Family Firms' Transformation to Non-family Firms During 1920's-2015

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Abstract

This paper sheds light on the transformation of the listed family business during almost a century (1920's - 2015) in Japan, to analyze the erosion of family influence upon the firm from the resource-based view perspective. Family business, broadly defined as any firm under family influence, are known for their major role in the national economy and superior performance both in developed and developing countries. Despite the importance of the continuation of the family firms for generations, little research has been done to analyze its transformation to non-family status.

This paper examines the family firm transformation process as the family capital committed to the firm decreases, to identify the sequence and causes of the transformation. Major findings of the research include:

(1) Family capital is essential to maintain the family business status.

(2) Erosion of the family financial capital is the most important force that causes the transformation.

(3) Major causes of the transformation include the decision-making at the business expansion phase, separation of ownership and management, disposal of the shares and resignation from the board of directors.

(4) The transformation process to the non-family status, once occurred, is seldom reversible.

With the above findings, this paper contributes to the existing literature to enrich understanding of the transformation and importance of family capital to maintain the family influence on the firm. This paper presents academic, practical and administrative implications before arriving at the conclusion.

Keywords: family business, ownership, succession, board of directors

(1) Introduction

This paper sheds light on the transformation of the listed family business during almost a century (1920's - 2015) in Japan, to analyze the erosion of family influence upon firms from the resource-based view (RBV) perspective. As a theoretical lens to view the resources of the firm as the source of its competitiveness (Barney, 1991), RBV is employed to analyze the erosion of the various resources of the family business and its impact upon the family influence. The research questions are; in what sequence the transformation takes place, and what major factors cause the transformation.

Family business research is one of the emerging fields, reflecting the major role of the family business in the national economy both in developed and developing countries, its unique characters, and its superior performance compared to the non-family business. Since the inception of the research in our field, succession has remained as the main subject, reflecting the short life span of the family business and the strong desire of business families for longevity for future generations. Despite the importance of the continuation of the family firms for generations, little research has been done to analyze its transformation to non-family status.

The paper aims to contribute to the literature with major findings about the erosion of family capital, which eventually terminates life as a family firm, and provides implications in the academic, pragmatic, as well as the administrative perspectives. The rest of the paper is composed of the literature review, method and the major results, discussions, and implications before arriving at the conclusion.

(2) Literature review

Family business, broadly defined as any firm under a family's influence (Newbauer & Lank, 1998), has quickly gained considerable attention both in the developing and the developed countries. The main reasons for this attention include but are not limited to; the major role family business plays in the national economy over the world, its superior performance and its unique characteristics. Both contradict the famous declaration of a separation of ownership and control (Berle & Means, 1932) and Chandler (1977), which assesses the family business as outdated.

It is conservatively estimated that family businesses comprise between 65% and 80% of all existing firms worldwide (Gersick et al., 1997). Among the big firms, family businesses also take a significant share. In the United States, for example, 35% of the S&P firms (excluding financial institutions) are family businesses. It is also well known that family businesses outperform other types of firms (Anderson & Reeb, 2003).

Literature addresses the unique character of the family business from various viewpoints. A family business is typically presented as a three circle model (Gersick et al., 1997), which is composed of family, ownership and business subsystems. The family's involvement and its influence on the ownership and business/ management make the family business distinctive from other types of organizations.

F-PEC (Astrachan et al., 2002) is a concept, composed of power, experience and culture, proposed to assess the family influence on a continuous scale rather than artificially dichotomizing family and non-family firms. Familiness (Habbershon & Williams, 1999) is another concept to model a family business from the RBV perspective. Familiness represents a useful all-encompassing term for the sources, processes, and consequences of family involvement in terms of ownership, management, and intergenerational intention. F-PEC and familiness have been discussed but not operationalized in a quantitative manner.

Measuring the family's influence on the ownership and management, Goto (2016) analyzes all firms listed on the stock markets in Japan, to identify the family firms and evaluate the level of family influence. The ownership influence is judged by the level of the stocks owned by the family, both as individuals and firms under the family's influence, while the management influence is judged by the magnitude of the family's representation on the board of directors.

The research categorizes listed family firms into three groups based upon the level of the family's influence and proposes that the family's influence tends to be eroded both in the ownership and management, which eventually brings family firms to the non-family status. This process of the family business transformation to the non-family firm was preliminarily examined in the automotive industry (Goto, 2016).

