The Arts and Family Business: Linking Family Business Resources and Performance to Industry Characteristics

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There has been a good deal of debate regarding the performance of family firms. Explanations for divergent findings have ranged from variations in governance arrangements to particular organizational practices. One avenue that has not been much explored is the role played by industry. We theorize that market requirements, when coupled with firm-specific behaviors and resources, can account for why some family businesses do well in particular industries. More precisely, due to their long-term orientation and the intimate connection among family members, some family firms are especially adept at accumulating human capital, passing on tacit knowledge, protecting and leveraging reputation, and building strong relationships and slack resources. These capacities promote success in industries with high levels of uncertainty regarding product quality, product value, and demand. The arts-related industries, we shall argue, are one such environment, and we use it to demonstrate our thesis that family firms, if oriented appropriately, can thrive where relationships, tacit knowledge, and reputation are demanded.

There has been much controversy regarding the performance of family firms, with positive studies counterbalanced by negative ones (Bloom & Van Reenen, 2007; Miller, Le Breton-Miller, Lester, & Cannella, 2007; Villalonga & Amit, 2006). Explanations for divergent findings have ranged from variations in leadership arrangements, board structures, and family generations (Anderson & Reeb, 2003; Miller & Le Breton-Miller, 2006; Morck, Wolfenzon, & Yeung, 2005) to particular organizational practices (Bertrand & Schoar, 2006; Bloom & Van Reenen). One avenue that has not been much explored is the role played by industry; this despite the fact that family firms have been shown to be over-
represented in some sectors (Villalonga & Amit, 2010). One might ask whether family firms, given their potential family-related resource advantages (Habbershon & Williams, 1999), might do better in some industries than in others, in part, due to the nature of the uncertainties they must confront there (Wright, Chrisman, Chua, & Steier, 2014). Indeed, such a contingency approach based on environmental characteristics, particularly as they relate to industry uncertainty, has a long tradition in organizational analysis, and can be usefully extended to the realm of family business studies (Lawrence & Lorsch, 1967; Miller & Shamsie, 1996; Thompson, 1967).

We shall theorize that industry characteristics, when coupled with firm-specific behaviors associated with family governance, can account for why some types of family businesses do well. More precisely, because of their long-term orientation, in part due to their desire to pass on the business to offspring (Chrisman, Chua, & Steier, 2005) and the trusting connections among kin (Ward, 2006), family firms have certain advantages. These include an unusual ability and incentive to accumulate and pass on tacit knowledge (Le Breton-Miller & Miller, 2015), to protect and leverage reputation (Habbershon & Williams, 1999), and to build strong relationships (Arregle, Hitt, Sirmon, & Very, 2007; Pearson, Carr, & Shaw, 2008) and slack resources. These capacities allow such enterprises to succeed in industry sectors that demand such resources, sectors with high levels of uncertainty regarding product quality, value, and demand.

The arts-related industries, we shall argue, are one such setting, and we use it to demonstrate our thesis that family firms, when appropriately oriented, can thrive in environments where tacit knowledge, reputation, and relationships are major competitive assets—sectors in which the above uncertainties abound.

Conceptual Perspective

As noted, the divergent findings regarding the performance differences of family firms remain an outstanding issue in the literature. Attempts at reconciliation by comparing governance structures (Miller et al., 2007), strategic orientations (Le Breton-Miller, Miller, & Lester, 2011), and even cultural and legal regimes (Morck et al., 2005) have met with limited success. We believe that this is because the specific resource advantages of some family businesses, given their very “familiness” (Chrisman et al., 2005; Habbershon & Williams, 1999), are better tailored to some environments, and hence industries, than others. Indeed, industries differ considerably in the nature of the challenges posed by their intrinsic product and market parameters, and these impose different demands on the resources required to compete effectively (Lawrence & Lorsch, 1967; Thompson, 1967). We shall attempt to illustrate this relationship by identifying some familial conditions of family firms that distinguish many of them from their nonfamily counterparts. Then we shall argue which kinds of resources these firms can generate given those conditions, showing that such resources are especially useful for particular kinds of environments and hence industries (Wright et al., 2014). After presenting our conceptual perspective, we will generate specific hypotheses pertaining to arts-related businesses.

The Scope of Our Analysis

Our study comprises several levels of analysis. We shall be discussing the priorities and skills of family members, who, of course, are individuals. However, the emotions and interactions among these individuals that tie them together represent a family or group-
level phenomenon. For example, the emotional connection among family members may
render them a more collaborative and trusting team than unrelated individuals working
together. These micro aspects also have implications at the organizational level. For
instance, family harmony and trust can lead to more effective mentorship and transfer of
tacit knowledge. Long-term concern for the well-being of family in the business may
evoke generous investment in the firm and its stakeholders.

A second scope issue relates to the basis for performance comparison. Our primary
contention is that some family-related preferences and characteristics can produce partic-
ular resource advantages useful in certain industry contexts; which in turn allow some
family firms to earn superior returns over the long run versus nonfamily firms and also
versus family firms not possessing these characteristics.

Finally, our arguments pertain to firms in which the family is deeply embedded—that
is, where there are multiple family members serving as controlling owners and key execu-
tives with an intention of keeping the business in the family (Chrisman et al., 2005). In
our Discussion section, we shall specify additional scope conditions for family firms that
may strengthen or weaken our specific hypotheses as they pertain to arts-related firms.

Differentiating Family Firm Preferences and Conditions

Because of the desire of many family businesses owners to pass on a healthy business
and provide jobs for offspring, they have a long-term orientation—an intention to keep
the firm in robust condition for many years to come (Chrisman et al., 2005; James, 1999).
Some family members who own and run a firm wish to ensure that their children can
attain economic security and vocational satisfaction by coming into the business (Gersick,
Davis, Hampton, & Lansberg, 1997; Ward, 2006). As a result they strive to be good stew-
ards, investing for the long haul in capabilities and mentoring, and conducting themselves
in a responsible manner with stakeholders (Arregle et al., 2007; Miller & Le Breton-
Miller, 2005; Pearson et al., 2008). They eschew short-sighted behaviors that would jeop-
dardize the long-term health of the business and opportunities for later generations.

