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Altruism and Agency in the Family Firm: Exploring the Role of Family, Kinship, and Ethnicity

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This article examines the relationship between altruism and agency costs in family business through an in-depth case study of a family firm. We found that altruism reduced agency costs in the early stages of the business, but that agency problems increased as the venture became larger and more established. Moreover, we suggest that altruistic behavior need not be confined to family and close kin, but may extend through networks of distant kin and ethnic ties. We thus present a more complex view of the agency relationship in family business than is often portrayed in the existing literature.

In a recent article, Chrisman, Chua, and Sharma (2005, p. 559) suggest that the core challenge facing family business research is to identify "the nature of family firms' distinctions" and to determine "if and how these distinctions result from family involvement." As family business researchers have grappled with these issues, they have relied heavily on agency theory, and, in particular, on the notion of altruism. This approach has resulted in a number of important insights, yet the effects of altruism in family business remain uncertain. For example, it is unclear under what conditions altruism reduces agency costs (e.g., Van den Berghe & Carchon, 2003) and under what conditions it increases them (e.g., Schulze, Lubatkin, & Dino, 2003).

This lack of clarity suggests that considerably more work is required in order to develop a comprehensive theory of altruism as a distinctive aspect of family business. Moreover, altruism has implications for the nonfamily members of family firms, and this issue has rarely been examined in the literature. In this article, we report the results of a case study of a family business, which sheds significant additional light on this topic.

Our case study grows out of a larger research project conducted by one of the authors (Karra, 2005). Over the past 3 years, she has conducted a study of entrepreneurial new ventures that began international operations soon after founding. During this research

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project, it became apparent that many of these companies were family owned and characterized by complex networks of family, kinship, and ethnic ties. One firm from this larger study was selected in order to explore the family dynamics that occurred in the development of these ventures. The firm that was chosen, Neroli,[1] is a medium-sized fashion firm headquartered in Turkey that manufactures and sells a range of leather goods and clothing. It has production facilities in Istanbul and a distribution network spanning much of the former Soviet Union and Eastern Europe.

In exploring the role of family influence in the development of this family-owned new venture, the study makes several contributions to the family business literature. First, we show that in the early stages of family businesses, altruistic behavior has the potential to align the interests of family and kin and to help build a competitive advantage.

Second, we argue that family firms may expand the logic of the family beyond the nuclear family through kinship and ethnicity in order to create a form of quasi-family. In this case, the owner of Neroli leveraged ethnic ties and the shared experience of living under communism to build a network of relationships that shared the characteristics of the family ties that existed at the center of the firm. Our analysis suggests a more fluid conception of "family," one that is at least partly negotiated rather than automatically attributed by virtue of blood or marriage.

Third, we show that there are limits to altruism as family businesses develop and grow, and that agency costs may therefore increase over time. However, we argue that the nature of the agency problems experienced differ between family and near kin and between the quasi-family based on distant kin and ethnic ties. With regard to the former, agency issues take the form of moral hazard; in the latter, they take the form of adverse selection.

The article proceeds as follows. First, we provide an overview of the literature on agency theory and altruism as it relates to family business and outline the research questions that underpin the study. We then explain why we chose Neroli and how the data were collected and analyzed. In the third section, we present the story of Neroli. Building on the case study, in the fourth section we present our findings on the relationship between altruism and agency in family firms. We conclude by considering the implications of the study and discuss some directions for future research.

Agency Theory, Altruism, and the Family Firm

There is a large and growing body of work that considers the ways in which family businesses differ from nonfamily businesses (Chrisman et al., 2005). One of the most successful approaches to developing a theory of the family firm that takes into account the distinctive dynamics inherent in family business, and the role of the business as a family institution, has been agency theory. At the core of agency theory is the potential conflict between the owners of a firm (the principal) and the managers under contract to run the firm on the owner's behalf (the agent).

Agency theory highlights two characteristics of agency relationships (Eisenhardt, 1989a): (1) the interests and objectives of the agent and the principal and (2) the approach to risk of the agent and the principal, both of which are likely to diverge under certain circumstances and which may lead to conflicting decision-making preferences. As a result of asymmetric information, it is difficult for the principal to monitor the actions of the agent. Moreover, because contracts are incomplete and cannot address all possible

1. The names of companies and individuals have been disguised for confidentiality.

contingencies, it is impossible for the principal to ensure that the agent acts appropriately in all circumstances (Alchian & Woodward, 1988).

Under the conditions of asymmetric information and in the absence of complete contracts, two main kinds of agency problem may arise (Chrisman, Chua, & Litz, 2004). The first is adverse selection, which occurs when the principal enters into a contract with an agent who is not well qualified or is in some other way unsuitable for the tasks to be performed. The second is moral hazard, a term that "suggests that people cannot be counted on to do what they say they are going to do, and that failure manifests itself in prices and contractual arrangements" (Alchian & Woodward, 1988, p. 68). Moral hazard is a form of opportunism and includes shirking, free riding, and the consumption of perks.