Following this approach, the present paper further expands it with the RBV approach, and adds the temporal dimension to examine the transformation process in a historical manner. As Pramodita et al. (2014) emphasize, time is an important factor in our research field, especially when we research the ownership and leadership transitions across generations.

The present paper examines the transformation of the listed family firms to the non-family status between the 1920's and 2015 in Japan. During the post-WW2 period, Japan has experienced radical social changes and rapid economic growth, while the pre-war period remained relatively stable. There is no literature focusing on the longitudinal changes of family business during a century of such drastic changes, anywhere in the world.

(3) The method and major results

This section explains the research method, definitions, information sources, and major results. In order to find the transformation of the family firms to the non- family status over nearly a century, we chose to focus on the listed firms, which were family firms in 1950 but lost its family business status in or before 2015. The year 1950 is chosen as the first observation period since the Stock exchanges reopened in 1949 after WW2 in Japan. After observing the transformation since 1950, the observation period is expanded back to the 1920's. Such a retrospective manner is chosen to make the comparison meaningful, because data availability before 1950 varies among the firms due to the different times of listing and foundation.

Information sources include all securities reports published by the firms, the Joint-stock company almanacs (Yamaichi Securities, Toyo Keizai Shinposha), company history books, 'who's who' directories, which are supplemented by the following databases: Business Archive Center (http://j-dac.jp) & eol (http://www.dl.itc.u-tokyo.ac. jp /gacos).

Family business is defined, as an extension of Newbauer & Lank (1998), as any firm with multiple members from the same family serving sequentially or simultaneously either as the major shareholders and/or board members (Goto, 2012: 3). Family shareholders are the ten largest shareholders, as listed in the securities reports of the subject firms, whose name, number of the stocks owned and ownership share are available in the securities reports. The members of the board of directors are also available from the same information sources as the shareholders. Board members include all directors and auditors, either full time or not. Family members include relatives by blood within the sixth degree, the spouse, and relatives by affinity within the third degree, as defined by Civil Code Article 725.

While family names give important clues to identify the family members, some people with the same family name may not belong to the same family. Some family members, on the other hand, may have different family names because of marriage. This needs to be examined by referring to directories and company history books. Lastly, on the occasion of the merger & acquisition, we focus on the legal surviving company.

The following are the major research results. Table 1 summarizes the transformation of the family business status between 1950 and 2015, where firms are listed in the order of the timing of reaching non-family business status. Table 2 shows the transformation of the family business between the 1920's and 1950, where firms are listed in the descending order of the family business status in 1940.

Following Goto (2016), family firms are categorized into three major groups (Group A, B and C), which are further subdivided into two levels. Explanations are as follows: Group A, composed of level 6 and 5, includes family firms with the family members positioned together among the major (ten largest) shareholders, and with at least one family member in the board of directors. The difference between level 6 and 5 is that the family together is the largest shareholder in level 6, while the family together is positioned between the 2nd and 10th shareholders in level 5. Group B, composed of level 4 and 3, includes family firms with the family positioned together among the major shareholders but no representative in the board of directors. The difference between level 4 and 3 is, same as the above, that the family together is the largest shareholder in level 4, while the family together is between the 2nd and 10th shareholders in level 3. Group C, composed of level 2 and 1, includes family firms with at least one board member but with no family shareholders among the top ten. The difference between level 2 and 1 is that the family has a president or chairperson in level 2, while the family has a board member(s) other than a president or chairperson in level 1.

Out of 57 cases which experienced the total loss of family influence between 1950 and 2015, 5 firms lost by 1970, an additional 16 firms by 1980, 7 firms by 1990, 15 firms by 2000, 13 firms by 2010, and 1 by 2015. 10 firms moved directly from Group A to the non-family status (level 0), while 47 moved from Group C and no firms from Group B moving to nonfamily status. There are 3 events in 2 firms, which witnessed a loss of family influence and its recovery before finally arriving at the non-family status.

(4) Discussion

This section discusses the research results starting with the general overview, followed by the importance of the family influence and family capital, route to the non-family status, major factors that cause the transformation, and the reversibility of the transformation process in this order.