Another potential differentiating condition of family firms is the close personal
bonds that may exist among family members within the business. Given that in many
families, members are tied together through bonds of affection, loyalty, and shared values
(Gómez-Mejía, Cruz, Berrone, & DeCastro, 2011), they enjoy a climate of mutual respon-
sibility and a devotion to working for the well-being of the family. When such a harmoni-
ous family runs a business, they put selfish motivations aside and collaborate for the good
of the family enterprise (Lubatkin, Ling, & Schulze, 2007). In these families, members
trust one another and share information openly, thus providing an auspicious environ-
ment for mentorship.

Although this devotion to family can sometimes turn to nepotism and the entrench-
ment of incompetent family members in executive positions (Bertrand & Schoar, 2006),
that is less likely to happen in harmonious families where there is concern for the long-
run interests of both family and firm (Miller & Le Breton-Miller, 2005).

Some authors have contrasted the long-term orientations and intra-family trust and
collaboration in family firms with the often short-term–oriented behavior of executives in
many nonfamily public companies that are under constant pressure from shareholders to
produce quick results and whose compensation is tied to such results (James, 1999; Miller
& Le Breton-Miller, 2005). There are also the agency problems that occur in public com-
panies and the opportunism of nonfamily CEOs managing a business for more remote
owners (Fama & Jensen, 1983). Even lone founder businesses may lack the long-term
orientation and collaborative, trusting culture necessary to foster mentorship and enduring relationships (Miller, Le Breton-Miller, & Scholnick, 2008).

**Family Business Resources**

Because of the long-term orientation and the trust among kin in many FBs, they are in a good position to develop resources that render them especially suited to some environments (Brigham, Lumpkin, Payne, & Zachary, 2014): knowledge, reputation, relationships, and organizational slack, all intended to support the organization, even through periods of uncertainty.

Indeed, in families, there is often a concerted effort to ensure that members have adequate competency to sustain the business. Because of their concern for the future, family firms engage in more training than other organizations (Allouche & Amman, 1998; Reid & Adams, 2001; Reid, Dunn, Cromie, & Adams, 1999). Such training, often pursued for many years of a career, can build *tacit knowledge* (Nonaka, 1994). These educational initiatives often reflect key family priorities: to ensure the quality of products and services, and to motivate employees to develop firm-specific knowledge that renders them loyal to the firm (Reid et al.). Moreover, given their desire to sustain the business and its collaborative climate, many family firms are assiduous in mentoring the younger generation and hiring multiple kin (Le Breton-Miller & Miller, 2015). This extends the depth and diversity of tacit knowledge, which would be difficult to pass on without such mentoring (Nonaka & von Krogh, 2009).

A second resource deriving from a long-term orientation and intra-family trust is *reputation*. Family members in the business realize that reputation is essential for the long-run viability of the firm and to enlist the cooperation and even loyalty of stakeholders who will provide useful resources. Thus they strive to provide quality offerings and to be honest and responsive with their stakeholders (Deephouse & Jaskiewicz, 2013; Pearson et al., 2008).

Another resource, related to reputation, is the *relationships* it brings. A long-term orientation breeds concern for stakeholders as those parties will be required to support the business over the years. Thus, in forming relationships, many family businesses foster trust by behaving especially generously, and emphasizing enduring win–win associations over impersonal, short-term transactions with employees, suppliers, and customers (Miller & Le Breton-Miller, 2005).

A final resource that stems from a long-term orientation and a willingness of family to contribute loyalty to the business is the accumulation of financial and human *slack resources* to survive hard times. Family firms are reputed to limit the amount of financial risk they assume (Anderson & Reeb, 2003), to reinvest profits generously, and to amass monetary reserves to take them through periods of struggle (Dreux, 1990). Human resources may also be present in tough times as family members often are willing when needed to work for long hours and for little pay.

**Resources and Industry Environments**

Certainly, resources can create competitive advantages (Barney, 1991; Kraaijenbrink, Spender, & Groen, 2010). However, different resources are required in different environments (Aragón-Correa & Sharma, 2003; Miller & Shamsie, 1996). In some industries, tacit knowledge, reputation, and relationships may not be very useful or worth their cost.

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1. The utility of mentoring technical details does rely on the stability of the industry business model.
of development. For example, where technologies and products are established and undifferentiated, there may be less use for sophisticated tacit knowledge or reputation. By contrast, in industries beset by uncertainties, knowledge, reputational, and relational resources might be quite useful (Pennings, Lee, & Witteloostuijn, 1998).

We distinguish among three types of uncertainty. First is uncertainty regarding quality: how difficult is it for customers to know how good a product is before purchase. The quality of steel beams is easy to assess, for luxury watches less so, and for works of art least of all (Caves, 2000). Knowledge helps to ensure quality under such conditions of uncertainty, and reputation gives clients confidence in that quality.

Second, there is uncertainty related to the value of a product. Commodity goods generally have a clear market price; luxury goods’ values are harder to determine; works of art may be priced by ambiguous and abstract considerations of fads, fashion, taste, and provenance. Here the reputation of the artist, producer, or vendor is critical to assure buyers of an attractive offering.

Finally, there is uncertainty in demand as reflected by how difficult it is to predict and how much it fluctuates. The demand for milk is stable, that for microchips less so, and that for discretionary products subject to fads and fashions, very uncertain. Such uncertainty requires slack resources to carry a firm over during the dry periods, and to enable it to launch new ventures after a failure.

Collectively, such uncertainties require all of the resources that we believe can be formed within firms run by a harmonious, cohesive family, having a long-term orientation. Moreover, these uncertainties are amply present in art-related businesses. Our analysis will employ these industries to illustrate the relationship between these family-related orientations, the resources they may bring to a firm, and the utility of those resources for uncertain art-industry environments.

Arts-Related Industries

The balance of our analysis will be structured as follows. First we discuss the distinguishing criteria and central challenges facing arts-related businesses, emphasizing the different sources of uncertainty. Then, using a resource-based perspective (Barney, 1991), we identify the resources that reduce the uncertainty inherent in these businesses. We then argue why family firms may have an edge in acquiring and managing these resources, and close with some thoughts about which types of family firms are most and least likely to possess these advantages.