Agency problems such as these inhibit cooperative relationships between agents and principals. To control these problems, principals adopt a series of incentive mechanisms (both hortatory and punitive) to try to ensure that the actions of the agent are consistent with the objectives of the principal. The costs of negotiating and implementing these incentives, as well as the costs of monitoring them, are referred to as agency costs.

Early proponents of agency theory suggested that agency costs in family firms are negligible or absent because the interests of family members are likely to be closely aligned (Fama & Jensen, 1983, 1985). This, it is argued, leads to effective decision making because owners have the capacity to ensure that decisions are made with a view to maximizing family wealth and/or securing a legacy for future generations. Jensen and Meckling (1976) even suggested that formal governance mechanisms in family firms are at best unnecessary, and at worst may actually damage business performance. From this perspective, family business is a very efficient form of organization, with intrinsic advantages over nonfamily organizational forms (Daily & Dollinger, 1992; Kang, 2000).

The assumption of these authors is that individuals, households, and firms are rational actors seeking to maximize their economic utility. In family business studies, however, comparatively few scholars have sought to work within these confines, preferring instead to consider that actors have a range of preferences and objectives (e.g., Chrisman et al., 2004; Lubatkin, Schulze, Ling, & Dino, 2005). More specifically, a key assumption in the family business literature is that in addition to economic goals, families may have noneconomic goals such as providing employment for family members and building family cohesion.[2] This changes the nature of the agency relationship because it is possible for family members to make decisions that lead to a suboptimal business performance by, for example, the excessive consumption of perks, but at the same time exhibit behaviors that are consistent with the objectives of the owner of the firm (Chrisman et al., 2004).

In seeking to explain this characteristic of family firms, the concept of *altruism* features prominently. Van den Berghe and Carchon (2003) suggest that altruism provides a powerful conceptual tool for understanding why family firms exist. Dyer (2003, p. 408) voices a similar opinion, arguing that it plays "a unique role in family firms that is not generally found in other enterprises."

In religious studies and in some strands of philosophy, altruism refers to a moral value that leads individuals to act in the interests of others without the expectation of reward or positive reinforcement in return. In economics, on the other hand, altruism is considered as a utility function that connects the welfare of one individual to that of others (Schulze et al., 2003), and for the most part it is this conception of altruism that has been applied in family business studies. Thus, parents exhibit high levels of munificence with respect

2. There is, however, a disagreement about the range of noneconomic goals that family businesses pursue (Sharma, Chrisman, & Chua, 1997).

to their children not only because of the bond that exists between them, but also because their own interests, and those of the business, would be damaged were they to act less benevolently.

There is much debate, however, about whether altruistic behavior increases and/or decreases agency costs in family firms. Van den Berghe and Carchon (2003), for example, argue that altruism encourages a number of behaviors that reduce agency costs and improve firm performance. First, an altruistic behavior creates a self-reinforcing system of incentives that encourages family members to be thoughtful and "selfless" to one another. Second, it gives rise to a sense of collective ownership among the family members employed in the firm. Third, it reduces the information asymmetries among family members. Finally, it generates an organizational culture that encourages risk taking by, for example, exploring international growth opportunities (Zahra, 2003). There is some empirical evidence to support this position, especially when the altruism is reciprocal and symmetrical (i.e., exhibited evenly by both parties). For example, Chrisman et al. (2004) found that, overall, family involvement may decrease agency problems, and Eaton, Yuan, and Wu (2002) show econometrically that reciprocal and symmetrical altruism leads to competitive advantages with respect to some business opportunities.[3] Chua and Schnabel (1986), Chami (1997), and Carney (2005) also provide evidence to suggest that altruism can help build a competitive advantage.

Equally, there is empirical evidence to suggest that altruism may be a "two-edged sword" (Dyer, 2003, p. 405). For example, while Schulze et al. (2003, p. 475) noted that "altruism compels parents to care for their children, encourages family members to be considerate of one another, and makes family membership valuable in ways that both promote and sustain the bond among them," they also found a number of important agency problems closely associated with altruism: free riding and biased views from parents about the aptitude of children, the consumption of perks by family members, and problems in the enforcement of contracts. This led them to conclude that "family-ownership does not appear to represent the kind of governance panacea that Fama and Jensen (1983) and others attribute to family owner-management" (Schulze et al., p. 487). In the same vein, Gomez-Mejia, Nunez-Nickel, and Gutierrez (2001) show that the preferential treatment of family members leads to increased rather than decreased problems of agency.

Given the relatively limited empirical evidence and the mixed picture painted by the empirical evidence that does exist (suggesting that altruism may have both positive and negative implications for the principal–agent relationship), important questions remain about the effects of altruistic behavior on agency costs in the family firm. In particular, under what circumstances does altruism increase and/or reduce agency costs? Rephrased as a research question:

> What is the relationship between altruism and agency costs in family businesses? Does this relationship vary over time?