1. General overview

First, let us review Table 1, which highlights quick and gradual transformation in most cases. There are 5 firms (8.8%), which became nonfamily by 1970 and another 40.3%

Table 1. Family status of the listed family business in the post-WW2 period (1950-2010)

Code	Name	Industry	1950	1960	1970	1980	1990	2000	2010	
5233	Taiheiyo Cement Co.	Construction materials	1	1	0	0	0	0	0	CN
3106	KURABO Industries	Textile goods	0	1	0	0	0	0	0	CN
8013	Naigai Corp	Textile goods	1	2	0	0	0	0	0	CN
4503	Astellas Pharma Inc.	Pharmaceutical	5	5	0	0	0	0	0	AN
7752	RICOH Co.	Electronics	6	6	0	0	0	0	0	AN
5331	Noritake Company	Glass & Ceramics Products	6	1	1	0	0	0	0	CN
3501	Suminoe Textile Co.	Textile goods	5	1	1	0	0	0	0	CN
4461	DKS Co.	Chemicals	5	1	1	0	0	0	0	CN
4613	KANSAI PAINT CO.	Chemicals	3	1	1	0	0	0	0	CN
7122	The Kinki Sharyo Co.	Transportation machinery	1	1	1	0	0	0	0	CN
3110	Nitto Boseki Co.	Textile goods	2	2	1	0	0	0	0	CN
4043	Tokuyama Corp.	Chemicals	6	5	1	0	0	0	0	CN
6508	Meidensha Corp.	Electrical equipment	6	5	1	0	0	0	0	CN
6326	Kubota Corp.	Machinery	6	2	2	0	0	0	0	CN
5352	Kurosaki Harima Corp.	Glass & Ceramics Products	5	2	2	0	0	0	0	CN
6742	Kyosan Electric Mfg. Co.	Electrical equipment	2	2	2	0	0	0	0	CN
4902	KONICA MINOLTA, INC.	Electrical equipment	6	5	5	0	0	0	0	AN
4112	Hodogaya Chemical Co.	Chemicals	5	5	5	0	0	0	0	AN
3201	THE JAPAN WOOL TEXTILE CO.	Textile goods	4	5	5	0	0	0	0	AN
5332	TOTO LTD.	Glass & Ceramics Products	4	5	5	0	0	0	0	AN
7913	Tosho Printing Co.	Miscellaneous goods	6	6	5	0	0	0	0	AN
3405	KURARAY CO.	Chemicals	5	2	0	1	0	0	0	CN
5333	NGK INSULATORS, LTD.	Glass & Ceramics Products	5	1	1	1	0	0	0	CN
6461	Nippon Piston Ring Co.	Machinery	5	1	1	1	0	0	0	CN
7701	Shimadzu Corp.	Precision Instruments	1	1	1	1	0	0	0	CN
4004	Showa Denko K.K.	Chemicals	0	5	2	1	0	0	0	CN
7971	TOLI Corp.	Chemicals	5	5	5	1	0	0	0	CN
7992	THE SAILOR PEN CO.	Miscellaneous goods	6	6	2	2	0	0	0	CN
6473	JTEKT Corp.	Machinery	6	5	2	1	1	0	0	CN
7261	MAZDA Motor Corp.	Automotive	6	5	2	1	1	0	0	CN
4452	Kao Corp.	Chemicals	5	3	3	1	1	0	0	CN
4508	Mitsubishi Tanabe Pharma Corp.	Pharmaceutical	6	5	5	1	1	0	0	CN
3408	Sakai Ovex Co.	Textile goods	6	2	2	2	1	0	0	CN
6103	Okuma Corp.	Machinery	6	5	2	2	1	0	0	CN

4516	Nippon Shinyaku Co.	Pharmaceutical	5	5	5	2	1	0	0	CN
6841	Yokogawa Electric Corp.	Electrical equipment	5	2	1	2	2	0	0	CN
2533	Oenon Holdings, Inc.	Food processing	5	2	2	2	2	0	0	CN
7951	Yamaha Corp.	Miscellaneous goods	2	2	2	2	2	0	0	CN
6367	DAIKIN INDUSTRIES, Ltd.	Machinery	6	5	5	2	2	0	0	CN
6506	YASKAWA Electric Corp.	Electrical equipment	5	5	5	2	2	0	0	CN
4912	Lion Corp.	Chemicals	6	6	5	2	2	0	0	CN
4028	Ishihara Sangyo Kaisha, Ltd.	Chemicals	3	5	5	5	5	0	0	AN
9017	Niigata Kotsu Co.	Ground transportation	2	6	6	6	6	0	0	AN
9048	Nagoya Railroad Co.	Ground transportation	2	1	1	1	1	1	0	CN
5334	NGK SPARK PLUG Co.	Glass & Ceramics Products	6	5	2	1	1	1	0	CN
7905	DAIKEN Corp.	Construction materials	5	5	5	2	1	1	0	CN
7723	Aichi Tokei Denki Co.	Precision Instruments	6	1	1	1	2	1	0	CN
9064	YAMATO HOLDINGS CO.	Ground transportation	6	5	5	5	2	1	0	CN
2802	Ajinomoto Co.	Food processing	6	5	6	5	2	1	0	CN
6474	Nachi-Fujikoshi Corp.	Machinery	5	5	0	0	1	2	0	CN
9044	Nankai Electric Railway Co.	Ground transportation	1	1	2	2	1	2	0	CN
4911	Shiseido Co.	Chemical	5	3	1	1	2	2	0	CN
2002	Nisshin Seifun Group Inc.	Food processing	2	2	2	2	2	2	0	CN
6203	Howa Machinery, Ltd.	Machinery	2	2	2	2	2	2	0	CN
6332	Tsukishima Kikai Co.	Machinery	6	5	5	5	2	2	0	CN
8244	KINTETSU Department Store Co.	Retail	6	5	5	5	5	5	0	AN
3526	Ashimori Industry Co.	Industrial materials	6	3	1	2	2	2	1	CN