Defining Parameters

Art is a human activity, the product of which is targeted to the emotions, the intellect, and the senses. It has no clear or definite economic function. The definition of art depends on time and place. According to Marcel Mauss (1971), an art object is one recognized as such by a group; it is socially defined. Thus artistic products will be valued differently by different cultures, places, and institutions. Fine arts traditionally have included sculpture, painting, architecture, graphic arts, music, dance, poetry, and literature (Becker, 1982). Since the 19th century some have added cinema, theater, photography, comic strips, television, and video games. Thus there is no definitive delimitation possible.

Arts-related (AR) industries play an important social and economic role throughout the world (Caves, 2000). According to UNESCO (2014), creative and cultural industries
account for 1,600 billion dollars of commerce annually, representing 3.4% of global national product in 2007. The sector also is unusually fast-growing, currently at about 8.7% per year. Finally, this is a dynamic and competitive sector, and so its lessons for scholars of strategy and family business may be especially pertinent.

AR industries are mediators between the creators of unique works of art and those who buy them. They may also include the artists themselves, as in the case of Mellerio Jewelers, and in the old-time movie studios that incorporated stars, directors, and support artists as staff. But that is not the case for most art galleries or film studios that now recruit talent on a project-by-project basis. It is the business of art, not necessarily its creation, which characterizes AR industries.

Lists of AR industries or “creative industries” include the art and antiques market, crafts, design, designer fashion, film and video, interactive leisure software, music, the performing arts, fiction publishing, software and computer games, and television and radio (Parrish, 2005). Thus theater companies, art galleries, high-end auction houses, exclusive fashion designers, film production studios, and opera companies, all qualify as art-related businesses as they must on an ongoing basis produce a significant quantity of attractive and unique offerings. Entities as diverse as Sotheby’s, the Metropolitan Opera, Bolshoi Ballet, Pixar, Cirque de Soleil, and Wildenstein Gallery all qualify as arts organizations.

However, although the boundaries are fuzzy, innovative, creative companies such as Apple, Calvin Klein, and Corning are not arts-related organizations according to our conception because of their mass (as opposed to craft) production orientation, and the required functionality of their products. Nor are luxury goods producers such as Gucci and Ferragamo (except in their custom, haute couture lines), again firms relying on creativity, reputation, and prestige that also adopt a mass production orientation and rely in part on the objective quality of their products.

Caves (2000) wrote that AR industries, which he terms as “creative industries,” are characterized by several distinguishing economic properties. First, demand is highly uncertain as buyer reactions cannot be predicted or easily explained. Thus there is a high rate of failure in the business: most music singles fail, many big-budget movies do not break even (see also Hirsch, 1972; Lampel, Shamsie, & Lant, 2006). Second, often different and highly skilled inputs are required to produce a valuable offering. A film, a presented play, and a performed opera have benefited from many different skills. In fact, Becker (1982) deems art to be very much a collaborative social endeavor. Third, there is infinite variety in the quality of offerings, with each product being unique, as in the case of paintings, music, film, or theater. Fourth, skills are vertically differentiated so that work can be ranked according to skill or reputation, with seemingly minor differences making for extremely large discrepancies in financial returns (White & White, 1965). Thus, for most types of art, there are many barriers to entry such as skill, reputation, and social capital hurdles. This has been true of the arts-related business model for centuries. Furthermore, the price of offerings is not closely related to the production costs but instead to the value placed on them by clients. That in turn is a function of the reputation of the producer or vendor and the critical acclaim or prestige accorded to them; it is not determined by any objective criterion of “functionality” (Becker; Moulin, 1967). Indeed, the enjoyment of offerings is determined by a complex combination of connoisseurship,

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2. To these criteria Caves (2000) adds product durability so that ownership transfer or copyright become possible. There is also an artist’s willingness to work for little pay, and the importance of time in coordinating complex products. The former attribute, we believe, would not apply to many great creative teams and enterprises such as art galleries which are indeed financially motivated, whereas coordination would not be an issue for projects involving relatively few craftspersons.
prestige, reputation, rarity, potential for status-enhancement of the purchaser, and sometimes expectations of increased value (Danto, 1964).

The Challenge of Uncertainty

Due to the high failure rate, unpredictable fads and fashions, discretionary nature of the purchase, and ambiguity in the judgment of quality, there is considerable uncertainty confronting AR organizations. This pertains to the value, quality, and demand of their products (Becker, 2006; Hirsch, 1972; Moulin, 1967). Will the current opera production be successful? Will the reputation of this artist grow or fall out of favor? Will the trend in the value of Ming dynasty ceramics soon be reversed? Will this year’s offerings of fashion designer X be well-reviewed? Will prices in the secondary New York City art market continue to hold? Is the recent Stuart Davis canvas up for sale a fake—is it an “important” piece? It is often hard to tell.

There is little doubt that the uncertainties facing these industries are major challenges. It is only organizations that develop a profound understanding of their métier, master skills ranging from talent identification to marketing, and can tolerate sequential “flips,” that will survive. Moreover, uncertainty grows with the rarity, value, and scale of offerings as well as the degree of focus in the products being offered. For example, movie studios doing a single big-budget film per year will confront more uncertainty than a repertory company producing six Shakespeare plays (Becker, 1982).

We shall argue that the challenges of uncertainty relating to product quality, value, and demand calls for certain qualities. Connoisseurship reduces uncertainty in evaluating, buying, or creating arts offerings whose appeal rests upon subtle, intangible qualities (Becker, 2006; White & White, 1965). Trust provides assurance to clients of products that are difficult to appraise and appreciate (Haacke, 1975; Lampel et al., 2006). Connections with stakeholders of wealth and status, arbiters of taste, and promising artists may reduce uncertainty given the complex, socially constructed, and ever-changing sources of value (Becker, 1982; Hesmondhalgh, 2002; Moulin, 1967). Durability to withstand the inevitable dry periods constitutes a survival advantage.