In the remainder of the article, we will address these questions through an in-depth case study of a successful family business. The case is particularly interesting not only because altruism formed a central strand of the founder's strategy from the firm's inception, but also because the altruistic behavior he exhibited was directed both toward family members *and* toward key nonfamily members of the business and its network. Moreover, unlike much of the existing empirical evidence, which is predominantly quantitative in nature, the use of qualitative methods allowed agency issues to be explored in a way that

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3. Cited in Chrisman et al. (2005).

is sensitive to the context in which the focal firm operated and to carefully track the evolving relationship between altruism and agency costs over a period spanning several years.

Methodology

As noted, the study that forms the basis of this article began 3 years ago when one of the authors interviewed the owner and CEO of Neroli, Ishmael Karov, as part of a larger research project on international new venture creation (Karra, 2005). Karov founded Neroli in Istanbul in the late-1990s and guided it through a period of rapid growth, successfully penetrating markets across Eastern Europe. By the end of the study, the firm employed about 750 people and had 87 retail outlets across the former Soviet republics and Eastern Europe.

We chose to study Neroli for three reasons. First, the case has "rare or unique" qualities that make it a logical candidate for "theoretical sampling" (Eisenhardt, 1989b; Yin, 1994). Preliminary research revealed that the firm had grown rapidly over a relatively short period of time and relied upon a high level of family involvement. The organization of the firm remained family-based, and most employees were either relatives or shared the same ethnic background as the owner. In addition, the entrepreneur's motivation for founding the firm was the betterment of the family, and the dynamics of the family were therefore central to the firm.

Second, Karov provided a very high level of access to the firm. We were able to interview him and other important members of the firm on multiple occasions during the period of the study, and he provided us with extensive archival data relating to the history of the firm. In addition, one of the coauthors was able to travel with him to attend key meetings with distributors and retailers in Russia and Eastern Europe and to attend trade shows and visit important suppliers in Italy. She was also able to interview all of the family members and other key individuals, including manufacturing partners and employees.

Third, the firm was only slightly more than a decade old at the time of the study, and the founder was still the CEO of the company. This was significant because it increased the likelihood that the details of the founding of the firm and its early development remained fresh in the minds of the founder and other interviewees. We therefore consider Neroli a "strategic research site" (Bijker, Hughes, & Pinch, 1987) for studying altruism in family business.

Data Collection and Analysis

Interview and archival data were collected during several trips to Istanbul as well as during visits to Russia, Ukraine, Kazakhstan, and Azerbaijan. In addition, a number of telephone interviews were conducted with key members of the firm and its partners in Turkey, Italy, the United States, and in the former Soviet Republics. One of the authors speaks English, Turkish, Russian, Italian, and Bulgarian, and where possible, the interviews were carried out in the first language of the interviewees. We also collected substantial secondary data in order to understand the historical context within which the firm was founded.

The data were analyzed in a two-stage process. In the first stage, the case study data were organized into an "event history database" (Garud & Rappa, 1994). This was done by chronologically ordering descriptions of events taken from the raw data—interview

Table 1

Critical Events in the Development of Neroli

Approximate dates	Key events and issues	Countries entered
1989–1992	Karov explores the possibility of selling leather bags and purses to the Russian market. Karov approaches a Turkish Yugoslavian immigrant who owns a leather factory in Turkey about a possible collaboration.	—
1992–1994	The two men agree to open a small store in Istanbul (as a joint venture). The store sells a range of leather goods and the products are targeted mainly at Russian tourists. Karov works hard to build relationships with his Russian retailers and distributors. The business is very profitable, but Karov realizes that he must reach more retailers and distributors if he is to realize his ambitions. This leads him to appoint a distributor in a number of Russian cities. He also develops relationships with distributors in Kazakhstan, Byelorussia, Ukraine, and Bulgaria.	Russia, Kazakhstan, Byelorussia, Ukraine, Uzbekistan
1994–1999	The distribution network in Russia works very well. The network expands to 77 stores across Eastern Europe, Russia, and its former republics, incorporating around 750 people. In 1999, Karov decides to form his own brand (Neroli) and to source products from a much wider range of manufacturers.	Bulgaria and Azerbaijan
2000–present	The network works to expand distribution into the United States and the United Kingdom, but makes little impact. Network members complain that they lack expertise in key areas such as marketing and finance.	Attempting to enter North America and Italy

transcripts, interview and field notes, and secondary sources such as journalists' accounts of the political and economic context—and by juxtaposing multiple accounts against each other to ascertain the degree of convergence. One of the authors had previously worked for the company as a translator (1996–2002), and therefore had a detailed understanding of the growth of the firm.[4] This knowledge, combined with the interview and field notes, allowed for the development of a narrative of the formation and subsequent expansion of the firm (see Table 1).