Note 1: Each column shows the level of the family influence as defined in the text.

Note 2: Company names are shown in the current manner.

Note 3: Dark columns show the total loss of the family's influence (level 0).

Note 4: Black columns in 1950 indicate the extraordinary erosion of the family influence.

Note 5: In the extreme right column, "CN" shows the erosion of the family influence from Group C to non-family, while "AN" shows the direct loss of the family influence from Group A.

Source: Compiled by author.

became nonfamily by 1990. The number of firms in Group C show a sharp decrease from 29 (in 1960), to 18 (1970), 6(1980), 3 (1990) and 1(2000). The majority of the firms (47 firms or 82.5%) experienced gradual erosion, i.e. moving from Group C (the weakest family status) to non-family status. In contrast, 17.5% of the firms made a direct move from Group A (the strongest

Table 2 Family status of the listed family business in the pre-WW2 period (1920's-1950)

Code	Name	Founded	S	M	1920's	1930	1940	1950
7971	TOLI Corp.	1919	3	1	6	6	6	5
3106	KURABO Industries	1888	1	2	6	6	6	0
3501	Suminoe Textile Co.	1883	7	2	6	6	6	5
4613	KANSAI PAINT CO.	1917	5	3	6	6	6	3
3110	Nitto Boseki Co.	1923	6	3	6	6	6	2
6326	Kubota Corp.	1890	11	4	6	6	6	6
3201	THE JAPAN WOOL TEXTILE CO.	1896	4	2	6	6	6	4
5332	TOTO LTD.	1917	5	3	6	6	6	4
5333	NGK INSULATORS, LTD.	1919	6	2	6	6	6	5
6841	Yokogawa Electric Corp.	1915	10	3	6	6	6	5
2802	Ajinomoto Co.	1907	9	5	6	6	6	6
4043	Tokuyama Corp.	1918	3	2		6	6	
3405	KURARAY CO.	1926	2	1		6	6	5
7701	Shimadzu Corp.	1875	6	3		6	6	1
7992	THE SAILOR PEN CO.	1911	11	2		6	6	6
6103	Okuma Corp.	1898	4	2		6	6	6
2533	Oenon Holdings, Inc.	1900	5	1		6	6	5
4911	Shiseido Co.	1872	4	3		6	6	5
4461	DKS Co.	1909	5	1	5	5	6	5
7752	RICOH Co.	1936	2	1			6	6
6508	Meidensha Corp.	1897		1			6	6
5352	Kurosaki Harima Corp.	1918	4	2			6	5
4112	Hodogaya Chemical Co.	1915	2	2			6	5
6473	JTEKT Corp.	1921	1	2			6	6
4452	Kao Corp.	1887	1	2			6	5
3408	Sakai Ovex Co.	1891	3	3			6	6
6367	DAIKIN INDUSTRIES, Ltd.	1924	2	2			6	6
6506	YASKAWA Electric Corp.	1915	1	5			6	5
4028	Ishihara Sangyo Kaisha, Ltd.	1920	1	3			6	3
5334	NGK SPARK PLUG Co.	1936	4	1			6	6
8013	Naigai Corp	1920			5	5	5	1
7723	Aichi Tokei Denki Co.	1904	1	1	5	6	5	6
2002	Nisshin Seifun Group Inc.	1900	4	2	5	6	5	2
7261	MAZDA Motor Corp.	1921	3	1		6	5	6
9048	Nagoya Railroad Co.	1894	1	1		6	5	2
6474	Nachi-Fujikoshi Corp.	1928	1	1		6	5	5
6332	Tsukishima Kikai Co.	1905	1	1		6	5	6
5331	Noritake Company	1904	5	1	6	5	5	6
5233	Taiheiyo Cement Co.	1881	1	2	5	5	5	1
7951	Yamaha Corp.	1927	1	1		5	5	2
6461	Nippon Piston Ring Co.	1931					5	5
4004	Showa Denko K.K.	1926	5	2			5	0