The Resources Demanded of Art-Related Organizations

Connoisseurship, trust, and connections rely on specific resources that some family firms possess in abundance. These are, respectively, tacit knowledge, reputation, and relationships, all of which have been identified as sources of economic rents by proponents of the resource-based and knowledge-based views of the firm (Barney, 1991; Coff & Kryczynski, 2011; Foss, 2011; Kraaijenbrink et al., 2010; Wernerfelt, 1984). Finally, durability relies on financial and other slack resources given protracted dry periods or the inevitable “misses” or “flips” that derive from uncertainty (Pennings et al., 1998).

Tacit Knowledge and Connoisseurship. How does one identify or create objects or events of “excellent taste” or “beauty,” or of “moving intensity,” especially in an ever-changing social and critical environment? Clearly, there is no simple formula. Some

3. Similar industries are those of luxury goods and fashion where there is also a great deal of uncertainty regarding product valuation, viability, and hence demand.
4. For big-budget, high-risk projects, large firm size permits diversification; unfortunately, that size advantage may be harder to achieve for some family firms.
artists and craftspeople in an organization have that natural talent, at least some of the
time, others do not. But regardless of personal endowment, most artists, craftsmen, per-
formers, curators, and arts administrators must go through long apprenticeships in which
they learn their craft under the guidance of masters (Caves, 2006b). They may never
ascend to the levels of the great, but they nonetheless can benefit from close associations
with their mentors in which they accumulate the required explicit and tacit knowledge
and the lore and values of their craft (Becker, 2006).

Tacit knowledge is defined by Nonaka and von Krogh (2009, p. 635) “as knowledge
that is unarticulated and tied to the senses, movement skills, physical experiences, intuition,
or implicit rules of thumb. Knowledge of wine tasting, crafting a violin, or interpreting
a complex seismic printout of an oil reservoir are well-known examples of tacit
knowledge.” Some have argued that tacit knowledge resides within a person and cannot
be taught (Hildreth & Kimble, 2002). Others, such as Nonaka and von Krogh believe
that through repetition, close mentorship, and apprenticeship, tacit knowledge can be
 imparted to close associates in an organization.

According to the resource- and knowledge-based views, many organizations benefit
from tacit knowledge: it is a valuable resource that cannot easily be imitated or appropri-
ated by others because it is hard to codify (Bryant, 2005; Nonaka & von Krogh, 2009). As
noted, in AR industries, one of the most important talents is connoisseurship—the ability
to recognize talent, artistic excellence, and valuable assets (Caves, 2006b; Moulin, 1967).
Another is creative ability, to produce attractive artifacts or productions (White & White,
1965). Another still is the ability to recognize market opportunities or to build useful
relationships with potential suppliers, collaborators, or clients (Hesmondhalgh, 2002).

The tacit knowledge required for making beautiful jewelry or fashion designs, con-
noisseurship of significant paintings, and producing riveting performances, is at the heart
of the success of many AR organizations (Becker, 1982). Indeed, often there are several
different types of tacit knowledge that go into successful artistic offerings, such that the
absence of any one can thwart success (Becker; Danto, 1964).

Reputation and Trust. Reputation is considered by resource-based theorists to be an
important source of abnormal rents (Fombrun, 1996). It can take the form of an estab-
lished brand, a record of excellence, a prestigious product, and favorable visibility
within a market or community (Gray & Balmer, 1998). It can also sustain a firm during
periods of economic weakness or changing fads and tastes, and give it an edge when
clients are confronted with a significant or complex purchasing decision (Roberts &
Dowling, 2002).

A major determinant of the perceived value of AR offerings and a cornerstone of trust
is indeed reputation: whether of the product, the firm that produces it or sells it, the artist,
the critics, or some combination of these parties and elements (Moulin, 1967; White &
White, 1965). For example, a painting by Monet is a treasure because of the renown of
the artist, the excellence of the piece itself as established by connoisseurs, the provenance
of the work, and the established soundness of the organization and its experts that certified

5. Some suggest that it only can be discovered by having high performers engage in iterative and ever more
revealing articulations of what they are doing to less skilled individuals in the hope of codifying tacit knowl-
edge (Nonaka & von Krogh, 2009).
6. We argue below that some family businesses have an advantage in nurturing and retaining multiple
sources of tacit knowledge and transferring it within and across generations—in part because of the close
communication, aligned interests, and trust among family members.
the authenticity of the piece. In all cases, reputation is a driver of the desirability of a work and of the price it will fetch (Caves, 2000).

Thus there are several components to reputation in many AR industry contexts. The “makers” of the work, the artist or the business, have an important influence as they establish value for, say, a Monet or Picasso (Haacke, 1975). There is also the good name of the organization creating some offerings: the Metropolitan Opera has a reputation that allows it to charge premium prices to see its productions. Similarly, high-end jewelry from Adler, Damiani, or Mellerio fetches premium prices (Becker, 2006). Disney studios and Pixar at different times have developed reputations for quality productions that have attracted audiences to their films (Lampel et al., 2006).

Reputation of an organization also derives from those who have evaluated or certified the producers of the art: art critics, prestigious clients, and an accumulation of reviews (Hesmondhalgh, 2002). These can alter favorably or otherwise the reputation of a given artist or organization. In a sense the reputation of critics and renowned clients is transferred to the firm or the product. These sources of reputation and prestige can contribute to the value of a work of art and the firm that produces or sells it.  

**Relationships and Connections.** The resource-based view of the firm counts relationships as an important asset (Garbarino & Johnson, 1999). Such relationships have two advantages. The first is that they can secure preferential access to scarce and valuable resources such as knowledge, physical facilities, and capital and talent. This is especially useful in periods of turbulence and scarcity. The second advantage is that since such relationships are based on confidence and trust, they are cheaper to maintain and far more flexible than most formal contractual arrangements (Fukuyama, 1996). Furthermore, established relationships provide significant comfort to clients during periods of uncertainty (Doney & Cannon, 1997).