In the second stage of data analysis, we documented and tracked the motivations of the entrepreneur, the degree of involvement of family members, the role of other key actors, the evolving business model, and the factors that emerged as critical to the firm's success. We then examined the evolution of the firm over time, paying particular attention to the role of family members and to evidence of altruism and agency costs. As we developed the chronology of the case, we looked at and carefully documented the theoretical issues that emerged. In this last process of "enfolding findings with the literature" (Eisenhardt, 1989b), we brought together, iteratively, findings from the previous stage and related them to the literature on family business and to our research questions. During this

4. While this personal knowledge was advantageous in terms of access and understanding the dynamics of the firm, there are obvious dangers in terms of objectivity. The authors sought to address this point by reflecting back the findings to key respondents on several occasions. Moreover, although the data were collected mostly by one person, there were three researchers involved in the data analysis and writing up of the project. All of the researchers met with the focal entrepreneur and talked with him at length about the case and our interpretation of the salient issues.

process, we moved back and forth between data and theory until we reached a "theoretical saturation" (Garud, Sanjay, & Arun, 2002).

Neroli: A Family-Owned International New Venture

Ishmael Karov and his family were among the 360,000 Turkish Bulgarians forced to emigrate from Bulgaria to Turkey in June 1989. Following their emigration, Karov and his brothers found work as welders while their wives worked as cleaners and textile workers. Very soon, however, frustration with the lack of opportunities for immigrants in his new country led Karov to conclude that "working in factories, for someone else's profit, would never do the family any good." He therefore went back to Bulgaria and sold the family property in order to raise capital to start a business.

His idea was to open up a store in Laleli, a neighborhood in Istanbul frequented by non-Turkish entrepreneurs known as "luggage traders." Following the collapse of the Berlin wall, there was an insatiable demand for consumer goods in former Communist countries, and thousands of entrepreneurs from the newly capitalist transition economies of Eastern Europe and the former Soviet Union had began to visit Istanbul. These entrepreneurs came to the city to buy inexpensive Turkish merchandise that they then took back to their home countries "in their luggage" for resale. The new luggage traders were an unexpected but very welcome export opportunity. Although largely unofficial, this trade reached an estimated U.S.$8.8 billion by 1998, a significant proportion of Turkey's official total exports, which ranged from $20 to $30 billion per year over the decade (Yukseker, 2003).

Despite selling their family property, Karov and his family did not have enough capital to open a store to benefit from the luggage traders. More importantly, none of the family members knew how to do business in Turkey. In addition, they had all grown up in Bulgaria and spoke Bulgarian and Russian very well, but their command of the Turkish language was limited. After consulting his family, Karov contacted a friend—a Yugoslavian immigrant in Turkey—who owned a business that manufactured leather wallets under the Jenni brand name, and proposed a partnership that involved Karov running a store in the Laleli district, selling Jenni products to entrepreneurs from Russia and Eastern Europe. Although Jenni had sold leather goods in the Turkish market for almost 30 years, it was not a well-known brand, and in recent years, the financial health of the company had deteriorated sharply. Karov's offer, therefore, suited both parties. It was agreed that Karov would own just 10% of the store, reflecting the fact that his partner would provide the initial capital to establish the venture.

From the opening of the store in November 1991, the demand among the luggage traders for Jenni products was strong, and the company sold 210,000 items in the first year alone. From the very beginning, the transactions between Karov and the luggage traders were based on mutual trust and a sense of shared experience of living under communism. Karov would even allow some customers to purchase goods on account and bring the money back to him once they had sold them in their home markets.

In the beginning, virtually all of the products bought by the luggage traders were sold in street markets. The large department stores in the transition economies were still state owned, and there were no private stores or boutiques yet. However, even in the street markets, Karov insisted that the products be displayed with a sign featuring the brand name Jenni and be sold in Jenni-branded shopping bags.

In 1994, Karov took a risky step and invited 20 of his most trusted Russian traders to open official Jenni stores in Moscow. This move included a new organizational structure based on the appointment of a main distributor in each city who was responsible for selling Jenni products to the retailers in the city in which they were located. By conferring ownership and responsibility onto these distributors, Karov believed that they would come to see the brand as their own and be more likely to work constructively with him to develop the brand. In addition, Karov sought to convey to his distributors that they were not engaged in a purely commercial relationship—he emphasized that they were friends and partners who shared a common history and whose interests were intertwined; they were the new entrepreneurs that had emerged from the former communist system and who were taking advantage of the opportunities offered by the transition to a market economy.

Establishing a distribution network not only strengthened the Jenni brand by moving the products out of the street markets into stores but also allowed Karov to have access to a very large market whose laws, regulations, and business conventions were very unfamiliar to him. He was also able to avoid dealing with corrupt officials and any involvement in unlawful business dealings by relying upon his distributors' knowledge and contacts.

Although he circumvented many of the difficult issues associated with business operations in Russia, his relationship with his partner in Turkey (the owner of Jenni) became increasingly fractious. In particular, Karov was unhappy that his partner's sons had taken a substantive stake in the business, and was frustrated that he was unable to bring any of his own family members into the venture. Karov discussed his discontent with his partner and openly declared that he wanted to create his own leather goods business using the distribution network that he had developed while selling Jenni products from the store in Istanbul. His partner agreed on the condition that Karov would continue to distribute the Jenni brand in the Russian market; he appeared unconcerned that the two brands might be in competition, believing it unlikely that Karov could build a business that would threaten the Jenni brand.