9017	Niigata Kotsu Co.	1913	3	2			5	2
3526	Ashimori Industry Co.	1878	4	1			5	6
6203	Howa Machinery, Ltd.	1932	3	1	/	/	5	2
8244	KINTETSU Department Store Co.	1920	3	1			5	6
4516	Nippon Shinyaku Co.	1911	3	2	6			5
4503	Astellas Pharma Inc.	1923			/			5
7122	The Kinki Sharyo Co.	1920		4				1
6742	Kyosan Electric Mfg. Co.	1917						2
4902	KONICA MINOLTA, INC.	1873	6	6				6
7913	Tosho Printing Co.	1911						6
4508	Mitsubishi Tanabe Pharma Corp.	1678						6
4912	Lion Corp.	1891		3				6
7905	DAIKEN Corp.	1945	1	1	/	/	/	5
9064	YAMATO HOLDINGS CO.	1919	4	2				6
9044	Nankai Electric Railway Co.	1884		1				1

Note 1 & 2: Ditto

Note3: Dark columns show the strong family influence (Group A).

Note4: Black columns in 1950 indicate the extraordinary erosion of the family influence.

Note5: Column "S" and "M" show the largest number of the family shareholders and family board members respectively.

Note6: Column with a slash indicates the firm didn't exist then. Vacant column indicates data isn't available.

Source: Compiled by author.

family status) to non-family status.

The general overview of Table 2 shows, in contrast to Table 1, the minor transformation, keeping the highest level of family influence both in the ownership and the management. All firms were in Group A, and after experiencing an erosion from level 6 to level 5 in general, 30 firms (65.2%) still maintained level 6 status in 1940.

This is natural at the infant stage of family business development (Carlock & Ward, 2001). Most of the firms started as a small family firm, which grew and eventually went public, as described in the company history books (ex. Ajinomoto, 1972:29-30, Nachi-Fujikoshi Corp., 1978).

Before discussing the specific subjects, we need to look at 1950, which witnessed extraordinary transformations. Immediately after WW2, Japan was occupied by the General Headquarters (GHQ), which dissolved the Zaibatsu. The dissolution first targeted 5 major Zaibatsu, and later the minor and local ones. Their controlling families' assets were seized and holding companies were eliminated. There are 8 Zaibatsu targeted in our sample firms, whose family influence in 1950 was eroded to the following levels:

Non-family: KURABO[3106] [1], Showa Denko [4004]

Level 2: Nitto Boseki [3110]

Level 4: JAPAN WOOL TEXTILE [3201]

Level 3: Ishihara Sangyo Kaisha [4028]

Level 5: Kurare [3405], DAIKEN [7905], DAI-

[1] [ ] designates the security code.

KIN INDUSTRIES [6367]

There are several family firms, which took voluntary actions to protect themselves from dissolution, and as a result, significantly eroded their family influence. For example, Ajinomoto [2802] made a series of decisions to avoid the dissolution, which included: name change of the firm, liquidation of Suzuki & Co. the holding company, and the retirement of Saburosuke Suzuki III, the head of the family and Suzuki & Co. The company history book states, “Change in major shareholders: Suzuki Sanei Co. and the Suzuki family held 44.7% of the shares in June 1946. Three years later, this number was down to roughly 7% by June 1949.

Table 3. Extraordinary status in 1950 & normalized status

Name	Code	Original	Normalized
KURABO	3106	0	1
Nitto Boseki	3110	2	2
JAPAN WOOL TEXTILE	3201	4	5
Kurare	3405	5	5
Showa Denko	4004	0	5
Ishihara Sangyo Kaisha	4028	3	5
TOTO	5332	4	5
DAIKIN INDUSTRIES	6367	5	5
DAIKEN	7905	5	5
Naigai	8013	1	2
Niigata Kotsu	9017	2	6

Note 1 & 2: Ditto

Source: Compiled by author.