AR industries thrive on relationships, as these can be fundamental sources of skilled personnel and trade. For example, art dealers benefit from solid relationships with talent (Aspden, 2011; Morris, 2012). These associations may take the form of hiring artists, directors, connoisseurs, and experts, or working with them on a contract basis. Of course, the reputation of the house will affect its chances of attracting the best talent at advantageous terms. In what is, in essence, a virtuous circle, these relationships, in turn, will build reputation often for both artist and business.

Relationships with clients are equally vital. Given the subtlety of many artistic offerings and the many intangibles such as “artistic merit,” “picture quality,” “popularity,” and “significance” that determine their value, many buyers must rely on trusted organizational advisors in making their purchases (Becker, 2006; Moulin, 1967; White & White, 1965). That is especially true when what is purchased is expensive, but also where favorite critics are used in selecting to view a performance or purchase a recording (Caves, 2006a, 2006b). Thus firms must build client confidence. In turn, successful purchases by high-status clients may contribute to the reputation of the firm, again a virtuous circle.

**Slack Resources.** One of the most important considerations for firms confronting high levels of uncertainty, and often dry spells that can tax a firm and threaten its survival, is to have on hand slack resources that will help it cope when things go wrong or markets sour (Bourgeois, 1981; Cyert & March, 1963). These resources can take many forms: cash

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7. We argue later that family firms, due to unusually long time horizons and stewardship, have an advantage in building and maintaining reputation and the talents upon which it rests.
reserves to tide a firm over when revenues fall, auxiliary lines of business to support flagging sales, patient sources of supply, outlets in diverse locations, and loyal employees who will endure layoffs and cuts in pay during times of trouble (Daniel, Lohrke, & Fornaciari, 2004; George, 2005). Just as important during periods of challenge are the reputation and relationship resources discussed above.

Our arguments in the previous sections suggest that the high levels of uncertainty we have discussed can benefit significantly from tacit knowledge and connoisseurship, reputation and trust, relationships and connections with stakeholders, and slack resources. There is ample evidence in the literature to substantiate these contentions. But why should some family businesses, given some of their natural family-based tendencies, be especially able to furnish such resources and thrive in such settings?

Family Business Resource Advantages in AR Industries

Family ownership and management can confer significant advantages in assuring the health and continuity of many types of AR businesses. We believe that to be true in part because the types of resources required for arts organizations to succeed take significant time to build and are often easier to create and pass on within the trusting and cohesive context of some family firms.

Connoisseurship by Nurturing and Transferring Tacit Knowledge. There are two advantages that some family firms have in the domain of tacit knowledge: First, there is access to multiple sources within the family of loyal, economical talent who are assiduously trained due to the family long-term orientation. Second, given that orientation, many family firms also are unusually selective in hiring outside talent, and more devoted to training and nurturing it. Indeed, Allouche and Amman (1998), Miller and Le Breton-Miller (2005), and Reid and Adams (2001) have found that family firms have an edge in all of these respects, fostering and passing on talent both within and outside the family. In addition, high levels of trust and care within a family give family managers an incentive and capacity to transfer tacit knowledge and connoisseurship within and across generations (Bellow, 2004; Lansberg, 1999). Indeed, knowledge may accumulate through the generations.

Some family firms in the arts have enjoyed privileged access to multiple, well trained, motivated, and economical sources of tacit knowledge from within the same family. Warner Brothers Studios after 1919 had Jack in charge of production, while Harry oversaw financial and administrative matters, Sam was the technical innovator, and Albert the treasurer. Each had their distinct talents that they brought to the firm unconditionally, and some of them were nurtured and tutored by their domineering father, Jack Sr. (Farber & Green, 1984). Columbia Studios was nicknamed Pine Tree Studios because of all the members of the founding Cohn family working there. At MGM Studios, Louis B. Mayer employed many of his relatives at low cost: his brother; nephew; and son-in-law, David Selznick, who proved to be a genius at the business (Farber & Green). The Bouglione family of France has been in the competitive circus business for over 100 years—putting on spectacles with acrobats, animals, entertainers, and even wild-west shows. They have survived that long, in part, because given their long-term orientation, they took care to develop and train family members for different talents and skills (Bouglione & Aiolfi, 2002).

Certainly, nonfamily firms also have access to multiple sources of talent. But during times of scarcity and before reputation and commercial viability have been established, family members may constitute uniquely loyal and economical resources (Ward, 2006).
They tend to be more devoted to the firm than outsiders: taking the family business to heart, and by helping the firm feel they are helping the family (Bellow, 2004; Farrell, 1993; Gómez-Mejía, Haynes, Nuñez-Nickel, Jacobson, & Moyano-Fuentes, 2007). That makes for more trusting and long-lived working relationships. Thus, during times of crisis and vulnerability, some family firms have a broader, cheaper, and more energized set of resources in the form of family members (and sometimes family-like long-tenured employees) than do firms run by a lone founder or those that must confront the opportunism of outside managers (Aldrich & Cliff, 2003; Miller et al., 2008).

Family firms also may have an advantage in transferring tacit knowledge among family members, within and across generations. In the arts, tacit knowledge may take especially subtle forms: an appreciation and sensibility toward some forms of expression, a passion for creation and excellence, and the knowledge that achievement may come only after years of significant struggle. This wisdom and sensibility are best transferred over long periods of intimate, trusting mentorship, and apprenticeship (Becker, 1982, Miller, Xu, & Mehrotra, 2015), and the family may represent an ideal forum within which that can happen, a tradition that goes back to the trade guilds (Bellow, 2004). Where a younger generation in a family business works closely with an older one, such mentorship can be decades long. Moreover, it can be unusually intimate and frank due to the high levels of commitment and trust that often exist among close kin, and the desire to pass on the family firm, name, craft, values, and passion to later generations (Bellow; Gersick et al., 1997). There is less apt to be any “holding back” of critical insights as might occur in nonfamily settings where one expert wishes to retain an edge over potentially competing colleagues. Moreover, the knowledge accumulated by family members is unlikely to leak away as family members remain loyal to the firm.

