conflict and at the same time allowing for the management of the company's complexity in a more effective way. Therefore, professionalizing the firm through FMs (if they were trained for such a role) can lead to three basic advantages:

1. Coping with the complexity of the company and the consequent firm managerialization
2. Positively feeding the SEW
3. Avoiding conflicts and agency costs.

Finally, involving family business' employees in managerial roles may be an attractive option, often pursued (in practice) by family firms but scarcely explored in the literature (Dekker et al., 2015).

5 | DISCUSSION AND CONCLUSIONS

We analysed the relationships among managerialization, professionalization and firm economic performance in family businesses providing a systemic framing of the interrelationships among various relevant aspects of family business, condensed in a model that allows for the understanding of the overall system's structure.

Thanks to an easy-to-understand visualization tool (CLD), we have considered the intertwined relations among managerialization, professionalization and firm economic performance, by including both business characteristics (firm strategic and organizational complexity, development and growth) and family-specific features and issues (FIO, FIM, SEW and generational succession), which we believe constitute also the originality of this paper.

Thus, by addressing and understanding the systemic relationships among the various specific issues at stake, this work has the potential to improve the knowledge on family business systems as well as on their dynamics, as in fact the developed model constitutes an elective starting point for future in-depth and quantitative analysis through (SD) simulation (Van Ackere et al., 1997).

Some key conclusions can be drawn from the proposed model.

With regard to managerialization of family business, our model shows that it may imply benefits for both the company and the family, and it can be truly achieved by a joint and synergic use of different managerial practices. We also argue that managerial systems, generally