Shimadzu [7701] retired all family members from the board of directors. Though successfully avoiding the dissolution, its family influence wasn’t recovered. Other factors that erode family influence include huge property taxes and the decreasing of value of holding stocks (Mishima, 1983). Labor unions were another factor to force management concession in Niigata Kotsu [9017].

Some families recovered family influence from the extraordinary damage, as presented in the securities reports of 1960. In such cases, the paper conservatively normalizes the family status of 1950 to the level of 1960 (Table3).

2. Importance of family influence and the family capital

Family firms’ uniquenesses arise from their family/firm integration, as presented by the three-circle model (Gersick et al., 1997). The transformation of the family firm, as we’ve seen, is nothing but the disintegration of such a unique relationship between the family and its firm, which results in the partial loss of the family firms’ uniqueness and finally loses life as a family firm.

From the resource-based view, disintergration of such a unique family-firm relationship means the detachment of family capital from the firm. Family capital, defined as totally owned family resources composed of human, social, and financial capital (Danes et al., 2009), is vital to the sustainable growth of the family business through the family’s involvement in ownership and management. Erosion of family influence in its ownership and management means the decrease of the family’s financial and human capital committed to the firm respectively.

It is critical for the family to maintain family influence on the firm, not only from the family viewpoint but also from the perspective of the national economy. For the business family, especially for the founder, the family business is an intense source of energy and interest, which represents an extension of himself (Levinson, 1971).

Considering such a special relationship, it is in the nature of founders/entrepreneurs to have a difficulty "giving up what they have created" (Shein, 1985: 275). Erosion of family capital committed to the firm means the partial or total separation of the family from the firm as a shareholder or board member, severing a special relationship and accompanied emotional ties. Such a separation is the last thing for the business family to accept.

From the perspective of the national economy, erosion of the family capital committed to the firm means the weakening of the unique character of the family firms, which ultimately results in loss of the major role the family business plays in the national economy as addressed in the beginning of the paper. Therefore, the erosion of the family influence, or family capital, should be avoided by all means, both from the family and the national economy's perspectives.

3. Routes to the non-family status

Concluding the general overview with the above, we now move to the three main subjects relevant to the transformation of the family business. First is the route and sequence to non-family status. Our question is to find the causal relationship between the erosion of the family's influence in its ownership and management. In order to answer the question, two models are prepared to explain the process to become a non-family business; one model to put the Group B & C phase between A and nonfamily status (ie. A→B→C→ non-family), and another model to put Group C & B in-between (ie. A→C→B→ non-family), and find which model explains the process better (with less number of deviations).

The result shows that the former model has 10 deviations in 9 firms, while the latter model has 13 deviations in 9 firms. Therefore, we conclude that the former model explains the process better than the latter model. The model positions the erosion of the family's shareholder position as the fundamental force to transform the family business, which triggers the erosion of the family's position in the board of directors and ultimately brings the firm to non-family status.

Although the margin is slim, the result is supported by the importance of the ownership in a joint-stock company, where the board of directors is appointed at the annual shareholders' meeting and work as agents of shareholders. Therefore, family influence as the shareholder(s) is most essential, and it must be maintained to keep the firm under the family's control.

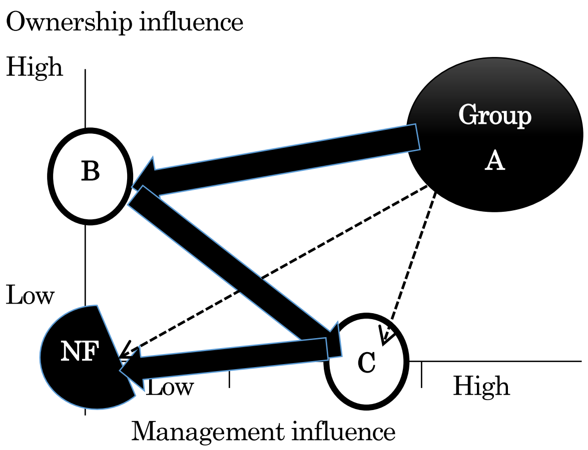

Figure 1. Transformation of the family firm

Note1: Solid and dotted lines show the main route and its short-cuts respectively.

Note 2: NF designates non-family.

Source: Compiled by author.