A recent story from the New York Times (Morris, 2012) tells of a father’s mentorship of his son in the art world. The father owned the established Marlborough Gallery in New York City and his son opened his own fledgling gallery while still in his 20s. A quote from the article is telling: “At his father’s openings as a child, and when he wasn’t busy playing video games, he learned from what the grown-ups were saying about the work of Fernando Botero, Richard Estes, Dale Chihuly, Tom Otterness and other artists represented by Marlborough....” The son is quoted as follows:

When my father took me to museums, I always wanted to rent the recorded-tour headsets, but he said no because he wanted to talk and he also wanted to hear what I had to say... My father didn’t push, but we’d go and look at art, and he’d tell me a little ... he never pressured me to join the business, but he was always around for me. ... One of the reasons I started here right away is that he’s in his mid-70s. There isn’t a lot of time for me to learn how his business runs.

A parallel excerpt is from the website of the Nederlander theatrical organization, which owns several theaters and produces numerous Broadway shows. It shows just how enduring family mentorship can be.

Just as his father had done before him, Jimmy [Nederlander] Jr. moved into the business, in lieu of a college education. “I took business courses for a couple of

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8. Artistic ability is at least in part innate and may be difficult to pass on. And yet it runs in families with, for example, the Parrocet family producing 14 painters over 6 generations, and mentorship being an important part in transferring artistic knowledge and sensibility.
years, but then I thought there is no one who can teach me more about theater than my father . . . I was hooked as a very little boy, listening to my father talk with my grandfather.” . . . Although Jimmy Jr. oversees the daily operation of the business now, his father, who celebrates his 90th birthday this month, is still his collaborator on all of the company’s ventures. “I value my dad’s opinion and the wisdom he gained from working with his father through the years,” he says. “I used to wonder how he knew all these answers, and he’d say ‘Because, son, I’ve been down this road.’” (http://broadwaydirect.com/2012/on-broadway/nederlander-celebrates-100-years-on-broadway-and-beyond/)

The results of family mentorship can be spectacular. Impresario, composer and opera house owner Oscar Hammerstein I had two sons, Arthur and Willie. Arthur continued the family business as a highly successful opera and Broadway producer, director, theater owner, and songwriter. Willie managed Oscar’s Victoria Theatre, and Willie’s son, Oscar Hammerstein II was one of Broadway’s most influential lyricists as well as an outstanding director and producer (Farber & Green, 1984, p. 17).

A long-term orientation and frank mentoring enables some families to span multiple arts-related industries, in effect, taking our analysis from the firm to the family level. The following example, directly quoted from Wikipedia, November 2012, illustrates this quite strikingly.

Bob Balaban (actor, writer, director, producer) was born in Chicago, Illinois, the son of Eleanor (née Pottasch) and Elmer Balaban, who owned several movie theatres and later was a pioneer in cable television . . . . His uncles were dominant forces in the theatre business; they founded the Balaban and Katz Theatre circuit in Chicago, a chain which included the Chicago and Uptown Theatres. Balaban and Katz operated some of the most beautiful movie palaces in the United States beginning in the 1920s. Bob Balaban’s father and his uncle Harry founded the H & E Balaban Corporation in Chicago [which] operated their own movie palaces [and] later owned a powerful group of television stations and cable television franchises . . .

Although nepotism may have played some part in such inter-kin and intergenerational “familiness,” the success of these enterprises attests to the profound value of the crafts being conveyed.

**Proposition 1:** Family firms with long-term orientations will be superior to other firms in developing and perpetuating connoisseurship and tacit knowledge in arts-related businesses.

**Building Trust and Perpetuating Reputation.** Some family firms enjoy several uncommon advantages in building reputation. First, a family is an ideal and encompassing social

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9. Indeed, there is a tremendous over-representation of members from the same family who are winners of Hollywood’s Academy Awards. This passing on of artistic craft in the film industry encompasses cinematography (the Butlers and Stradlings), editing (the Steincamps), and make-up (the Westmores) (Farber & Green, 1984, pp. 11–12). In his book, *In Praise of Nepotism*, Adam Bellow (son of Nobel Prize winner Saul Bellow) lists the many dozens of successful second and third generation actors and executives in the film industry and singers and producers in the music business.
environment in which to inculcate values and ethics (Le Breton-Miller & Miller, 2015). Where those values inspire service to stakeholders, they may come to be shared by numerous kin—all of whom can serve a business well (Aldrich & Cliff, 2003; Farrell, 1993). A second advantage is that family members have an emotional link to the family and therefore to the firm that supports and represents it. They thus behave as stewards of the firm’s reputation, and avoid dishonoring the family name by behaving in an unethical way, building social capital in the process (Gersick et al., 1997; Pearson et al., 2008; Ward, 2006). Third is the lasting cachet or prestige that sometimes comes to members of the firm who bear its name (Miller & Le Breton-Miller, 2005). Finally, there are the extended time horizons of many family firms—an intention to pass the business to siblings or offspring, a consequent avoidance of opportunistic moves, and stringent enforcement of ethical dealings with stakeholders (Deephouse & Jaskiewicz, 2013; James, 1999).

Such family firms have an important advantage in preserving reputation and transferring it across generations. Because the same family continues to operate and own the business, its “good name” continues to be a viable asset for the organization. Moreover, where family craft and ethics have been extended to the younger generation via extensive socialization and mentorship, the reputation of the business can endure.

Art galleries such as Montreal’s Klinkhoff Gallery built reputation because they appraised and priced honestly, and paid their artists in an unusually generous and timely fashion (Gray, 1994). Their fine reputation transferred smoothly from the founder to second-generation family members, resulting in, what is, according to the director of Canada’s National Gallery, an unusually fine “stable” of 25 contemporary artists. Other family arts establishments built reputation by helping the community. France’s 90-year-old Maeght Galleries and Foundation enhance and perpetuate their reputation by establishing community art projects; they even built a museum in which they curate exhibitions in collaboration with local artists (Lohse, 2012). Again, the benefit of family stems from family ethical values and generous conduct, patient investment, and taking care to transfer reputation across generations.

Proposition 2: Family firms with long-term orientations will be superior to other firms in building trust and perpetuating reputation in arts-related businesses.