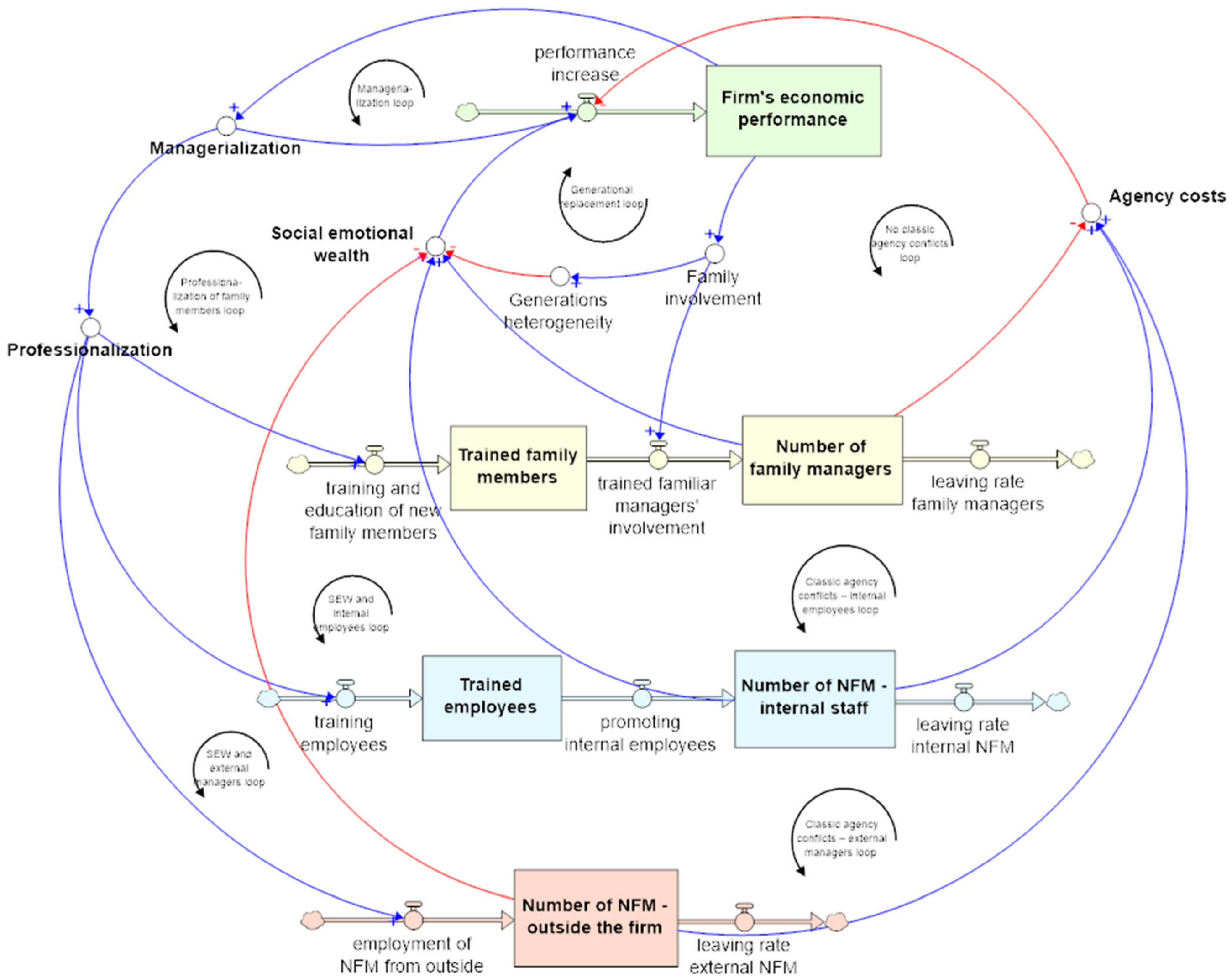

FIGURE 8 Family firm professionalization: a synthesis. [Colour figure can be viewed at wileyonlinelibrary.com]

considered as firm mechanisms, can play also a relevant role in dealing with family issues, because they may act as substitutes of family governance mechanisms. So we propose a dual role of managerial mechanisms, both in the business and in the family contexts (see Table 1). This implies that by investing in firm managerialization, the family businesses can obtain advantages for both the firm and the family.

With regard to professionalization, this paper has considered three alternative modes and has systemically analysed their advantages and disadvantages (see Table 2). In particular, we highlighted that external NFMs may bring advantages to family businesses, as they can lead managerialization, and can reduce opportunistic behaviours of family members, helping and at the same time managing the generational succession. However, there is also a 'dark side' of involving external NFMs,

TABLE 1 Managerialization's impacts on firm and family.

	Impacts on the firm	Impacts on the family
Managerialization	It copes with firm complexity and growth.	It copes with opportunistic behaviours of family members.
	It brings professional managers.	It may act as a substitute of family governance mechanisms.
	It copes with classic agency costs between owners and managers.	It helps in generational succession.

TABLE 2 Advantages and disadvantages of alternatives modes of professionalization.

Alternatives modes of professionalization	Advantages	Disadvantages
NFMs	They bring added value and new professional competencies and skills.	They imply the emerging of classic agency costs between owners and managers.
	They cope effectively with firm managerialization.	They may cause a possible misalignment of values and visions between NFMs and family members.
	They reduce opportunistic behaviours of family members.	They may reduce SEW.
	They help in managing the generational succession.	
Professional FMs	They reduce classic agency costs between owners and managers.	They may have a conservative attitude and a little inclination to innovate managerial practices.
	They have a positive effect on SEW	If FMs not suitably educated for the role: behaviours and decisions driven by family objectives and emotive (irrational) criteria
	They cope effectively with firm managerialization.	If FMs not suitably educated for the role: opportunistic behaviours (free riding, etc.)
Professionalization of employees	They cope effectively with firm managerialization.	They may have a conservative attitude and a little inclination to innovate managerial practices
	They reduce opportunistic behaviours of family members.	They imply the emerging of classic agency conflict between owners and managers.
	They help in managing the generational succession.	
	They have positive effects on SEW.	