During 1999, Karov entered the Russian market with his own brand, which he named after his daughter Neroli. He took the opportunity to make his business a family business and quickly involved family members in key positions. In the first instance, his wife joined him in the store and took on the crucial role of managing relationships with the firm's distributors. Karov also made his brothers partners in the firm despite the fact that they did not invest any capital. He said it was not acceptable to ask for a financial input from his closest family members and that the help and trust they provide was worth more to him than money. Besides, he felt that it was his obligation as the eldest brother to provide for the family. Karov's generosity, however, did not stop at his closest family members. He also employed his more distant relatives and a significant number of Turkish Bulgarian immigrants (many of whom struggled to find employment in Turkey). Some of them had already worked for him at the Jenni manufacturing plant but were keen to move to Neroli and help him with this new endeavor, in part because they felt "obligated towards someone from [our] kin."

From the outset, there was a strong interest in the new brand from Karov's Russian distributors, and the relationship between Karov and his distributors was critical to the operation of the new business. Consider the following quotation from a Ukrainian distributor:

> This is not about a brand. It is much more about the people. All my transactions with the Jenni brand have always been with Karov and I would not want to work with someone else. If Karov sells X brand, I will have that in my store. If one day, he sells clothes, I will sell that. I trust him. He is a good businessman. . . . A good person.

Within a year, Neroli began to outperform Jenni in terms of sales. There were several reasons for Neroli's strong performance. First, Neroli worked with well-known Italian designers and suppliers, and the products were of much higher quality. Second, the Russian distributors trusted Karov and had worked with him for some time. Third, and perhaps most importantly, the Neroli brand proved popular with Russian consumers. By 2005, Karov had established a network of 87 stores in 9 countries, with combined sales of almost 700,000 units per year.

However, despite these successes, the reliance on this extended network of family and friendship ties has begun to inhibit the development of the firm in some important respects. In particular, Karov frequently recounted the problems of finding suitably qualified personnel, especially in professional roles such as accounting and marketing. He has also struggled to find a reliable English translator (in his own words, he "only" speaks Russian, Bulgarian, and Turkish), which has proved a major stumbling block in his so far unsuccessful attempts to expand into Western Europe and North America. Moreover, during the data collection, it was striking that almost everyone working for Neroli spoke a Turkish-Bulgarian dialect rather than Turkish, making it very hard for "outsiders" to "fit in" (see Table 1 for a summary of the events described in this section).

Learning from Neroli

The case of Neroli provides an important opportunity to develop a deeper understanding of the effects of family influence on family business. Based on the case analysis, we present three findings. In the first subsection, we examine the role of altruism in family business, arguing that the altruistic behavior exhibited by Karov toward family and near kin resulted in reduced agency costs and was fundamental to the early development of the firm.

In the following subsection, we consider how Karov managed to replicate the logic of the family, and the trust and norms of reciprocity that underpin it, to nonfamily members. This led to the creation of a quasi-family based on distant kinship and ethnic ties, and also reduced agency costs as the firm sought to expand.

In the final subsection, we examine the limits of altruism in family business. We found that agency costs increased over time as the business developed. Interestingly, however, different kinds of agency cost were evident among blood relations and nonblood relations. With respect to family and near kin, agency costs manifested themselves in the form of moral hazard. With respect to quasi-family members connected through distant kinship and ethnic ties, on the other hand, agency costs manifested themselves in the form of adverse selection.

Altruism as a Strategy for Growth

Altruism and, in particular, a concern for the welfare of family members and a desire to build a legacy for them was central to Karov's motivation to build a business and his approach to managing it. In other words, the existence of Neroli is inextricably intertwined with the altruistic motivations of the founder. When Karov first founded Neroli, he immediately involved his wife, his brothers, and his sisters-in-law in the new venture. His brothers were given equity in the firm without contributing capital. Crucially, Karov sought to ensure that this involvement was active rather than passive; he worked closely with family members, asking for their input, giving them responsibility for key business functions, and emphasizing their importance to the organization. The sense of belonging and ownership that this engendered appeared to have motivated family members to "go the extra mile" for the business.

For example, following difficult experiences with professional drivers who would "come up with all kinds of reasons to rip you off," Karov's brothers offered to take responsibility for transporting Neroli merchandise from Istanbul to destinations around Russia, an arduous journey that involved being away from Istanbul for several weeks at a time. Similarly, Karov's wife and his sisters-in-law volunteered to undertake a range of unskilled and unpleasant duties such as cleaning and packing merchandise in the warehouse, in addition to their existing administrative responsibilities, to ensure that shipments went out on time.

As well as Karov's immediate family (i.e., wife, siblings, and children), his kinship network (comprising of aunts, uncles, cousins, and friends of the family) also played a key role. This network, like many kinship networks, was characterized by strong ties, a sense of shared cultural identity, and the charisma and leadership capabilities of the central figure (Peng, 2004). In this respect, the Neroli kinship network evokes comparison with Chinese guanxi circles (Wong, 1998); Neroli extended from the center (i.e., Karov) to immediate family members, and then to more distant relatives and family friends.