Fostering Connection through Relationships. Some family firms enjoy significant advantages by building enduring relationships with important suppliers and clients. We have already referred to the tacit knowledge and reputational advantages of family firms—both of which contribute to relationship-building. However, some of the very same sources of these advantages also help to foster trust-based relationships that are so useful in the turbulent arts setting. These include long time horizons that encourage patient investment in serving or partnering with stakeholders (James, 1999), ethical conduct (Arregle et al., 2007), and an ability to transfer relationships within and across generations (Miller & Le Breton-Miller, 2005).

The long-term concern with passing on a business to later generations encourages patient investment in fostering relationships. According to a scion of the Nederlander family:

“My dad believes in supporting talent—both onstage and behind-the-scenes, especially when they’re just starting out because that’s when they need support,” says Jimmy Jr. Audiences may not know their names, but for talented producers like . . . Jimmy Nederlander Sr. played an important role in nurturing their early careers.
"These now prolific professionals have produced landmark shows such as Wicked, Rent and Legally Blonde respectively—all of which enjoyed great success in Nederlander theatres." (http://broadwaydirect.com/2012/on-broadway/nederlander-celebrates-100-years-on-broadway-and-beyond/)

The ethical family values we have already discussed help to solidify and perpetuate relationships. Generous conduct towards partners can instill goodwill—and there is every incentive to engage in such conduct when business time horizons extend into the next generation.

There are sometimes multiple motivated family members working in the business—each of whom can be a source of contacts for building relationships (Gersick et al., 1997). And close family members may be willing to share their privileged relationships. Moreover, the job and career tenures at most family firms vastly exceed those elsewhere (Lansberg, 1999; Miller & Le Breton-Miller, 2005), lending stability to stakeholder associations as there is always a familiar partner to deal with.

Finally, family firms may have an advantage in passing on relationships over time. In most settings, resilient relationships are personal and therefore difficult to transfer once one of the parties leaves an organization. In some family businesses, however, key relationships and the social capital they represent may be transferred across generations (Arregle et al., 2007). In part this is because parties are blessed by common family association (Palmer & Barber, 2001; Sirmon & Hitt, 2003). More importantly, older generations of the family may have informed and indoctrinated younger members, and brought them into ongoing contacts with important partners. Those delicate hand-offs can be orchestrated gradually and gingerly where there is close communication and open trust (Arregle et al.; Sirmon & Hitt). These transfers are less common in nonfamily firms because relationships may be sources of a person’s importance and power within a firm, and therefore zealously guarded.

The results of enduring trust-based relationships with stakeholders can be significantly rewarding for family firms.

Over the years, the Nederlander [family] have nurtured personal and long-standing professional relationships with the industry’s most distinguished artists and business leaders ... Jimmy Jr. says his father has “a handshake deal” for all the rights to Jerry Herman’s shows. Given the Tony® Award-winning composer-lyricist’s roster of hits including Hello Dolly!, Mame, and La Cage aux Folles, that’s certainly a deal to be treasured. It’s loyalty, not deal-making, that has [also] generated a legion of fans like England’s Royal Shakespeare Company... (http://broadwaydirect.com/2012/on-broadway/nederlander-celebrates-100-years-on-broadway-and-beyond/)

In a different industry, New York’s Acquavella Galleries which has been operating for over 90 years and now includes third-generation family members has enjoyed decades-long relationships with painters such as Matisse, Bonnard, Lucien Freud, James Rosenquist, and/or their family members; with the curators of major museums; and with some of America’s richest collecting families and collectors, including Ford, Mellon, Annenberg, Armand Hammer, and Norton Simon (Aspden, 2011). These relationships, which have been passed across the generations, along with an eye for important art and an astute knowledge of the market, have kept the firm prospering. So have the exhibitions put on by the gallery to inform taste and introduce artists to potential buyers. The Maeght Gallery of France too has established decades-long associations with the greatest artists of the 20th century—Braque, Giacometti, Miro, Calder, and
others—again, relationships passed across the generations via regular social contacts and family events.

**Proposition 3:** Family firms with long-term orientations will be superior to other firms in nurturing connections and enduring relationships in arts-related businesses.

**Slack Resources to Cope with Uncertainty.** Certainly, tacit knowledge, reputation, and connections can reduce uncertainty in AR industries. But there are additional measures used by some families to cope with uncertainty and hard times. Family businesses are known to have long time horizons and be risk averse (Miller & Le Breton-Miller, 2005). They build reserves of cash to pursue opportunities and tide them over during the dry spells (Anderson & Reeb, 2003). Indeed, as noted, amassing financial reserves and avoiding indebtedness are hallmarks of family business management, often because family owners wish to preserve the firm for later generations (Gómez-Mejía et al., 2007). In AR industries, liquidity can be especially valuable when tastes or styles change or business is slow (Becker, 2006; Hirsch, 1972).

Another source of slack resources is family loyalty, the willingness of some family members to sacrifice their labor during hard times (Ward, 2006). Family owners and managers are more likely than hired staff to accept pay cuts, stick with a firm during times of trouble, and plow some of the family fortune back into the business (Miller & Le Breton-Miller, 2005). During tough periods, some families have had their members set up branches of the business in more hospitable environments (Landes, 2006). For example, the Bouglione circus family diversified into sectors across different cities. The high levels of trust among family members facilitated this expansion, as the directors of the “outposts” could be relied on to do what is best for the whole business.

**Proposition 4:** Family firms with long-term orientations will be superior to other firms in building and husbanding slack resources.

Table 1 summarizes our perspective relating competitive requirements, resources, and family advantages in AR businesses.