Abbreviations: FMs, family managers; NFMs, non-family managers; SEW, socio-emotional wealth.

which is related to the emergence of the classic agency conflict between owners and managers, to a possible misalignment of values and visions between NFMs and family members and to a possible reduction of SEW. Alternatively, involving professional FMs may bring advantages for both the family and the business, thanks to the reduction of classic agency costs and the positive effects on SEW. Moreover, trained FMs may also cope effectively with firm managerialization. Finally, the professionalization of employees is scarcely considered in the literature, whereas this option is attractive because professionalized employees can simultaneously bring the benefits of FMs and NFMs.

Hence, a more complex and multifaceted role of professionalization emerges by our model, when compared with the role suggested by the literature. We propose in fact that the three options are not mutually exclusive but can coexist with different advantages and disadvantages. Compared with previous studies, our model shows that it is not true that family businesses only need external NFMs to grow; rather FMs or employees can play a very significant role and, in some circumstances, they can be a preferable choice. The challenge in making the company, and the family, grow over time and along generations consists in finding the right mix between the three modes of professionalization, at the same time being aware of the advantages and disadvantages of them. There is no good or bad choice, in general, but it really depends on the specific situation of each family business, with respect to firm complexity (guided by size, maturity level, market competitiveness, etc.) and family issues (e.g. successions and internal tensions).

Furthermore, our model explains that managerialization and professionalisation are two sides of the same coin that must be coordinated in a coherent manner to obtain all possible benefits for the company and the family.

In particular, we show that in approaching the issues of the family business managerialization and professionalization, we need to consider the mutual interdependencies between family and business, and not just the context of the business.

On the one hand, in fact, managerialization and professionalization of the company are useful not only for the business but also for the family, because professional managers and managerial mechanisms reduce all kinds of opportunistic behaviour and agency costs, prepare the family for the generational transition and reduce the family's need to invest in other mechanisms such as family governance. On the other hand, there is also a positive impact of the family on the managerialization and professionalization of the company, if the family involves trained and professional family members in the management. In fact, FMs make it possible not only to professionally manage the company but also to preserve SEW, the family's values and vision over time and promote better management of the generational transition.

TABLE 3 Open issues, conclusions and propositions.

Open issues	Conclusions	Propositions
How can a family business with strong involvement and control of the family in areas of ownership and management grow, develop and generate sustainable economic performance?	FIO: The family shareholders help the company to grow, because they are more inclined to reinvest profits, thanks to their long-term vision and orientation.	Family firms with family shareholders invest more in firm growth because they reinvest more profits.
	FIM: It is not true that family businesses only need external NFMs to grow; rather FMs or employees, if trained, can play a very significant role. The three options of professionalization (NFMs, FMs, employees) are not mutually exclusive but can coexist.	A balanced mix of NFMs, FMs and professionalized employees generate sustainable economic performance. A too much polarized mix of NFMs, FMs and professionalized employees generate unstable economic performance.
	Managerialization: Managerial systems can play a relevant role in dealing with both firm and family issues: dual role of managerial mechanisms.	Firm complexity and growth have a positive impact on firm managerialization. Firm managerialization reduces opportunistic behaviours of family members.
	Firm economic performance has an impact not only on the business growth and development but also on FIO, FIM and succession process.	The better is firm performance, the stronger the development and growth of the business are. The better is firm performance, the higher is family commitment to the firm through generations.
Which characteristics of the family, the business and the ownership impact on firm managerialization, professionalization and performance?	Business characteristics: firm strategic and organizational complexity, development and growth Family characteristics: FIO, FIM, SEW and generational succession In approaching the issues of the family business managerialization and professionalization, we need to consider the mutual interdependencies between family and business and not just the context of the business.	Managerialization and professionalization are correlated with both business characteristics and family characteristics.
Which aspects can be considered as advantages or disadvantages of managerialization and professionalization of family businesses?	See Tables 1 and 2 on professionalization and managerialization.	See Tables 1 and 2 on professionalization and managerialization.
How to coherently coordinate the family and the business over time by jointly managing the family generational transition and the company's growth and development?	The more advanced the stage in the firm and family life cycle and the higher the number of generations involved in the ownership and management of the family business, the more relevant is the role of managerialization and professionalization in dealing with business and family issues.	The more advanced the stage in the firm life cycle, the more managerial and professional is the firm. The higher the number of generations involved, the more managerial and professional is the firm.