As Neroli developed, members of the kinship network worked very long hours, often without vacation. Some even slept in the factory to ensure that orders with key distributors were filled during the busiest periods. During the fieldwork, many of them stressed that they were indebted to Karov for offering them employment and were "very well taken care of." In addition, we were told of many acts of generosity by Karov toward his kin. For example, he financed the education of several of the children of his employees and paid for their medical expenses and weddings.

In the early stages of Neroli, the ability to rely on family and near kin afforded the business a high degree of flexibility that helped to reduce the risk and uncertainty associated with building a new venture. Karov appears to have struck the appropriate mix of incentives and managerial control to align the interests of family members. As a result, Neroli benefited from reduced information asymmetries and monitoring costs, which helped to place the business on a solid early footing. These observations are consistent with other findings in family business studies (e.g., Van den Berghe & Carchon, 2003; Zahra, 2005), which suggest that an altruistic behavior can reduce agency problems in family firms.

Interestingly, we did not find evidence that Karov used or threatened to use sanctions to discipline family and near kin in the event of malfeasance, nor did he use specific monetary incentives to alter behavior. At this stage in Neroli's development, the altruistic behavior exhibited was reciprocal and symmetrical, and appeared to be motivated (on both sides) by a willingness to be part of and to build a family institution.

Building the Quasi-Family

Peredo (2003) introduces the concept of "spiritual kin-based businesses," which she distinguishes from the "blood and marriage kin-based businesses" that dominate the family business literature. In developing this concept, Peredo (2003) expands the notion of the family beyond the biological family and suggests that groups of individuals use ritual—social, cultural, or religious—in order to "recreate" the characteristics normally attributed to the biological family. Specifically, she suggests that spiritual kin displays a series of rights and obligations toward one another. For example, in return for offering support and protection, often in the form of employment, "family" leaders and their organizations are rewarded with high levels of commitment and loyalty.

In seeking to expand Neroli internationally, Karov deliberately attempted to foster this kind of spiritual kin-based business and the sense of obligation and commitment that it implies among distant kin and nonfamily members. Specifically, he used altruism and *shared ethnic identity* as strategic tools in order to create a quasi-family unit. Most significantly, as Karov established his distribution network across the post-Soviet bloc, partners were continually reminded of their "shared experience of communism." Karov actively sought to build links with partners who were immigrants as this gave him another mechanism through which to leverage a common bond and to build a sense of "family."

In addition to emphasizing common heritage, Karov exhibited extraordinary levels of trust in the early stages of business relationships. For example, he advanced new partners significant levels of stock, often up to $50,000, without any contractual protection in the event of malfeasance—partners would be invited to repay Karov after the stock had been sold, a highly unusual practice in Turkey and Eastern Europe. This kind of apparently altruistic behavior, combined with an emphasis on shared ethnic identity, fostered very high levels of trust among partners and resulted in a remarkably coherent network that operated ostensibly in the manner of a biological family but extended far beyond its traditional boundaries. Karov referred to his distributors as "friends," while his distributors often referred to him as "family," "father," and "uncle." Consider this quote from an employee at Neroli:

> I will work for Neroli day and night, vacations, weekends . . . without money even. I trust Karov very much, and I want him to be even more successful. After all, he is an immigrant too, and I would rather help an immigrant like me, than help a local (employee, Neroli).

Thus, one of Karov's most important strategic assets was his ability to negotiate and renegotiate the boundaries and scope of this quasi-family. This suggests that altruism can be employed by owner-managers to build loyalty and commitment among key organizational stakeholders outside of the biological family.

In addition, creating this kind of quasi-family had the effect of aligning the interests of Karov with "family" members: They became "psychologically tied" (Pierce, Kostova, & Dirks, 2001, p. 299) to the business and responded as if they had a residual claim on the family's estate (Schulze et al., 2003). With respect to the principal–agent relationship, information asymmetries as well as the costs of monitoring and enforcing agreements were reduced, thereby ameliorating agency problems. While this connection has not explicitly been made in the context of family business studies, in organization studies the propensity for (nonshareholding) employees to exhibit this kind of psychological ownership, in relation to their employing organization (Dirks, Cummings, & Pierce, 1996) and the tasks that they perform (Das, 1993), is well established.

Note that our conception of ethnicity emphasizes that ethnic identity is socially constructed rather than objectively determined. Indeed, we follow Aldrich and Waldinger (1990, p. 112) in defining ethnicity as:

> an adjective that refers to differences between categories of people. When "ethnic" is linked to group, it implies that members have some awareness of group membership and a common origin and culture, or that others think of them as having these attributes.