Beside the main route and the sequence as discussed above, two shortcuts need to be added. One is the direct route from Group A to C, and another is from Group A to non-family status. Table 1 shows that ten firms, or 17.5%, followed this route, while most of our sample followed the major route.

Summarizing the above discussion, Figure 1 illustrates the main route/sequence of the transformation of the family business, with two short-cuts.

4. Major factors to cause transformation

4.1. Decision-making during the business expansion period

Significant erosion of family influence between 1960 and 1990 coincides with the rapid growth of the Japanese economy. The transformation to the non-family status started in 1970s, and most significantly in the 1980s and 1990s. One of the most relevant factors to this end was the dilution of the family's shareholding position, which was caused by the capital increase during 1970s and 1980s, especially through the public stock offerings. Stock dilution resulted from the issue of additional common shares by the firms to finance the business expansion.

While the firms benefited from the additional capital and improved profitability, the dilution lowered the family's positions as shareholders, i.e. ownership percentage and voting control. For the family and its business, this meant the decrease of the family's influence as shareholders. The increase of capital after WW2 was significant in Japan. Compared to the 1950s, when the total amount of the capital increase was 1,270.9 billion yen, the amount of the new capital issuance increased more than ten-fold to 19,350.2 billion yen during the 1980s (Suzuki, 2013: 41).

Furthermore, public stock offerings became the major method of the capital increase (51.38% during 1970s and 79.42% during 1980s) in contrast to 3.75% in 1950s and 5.67% in 1960s (Suzuki, 2013: 41). While the rights issue, which was the major method of the capital increase until the 1960s, doesn't affect the existing shareholders' position, public stock offerings certainly result in the dilution of the existing shareholders' positions. The result shows that most of the business families couldn't maintain the same family influence as the shareholders under such circumstances.

Summing up, the findings show that the business family's decision during the business expansion period benefited the firm, which resulted in the sacrifice of family influence. In order to maintain the family capital and family's influence on the firms, the family always needs to pursue the optimal balance between the benefits of both the family and it's firm when making a business decision.

4.2. Separation of the ownership and management

Another factor that accelerated the decrease of the family's influence after WW2 is the separation of the ownership and management, and the appointment of the non-family members to president. Such practices were considered to be modernization of the management, and started implementation before the war (ex. Ajinomoto, 1972:30, 113). It became popular after the war, especially at the time of rapid business expansion, when the family couldn't afford to provide enough human resources both in quantity and quality.

Just like the above discussion, the business family needs to carefully consider what is good for the family and the firm in the long run. Separation of ownership and management, and the introduction of professional executives may work well only under certain conditions (Goto, 2012: 81-83). It is necessary for the business family to fully understand its advantages as well as disadvantages before making the final decision.

4.3. Disposal of shares

The disposal of shares is another main factor for the erosion of family influence in ownership. There are various reasons for the shares disposal, including the inheritance tax payment, financial needs for personal purposes etc., which are not easy to observe from the outside. There were two cases, which were made public. K. Ichimura, founder of RICOH [7752], decided not to pass the baton to a family member and most of his assets (3 billion yen) were donated to the newly established New Technology Development Foundation. M. Ogura, after retiring from YAMATO HOLDINGS [9064], donated 4.6 billion yen to establish Yamato Welfare Foundation (Mori, 2016). Today, neither of these foundations have family influence, without having family members in the executive board.

Whatever the motivation and necessity is, disposal of the company shares means less commitment of the family capital as the shareholder. The business family needs to consider the outcome of disposal in the long run.

4.4. Removal from the board of directors

There are at least 6 firms which experienced the family executive's removal from the board of directors, either as a president or chairperson, reportedly taking responsibility for the poor performance (2 firms), management crisis (2 firms), and occasionally scandalous incidents (2 firms). Removal from the board of directors means not only the erosion of the family influence, but also the loss of revenue as the executive. Loss of such revenue makes it difficult to buy newly issued stocks to maintain family influence as a shareholder.

Some of the cases, such as scandalous incidents, were expected and avoidable, for which the family executives are responsible. Family executives are also responsible for the poor performance and management crisis, at least to some extent. It is the business family's responsibility to take every possible measure to avoid such incidences beforehand, in order to maintain the commitment of the family capital.

5. Reversibility of the transformation process

Once the family influence is damaged, is it possible to recover it? Our research shows that the family's influence in the management can be recovered, while it is very difficult to recover the influence in the ownership. Table 1 shows 10 incidences of the reverse moves: there are 7 upward movements in the board member(s), composed of 2 moves from non-family to level 1, 7 moves from level 1 to 2. In contrast, there is only one upward move regarding the shareholder's position (from level 5 to 6).