Abbreviations: FIM, family involvement in management; FIO, family involvement in ownership; FMs, family managers; NFMs, non-family managers; SEW, socio-emotional wealth.

Moreover, our model shows that the reciprocal relationships between managerialization and professionalization, on one side, and company and family, on the other, must be properly managed over time, otherwise the whole family business system might get out of balance. The company must be able to grow and develop profitably, and the family must properly manage the generational transition, thanks to the benefits of managerialization and professionalization. In particular, by adopting a systemic perspective, our conceptual framework proposes that the more advanced the stage in the firm and family life cycle and the higher the number of generations involved in the ownership and management of the family business, the more relevant is the role of managerialization and professionalization in dealing with business and family issues.

Finally, with respect to the relationship between firm economic performance, managerialization and professionalization, we introduce an innovative perspective on the role of economic performance. First, our model suggests that firm economic performance is influenced by firm managerialization and professionalization. Moreover, we have also highlighted the role of the family on the firm economic performance. In fact, the family shareholders help the company to grow, because they are more inclined to reinvest profits, thanks to their long-term vision and orientation. Moreover, FIM can decrease agency costs and increase SEW, thanks to the alignment of values, knowledge of the business and their transmission to future generations, with associated benefits on overall firm economic performance.

In addition, we argue that the economic performance of the company does not only constitute an output to be observed but, in a systemic and circular perspective, also constitute an input that favours the growth and development of both the company and the family. Actually, firm economic performance has an impact not only on the business growth and development but also on FIO, FIM and succession process. The better the firm performance, the stronger can be the development and growth of the business. Also, the better is firm performance, the higher is family commitment to the firm through generations.

The open issues addressed in this work, the conclusions that emerged from the model and the most relevant propositions for future research and investigation are summarized in Table 3.

This paper has also limitations: First, it considers only 'economic' performance, whereas many authors agreed on the fact that family firms pursue also non-economic goals, such as SEW (Labelle et al., 2018), which anyway in our model constitutes a determinant of the economic performance, consistently with the relevant literature on performance measurement and management, that proposes that non-financial performance drives the economic one.

A second limitation of the paper is that family involvement in governance has not been explicitly considered, as the emphasis is on managerial systems (managerialization) and managers (professionalization).

A further limitation of our work relates to the fact that we have not explored the differences between types of family businesses, such as between listed and private family businesses.

As another limitation with reference to the adopted methodology, the analysis that led us to the identification of systemic relationships among typical variables of the family business environment was mostly derived from the literature. This has led to the definition of a conceptual model that could be hard-validated once simulated through relevant empirical data. However, it is worth mentioning that one of the strengths of ST is that it allows identifying archetypical systemic structures that are known to be characterized by related archetypical behaviours, hence providing a deep understanding of how the system works, hence leading to expectations about the overall system's (the family business) behaviour over time.

Consistently with the mentioned limitations, further future directions of our research will imply carrying out additional qualitative (through in-depth longitudinal case studies analysis) and quantitative research (through surveys and model simulation), so to empirically test the relations among variables suggested in our model. Finally, an update of the conceptual model could be suggested to include new variables, such as non-financial performance ones, family involvement in governance and differences between various types of family businesses (i.e. listed family firms and private ones).

ACKNOWLEDGEMENTS

Open Access Funding provided by Universita degli Studi del Piemonte Orientale Amedeo Avogadro within the CRUI-CARE Agreement.

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How to cite this article: Songini, L., Armenia, S., Morelli, C., & Pompei, A. (2023). Managerialization, professionalization and firm performance in family business: A Systems Thinking perspective. *Systems Research and Behavioral Science*, 1–19. https://doi.org/10.1002/sres.2935