Moreover, while we acknowledge the significance of Peredo's (2003) contribution, the case of Neroli does not fit neatly with her conception of family. Rather than the simple biological–spiritual dichotomy that Peredo (2003) outlined, we observed a more subtle distinction between family, kin, and ethnicity. In our case, the three can perhaps be thought of as a set of concentric circles of decreasing rights and obligations as we move outward from family to kin and, finally, to ethnicity. We recognize, of course, that the relationship between kinship and ethnicity is not straightforward. Both kinship and ethnicity share the notions of heritage and distant interconnection. However, while extending kinship through generations involves biological reproduction, extending ethnicity through generations involves social reproduction and the construction of a shared identity.

Thus, the crux of our argument is that the boundaries of "family" within the family firm are not objective and static, but rather negotiated and fluid. Furthermore, through social connections, the development of a quasi-family based on distant kinship and ethnicity (broadly defined) can ameliorate agency costs by aligning the interests of quasi-family members.

The Limitations of Altruism in Family Business

As noted, Karov's altruistic behavior toward family, kin, and nonfamily members linked through ethnic ties created a sense of togetherness and reciprocity that permeated throughout the firm and led to reduced agency costs. However, over time, as the firm grew and became more successful, we observed that agency problems became increasingly significant. Interestingly, different agency problems were evident among family and near kin, and the quasi-family linked through distant kinship and ethnic ties. With regard to family and near kin, agency problems manifested themselves mainly in the form of moral hazard. Specifically, there was evidence of shirking, free riding, and the consumption of perks. For example, Karov's brothers, who played a prominent role in the early days of the venture, became marginal figures with less and less interest in the welfare of the business despite the fact that they had been given equity without investing any capital. According to one respondent: "[T]hey [the brothers] like to sit around all day, drinking coffee or playing computer games, while Karov runs this entire business."

From our interviews, Karov was clearly concerned about the behavior of several family members. Furthermore, his concerns were widely recognized within the firm. As one respondent told us, he "feels helpless, as though his hands have been tied." This kind of behavior posed two problems for Karov. First, it conflicted with his vision of the family working and succeeding together. Second, it created a sense of chronic organizational injustice; some members of the family grew increasingly resentful of what they perceived as equal rewards for unequal effort.

Yet he was unwilling to punish or sanction family and near kin connected with the business; he appeared especially concerned about the ramifications upon familial relationships if he were to discipline family members. In other words, Karov prioritized the welfare of the family over and above the welfare of the business. Thus, the behavior of family members was, on one level, rewarded or at least encouraged by the incentive structure that Karov had put in place. As this became increasingly apparent to family members, the extent to which they shirked and consumed perks increased—they appeared to develop a sense of entitlement in terms of their claim on the business.

With respect to nonblood relations in the quasi-family, on the other hand, increased agency costs manifested themselves primarily in the form of adverse selection. Most obviously, Karov's preference for working with partners that shared the same ethnic heritage and identity severely limited his choice of potential partners, and on several occasions, Karov was left exposed as key individuals lacked the skills and competencies to perform specific tasks effectively. In particular, this selection bias resulted in the firm not having access to skilled professionals in accounting, marketing, and information technology. For example, Karov hired the daughter of a family friend as Neroli's brand manager although she did not have any marketing training or related experience. Karov had originally thought that she would quickly learn the necessary skills because her parents had worked in the fashion industry for many years. Over time, however, the limitations of this strategy became increasingly apparent.

Adverse selection was also evident when Neroli sought to expand into markets beyond Eastern Europe. This was dramatically illustrated by Neroli's failed attempt to enter the U.S. market early in 2004. At that time, Karov met Anton—a U.S.-based businessman who had emigrated from Bulgaria to the United States in 1991—at a trade fair in Russia. The two men quickly developed a strong relationship, and despite the fact that Anton knew little about the leather goods industry, Karov was confident that he had found a partner who could fulfill his "dream" of breaking into the American market. Their relationship was based in part on their shared identity, and Karov drew comparisons between his own struggle as an immigrant entrepreneur in Turkey and on Anton's ambition to build a life for himself and his family in the United States. Karov declared that "Anton is an immigrant and knows what it is to have the burning desire to earn money." But Anton was able to sell only a small fraction of the $50,000 of stock that Karov had advanced to him and, very quickly, Anton's lack of experience in distribution in the fashion industry became obvious. To date, Neroli has made virtually no impact in the United States or in Western Europe despite several attempts to do so. While adverse selection is not the only reason for this lack of success, it was clearly an important factor.

Our observations about the diverging interests of family members and the problems of monitoring and enforcing contracts are consistent with the recent work of Schulze et al. (2003) and Lubatkin et al. (2005). However, by making the connection between the temporal maturity of family firms and the likelihood of increased agency costs, we believe that we make an important contribution. Moreover, by suggesting that different kinds of agency problems apply to different types of "family" member, we begin to develop a "thicker" account of the principal–agent relationship in family firms than what has been presented in much of the literature to date.