**Discussion**

**Scope Revisited**

Not all family businesses will enjoy the advantages we have listed. Family firms differ greatly from one another in governance and values, and our analyses pertain mostly to those firms where multiple family members remain as principal owners and managers. Indeed, as noted at the outset, our arguments rely on the embeddedness of the family in the firm. Family-related long-term orientation and family cohesiveness best apply when multiple family members—concerned with future generations—are in the business. By contrast, family firms that have gone public may be pressured by shareholders to pursue quick profits and regular quarterly returns (Miller et al., 2007). That may constrain payoff-delaying long-term investments in mentorship, reputation, and trust-based relationships. Public firms may also be induced to hire professional (i.e., nonfamily) managers who no longer cherish family values and have truncated time horizons (Miller & Le Breton-Miller, 2006). Such executives also may be less able to benefit from the family reputation.
 Competitive Requirements, Resources, and Family Advantage

<table>
<thead>
<tr>
<th>Industry Challenges</th>
<th>Resources to Reduce Uncertainty</th>
<th>Family Advantage</th>
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<tbody>
<tr>
<td>Quality uncertainty</td>
<td>Tacit knowledge for connoisseurship that ensures quality (Nonaka, 1994)</td>
<td>Superior investment in training and mentoring; motivated sources of different talents, ability via mentorship to transfer tacit knowledge among family members (Ward, 2006)</td>
</tr>
<tr>
<td>Value uncertainty</td>
<td>Reputation to promote buyer trust and confidence (Fombrun, 1996)</td>
<td>Assiduous family stewardship over reputation; inculcation of family values (Chrisman et al., 2005; Pearson et al., 2008)</td>
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<tr>
<td>Demand uncertainty</td>
<td>Relationships to enhance connections with stakeholders that multiply strategic options during the bad spells (Simon &amp; Hitt, 2003)</td>
<td>Family generosity to stakeholders; older family members can pass relationships to later generations (Habershon &amp; Williams, 1999)</td>
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<td></td>
<td>Slack resources to promote robustness and durability (Bourgeois, 1981; Gersick et al., 1997)</td>
<td>Family concern for future induces the accumulation of slack resources (James, 1999)</td>
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Generational succession may pose another challenge. For example, exceptional talent, often an important component of competitive advantage in AR industries, may attenuate in *later family generations*. Thus for businesses where outstanding artistic performance or exacting connoisseurship is demanded of family members, time may not always be on their side.

There may also be diminishing returns at some point to having a growing number of family members in the business. As *many family owners and managers* become involved in a firm, family socioemotional priorities may come to trump a business agenda (Gómez-Mejía et al., 2007). Family disputes and attempts to use the business for personal purposes, nepotism for incompetents, entrenchment of senile executives, and appropriation of business assets, all become more possible (Le Breton-Miller & Miller, 2009; Morck & Yeung, 2003).

In very large, complex firms, the temptation for some family members to withdraw business resources for personal use becomes more of a threat (Morck & Yeung, 2003). Also, sizeable firms may pose an administrative challenge that is too demanding to be mastered by family members drawn from a relatively small talent pool (Mehrotra, Morck, Jungwook, & Wiwattanakantang, 2013). Capital restrictions arising out of family ownership too may be a problem.

Finally, not all arts-related industries require the same resources. For example, large film studios and art galleries are quite different in their challenges and resource demands, and, given scale requirements, family firms are more apt to thrive in the latter than the former.

In short, family firms are most apt to enjoy an advantage in AR fields when the involvement of the family is limited to those who possess useful talent, have enjoyed years of mentorship or apprenticeship, and were selected on the basis of competency *and* devotion to the firm. Moreover, family businesses that do not possess or explicitly cultivate the advantages of tacit knowledge, reputation, and relationships will not realize their benefits.

Certainly, we must not overgeneralize our arguments. Although family governance may sometimes be advantageous in the creation of some types of resources, no doubt there are other firm types and modes of organization that also can be successful, perhaps
by making use of similar or different types of resources. Indeed, many thriving AR businesses today are neither owned nor managed by families. Moreover, the trends toward internationalization and industry consolidation have placed a premium on having large pools of capital that may not be available to family firms. In some businesses such as music and film, the threats of disintermediation and the Internet are very significant. Indeed, even art dealers and publishers are facing competition from less personal e-commerce sites that may erode their business, while globalization that favors international public enterprises and mobile capital poses yet another challenge. Thus it remains to be seen how long our arguments will apply to these sectors and whether family businesses can perpetuate any family edge there. However, if family firms can leverage their advantages in creating the knowledge, reputational, and connection resources we have addressed, they may continue to play a vital role in this sector of the economy.

Theoretical Implications and Future Research

The relationships between family priorities and characteristics and industry requirements have been ignored in the family business literature. As a result, there is significant debate on whether and when family firms perform well. Our analysis attempts to draw connections between family orientations, the resources they may bring and sustain, and the requirements posed by different varieties of environmental uncertainty. We believe these are important areas to pursue. Indeed, contingency theorists have long argued that varying degrees of uncertainty require different resources in order for firms to succeed (Miller & Shamsie, 1996; Thompson, 1967; Wright et al., 2014). We have applied this logic to family firms, arguing that those in which a long-term orientation is a family priority will respond in superior fashion to significant levels of uncertainty. Thus, as industry has been a missing contingency in family firm research, we believe it is time to pay it more heed. It is noteworthy that some of our businesses do very well in an uncertain environment, given that family firms are sometimes portrayed as being staid and resistant to adaptation (Bertrand & Schoar, 2006; Bloom & Van Reenen, 2007; Morck et al., 2005).10

It remains to be seen whether the propositions we have generated will hold true in a large sample of companies or in industries such as high technology where uncertainty takes on different forms than that in AR sectors. More generally, given that this research is an early attempt to connect industry characteristics to specific family firm orientations and competencies, it remains unknown which industries most favor or penalize such qualities. We urge others to investigate this important question. Indeed, the literature can benefit from this more contingent, context-specific, contingency approach (Wright et al., 2014).

For example, it would be useful for scholars of family business resources, strategy, and performance to look more systematically at variations across different industry contexts in order to examine which family-related resources are most prevalent and relevant there, and how these affect performance. Moreover, as there are variations in family firm governance and family involvement among family firms, scholars should take care to distinguish among different types of family firms in examining the contexts under which they may thrive or founder. One way to initiate such research might be to examine carefully the prevalence and performance of different kinds of family firms across various industries. That could be followed by fine-grained studies into the sources of such

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10. Another example of this family firm ability to master uncertainty is the study by Miller et al. (2009) of Korean high-technology businesses.
differences as reflected by the match between family-related resources and industry demands. Ultimately, these explorations may contribute to a theory of the industry effects on family firm performance.

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November, 2015


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