It is possible to recover the position in the board of directors as long as the ownership is maintained at a certain level, such as among the top ten shareholders (e.g. moves from level 4 to 5). We contend that it is quite difficult to move upward in the shareholder's position unless the family continues its conscious effort to this end.

In conclusion, family capital and its commitment to the firm is fundamental to the status of the family firm, and the family needs to continue a conscious effort to maintain it, as it is very difficult to recover once it is damaged or lost.

(5) Implications

This section presents implications, which are academic, practical and administrative respectively. Academically, the research has three major implications. First, the paper presents a new definition of family business to quantitatively measure the family involvement on a continuous scale. Traditional definitions artificially dichotomize family vs. nonfamily firms when no such clear-cut dichotomy exists (Astrachan et al, 2002: 46). To avoid the problem, F-PEC is proposed, which however isn't operationalized.

This paper presents a quantitative measurement of the family involvement, both in the ownership and management, on a continuous rather than dichotomous scale, overcoming the weakness of both the conventional definitions and FPEC. It has a potential to tap different qualities of businesses, making it possible to differentiate levels of family involvement, and providing a framework integrating different theoretical and methodological approaches to the study of family business.

Secondly, as discussed in the last section, this paper addresses the importance of the optimal solution of the conflict between the family and its business. In order to pursue the optimal balance between the benefits of both the family and it's firm, this research emphasizes the importance of maintaining the family's perspective when making a business decision. It is therefore critical to research the optimal point, to balance the benefit of both the family and its business in the long run.

The third academic implication, the modeling of the sustainable family business, is relevant for family firms to achieve sustainable growth for generations. The family business today is facing various challenges due to ever-changing environmental conditions. The sustainable family business model, once constructed under such ever-changing environmental conditions, is expected to evaluate each family firm for its sustainability, succession capability and address its obstacles.

Practical implications are varied, out of which the following two are briefly remarked about. One is the importance of the family's conscious effort to keep control of the business within the family. The importance of the family's control of its business is echoed by Ernst Young (2015), summarizing the 2012 survey of 280 family businesses in 30 countries, which says that "two-thirds of all businesses questioned said that they planned to keep the control of the business in the family." This strong desire should be pursued consciously and continuously, otherwise business decisions will be easily made in favor of the firm's interest.

Another practical implication, important to the business family, is the significance of all possible measures to maintain the family's influence in a long-term horizon. Education of the next generation is one of the most important factors to this end, which requires at least one or two decades to successfully accomplish as planned. Therefore, such a practice can't be overemphasized.

Last but not the least important is the administrative implication. For the policymakers, this paper indicates the importance of maintaining the family status, nevertheless administrations in Japan and other nations seem to be geared toward non-family succession. In Japan, succession is one of the very imminent issues for family firms (Small and Medium Enterprise Agency, 2006). Less and less numbers of members of the next generation choose to succeed, and as a result, family firms are obliged to cease operation. In such a situation, the Small and Medium Enterprises Agency, moves to support various alternate successions, including succession to non-family members, following advanced nations which have already geared toward this direction, typically the European Community (European Commission, 2011: 78), and especially France (Murakami, 2008: 16).

It may be argued that various alternate successions serve to the benefit of the family and its firms. Literature tells the opposite since extra-family succession yields better financial performance than intra-family succession in the short run, but it is inferior in continuity (Wennberg et al., 2011). Policymakers should be aware of the outcome of the policy in the long run and should take every possible means to promote intra-family succession.

(6) Conclusion

Tracing 57 listed family firms in Japan for their transformation process to become non-family firms over almost a century (1920's - 2010), this paper examined the family business transformation process as family capital committed to the firm eroded, to identify the sequence and the causes of the erosion.

By addressing the family capital as most essential to maintain the family business status, this paper emphasized the erosion of the family's financial capital as the most important force to cause the transformation, and identified decision- making during the business expansion period, separation of ownership and management, disposal of shares and resignation from the board of directors as the major causes for the transformation. Since the transformation process to the non-family status is difficult to reverse once occurred, it is critical for the business family to continue the conscious effort to maintain family capital to influence its firm. This paper presented academic, practical and policy-related implications.

The limitation of the research is the lack of comparisons with those firms that have maintained the family firm status until today. Also, the comparison with family firms' transformations in other countries is expected to give universal applicability to the findings of the paper.

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