Conclusions and Implications

We began by highlighting Chrisman et al.'s (2005) assertion that a key task for family business researchers is to identify the major differences between family and nonfamily firms and to ascertain whether or not these differences have their roots in family involvement. In this article, in common with other scholars in family business studies (e.g., Lubatkin et al., 2005), we have argued that altruism is a key distinguishing feature of family business, one with profound implications for the principal–agent relationship. Moreover, and following Schulze et al. (2003, p. 488), we suggest that "the economic literature on altruism is a potentially useful resource that promises to . . . lead researchers toward a richer theory of the family firm."

We believe that we have made three important contributions to the family business literature and, in particular, to developing an understanding of the complex role that altruism plays in family firms. Significantly, our findings enable the apparently conflicting empirical evidence on agency costs and family business to be incorporated into an overarching framework that allows for the possibility that family influence may lead to increased *and* decreased agency problems.

Our first contribution is to show that altruism has the potential to align the interests of family members and to reduce agency costs in the family firm, providing it is reciprocal and symmetrical. This is consistent with the founding fathers of agency theory such as Fama and Jensen (1983) and Jensen and Meckling (1976), as well as some family business researchers (e.g., Eaton et al., 2002) who argued that family ownership is a highly efficient form of organization because information asymmetries and monitoring costs are reduced.

Our second contribution is to show that the logic of the family, and of altruistic behavior in particular, can be transferred beyond family and near kin in order to build a quasi-family based on distant kinship and ethnic ties. In this respect, there are clear parallels with Peredo's (2003, p. 398) concept of spiritual kin-based business—"relations marked by social, cultural and religious rituals of incorporation . . . [through which] the concept of family expands beyond the biological family." Unlike Peredo, however, who suggests that spiritual kin-based business comprises a distinct category of relations that operate separately from the biological family, we conceptualize the quasi-family as a set of relations that overlap and are intertwined with the biological family. Thus, we observed a family business in which the owner-manger exhibited a similar set of altruistic behaviors toward blood and nonblood relations, and was "rewarded" with a reciprocal set of altruistic behaviors in return. This further reduced problems of agency, and was crucial to Neroli's successful attempts to expand into new markets.

Our third contribution is to show that there are limits to altruism as family businesses become larger and more mature. Specifically, and broadly consistent with Gomez-Mejia et al. (2001) and Schulze et al. (2003), we observed that altruism became unbalanced and that agency costs increased. Interestingly, the agency problems we observed were different with respect to family members and near kin on the one hand, and quasi-family members and distant kin on the other. Family members were observed to engage in moral hazard, and in particular to shirk, free ride, and consume perks. While Karov was very concerned by this behavior, he did not seek to sanction family and near kin, nor did he offer financial incentives to alter their behavior, which has been shown to reduce moral hazard in other family firms (Schulze et al., 2003). The dominant agency cost with respect to quasi-family members was adverse selection. Specifically, the firm struggled to find suitably qualified professionals. Neroli also had problems finding effective distribution partners outside of Eastern Europe where it was more difficult to find partners linked through ethnic ties. This was a significant factor behind Neroli's failed attempts to expand into Western Europe and North America.

Caveats and Limitations

Taken together, we believe that our findings represent an important step forward in developing a more complete theory of the family firm and in augmenting existing insights about the effects of altruism on agency costs in family business. However, given that our findings are based on a single case study and that the geographical and sociopolitical context of the case is quite unique, we must be cautious about the generalizations that we make from our research.

It is our view that the findings about altruism and agency costs have the potential to be generalized to family businesses in other contexts, including Western Europe and North America; family-based altruism is a universal concept, and we believe that it is likely to manifest itself in similar ways in family businesses across cultures. However, our findings about the role of the quasi-family in family business might be less generalizable. Although owner-managers of family firms are likely to exhibit altruistic behavior toward nonfamily members in different settings, the ways that different ethnic groups relate to one another and respond to altruistic behavior are likely to differ.

Directions for Future Research

Our study suggests a number of directions for future research. Most obviously, given that we rely upon a single case study, further research involving large samples of family firms in different settings is needed in order to test the robustness of our findings. Of particular interest is the extent to which the changing pattern of agency costs that we identified holds across family businesses in different jurisdictions. Do agency costs tend to be correlated to firm size and age, and what other factors are likely to influence the evolution of the principal–agent relationship in family firms?

A second direction for future research concerns the role of the quasi-family in different settings. We have conceptualized ethnicity as being socially constructed. In our case study, it was based around a shared experience of living under communism. An interesting question, we suggest, is the extent to which the nature of the bond that binds particular ethnic groups effects the formation of the quasi-family. If ethnicity was based around, e.g., university ties or a religious affiliation, would the dynamics of the quasi-family differ?

Finally, our study raises important questions about the propensity of family firms to engage in an international business. There are relatively few studies that examine this issue, and even less that consider new ventures that internationalize from inception. Of particular interest are the effects of family influence on the propensity and capacity of family firms to internationalize. Given our findings, it seems possible that the family and quasi-family provide an effective route to internationalization. Clearly, however, further research is required in order to more fully understand the role of family influence in the internationalization process of family firms.

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