Firm’s borders

The case of the family businesses

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The purpose of this paper is to offer a more balanced concept of the firm which permits to explain the co-existence of the large enterprise and the small family business. Defines and discusses the concept firm’s borders. Shows how firm’s borders classify businesses in dynamic scenarios permitting to introduce the role of variables as trust, familial relations, or values.

Section I offers a panorama about the differences between large enterprise, small and medium-sized company and family business. Confronts modern market and firm and finds the question of the borders as principal difference among the nature of both.

Section II details three types of borders—legal borders, knowledge and identity—separated by the degree of permeability and type of adaptation to the change of the environment. Explains how the classification permits to understand why family business and large business present different evolutionary strategies.

Section III explains the existence and the success of the family business through the quality of inner organizational relations in the strategies (transcendent identity).
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Keywords: firm’s notion; evolutionary theory; family business; trust.

Introduction

The vision of the economic systems as complex structures, and the incapacity of the classic economic theory to explain the phenomenon of birth, growth and death of economic organizations, have obliged economics to open towards other sciences and concepts. Among these approaches, the evolutionary theory bounces.

This paper attempts to apply some concepts hailing from this mentioned theory to the economy, trying to offer a more balanced concept of the firm which allows to understand the coexistence of the large enterprise and small and medium-sized family business.

The firm has been one of the topics that greater pitfalls have provoked. The natural and spontaneous order of the market is distant to the artificial and political order of the firm. The homogeneous agent of the market is far to the heterogeneity existent among firms.
Against the neoclassical hypothesis about the behavior of the economic agent, it emerges the evidence: the individual does not behave rationally and it has to admit that institutions and organizations shape the individual behavior (Vromen, 2001, 184).

To understand the behavior of the human agent in the firm present many difficulties. The *homo oeconomicus* must be inserted in a collective action where a great number of economic agents work looking for the development of their self-interests. To align the different interests represent a big problem. Moreover, the firm is much more that a scenario where agents work. Nelson and Winter (1982) and others (Langlois, 2001) support that firms are entities with a proper live, habits, routines, birth, death, evolution and rights. If there are “entrepreneurial rights”, there are also firm’s responsibilities. Firms are submitted to legal rules; social costumes; political issues, etc. If it is not easy to align individual interests, to add the alignment of the individual interests and the interest of the firm complicate still more the analysis.

To solve these problems should result more easy if firms, as supra-individual entities, share nature, rol and inner organization. Large firms (LEs) seem to exhibit a sufficient degree of unity for treating them as a group. Nevertheless, small and medium-sized businesses (SMEs) in general, and family business (FB) in particular, cannot be contemplated as an homogeneous group.

In many scientific ambients, it exists the belief that work and personal factors, as the family, must be separated (Kanter, 1977, 15). If the dualism exists, organization and management systems can be transplanted anywhere in the world, and, therefore, the economy will have homogeneous businesses. But inside the world of the firms there is not homogeneity: a great disparity exists between large enterprises (LE) and small a medium-sized businesses (SME). Other particularities, as the family businesses (FB), complicate still more the analysis.

This paper attempts to offer some explanations for the differences among businesses from an evolutionary perspective. Section I offers a panorama about the differences between LE, SME and FB. Despite Richard Nelson (1991) assertion that from an evolutionary perspective the existence of differences among businesses must be expected, this essay argues that the gap among they is located in variables qualified as essential in economic thought. However, LE, SME and FB are equally enterprises, and then the question about the nature of the firm must be newly revisited.
Section II explains that a stable difference between firm and market is the necessity or not of borders, and defines firm’s borders as a vital element of the nature of the firm. Supports that differences among firms can be explained across the typology of the borders, and shows a premier classification of the firm’s borders: legal border; knowledge as border, and organizational identity as transcendental border.

Section III tries to contemplate these types of borders since the evolutionary perspective of the exchange, across different strategies of adaptation/innovation.

I.- THE NATURE OF THE FIRM REVISITED: QUESTIONS ABOUT SIZE

LE is the most visible agent at the economic landscape (Brinkman, 1999). However, visibility and reality are not coincident. Vast majority of the European and American businesses are SMEs. An average European enterprise provides employment for 6 persons, with an average turnover amounts EUR 0,5 millions (E.U., 2000). The great majority of European (Cromie et al.; 1995) and American (Gersick et al.; 1997) firms are family business.

Despite the increasing rol of the SME’s as an important form of creation of employment —65% of total— and wealth, they remain under-researched. LE represents 0,2% of the total number of businesses in the European’ space, 0,3% in the American case; nevertheless most of reviews, researches, doctoral’ degrees etc., have LE as topic, while SME is practically missing.

In an ethical context (Quinn; 1997; Ede et al., 2000) the management literature is replete with studies on business ethics, but unfortunately most have LE as protagonist. Only if SME and LE had an identical ethical context the gap would not exist. But the analysis points that “standard” ethics is lower in LE, and that the conception of ethics is different in LE and SME. Words as trust, benevolence, altruism, social responsibility, etc., emerge with facility in SME and FB. However, in the great majority of the LE these expressions are synonymous of inefficiency, irrationality or bad management.

Westwood and Kirkbride (1998,554) signal that there is a growing tendency for the management systems of dominant countries to impose their methods and conclusions, and a growing mimesis (Odgor, 2000) in the society. In any case, LE is a “better topic” because the sample is smaller and very homogeneous, while SME presents a big degree
of heterogeneity. FB has so many peculiarities that in many occasions must be investigated on case alter another.

For example, the European Observatory for SMEs (2000) shows a total convergence in financing patterns for LEs without differences for country of origin, while there are divergences in the financial structure of the SMEs —larger in smaller business— which depend more on the financial habits of the country in which they operate than on factors such as size, sector, age, or even profitability. In this last category 28% of bank credit has been guaranteed by owner or familial or friend properties.

B.E.S.T. (2000) supports conclusively that SMEs are not homogeneous and that globalization has not unified the management systems of SME. Literature is largely replete of confirmation of such differences (Henderson and Robertson; 1999; Choueke and Armstrong; 2000; Spence and Lozano; 2000)

The European Commission explains that the biggest problem of SME in the new economy is to find and to retain skilled and formed labor whatever the phase of the cycle, while LE wants flexibility to send to or demand from labor market skilled workers in attention of the phase, recessive or expansive, of the cycle.

**Looking for the essence of the differences**

All systems, and the institutions and organizations which form it, contain, normally in an implicit way, a vision of the man and his destiny; an anthropological base from where a set as of principles —a certain spirit— emanates. The mission of this spirit is to develop the ways from man to reach his goal.

The *Spirit of Capitalism* (Weber; 1904) is that mentality that aspires to obtain a profit exerting systematically a profession. In the Weberian vision, the definition of enterprise and entrepreneur, of any size, must lodge a professional work of production and the profit spirit.

However, research has found that the profit spirit changes with the size of the firm. Spence and Rutherfoord (2001) point out that the vision of the firm as a profit-maximizer is not compatible with many FB strategies which have subsistence or social responsibility as priority. Reid *et al* (1999) suggest that a considerable number of FB may be located in a lifestyle.
Finklestein and Hambrick (1996) show that the general belief is that LE managers rely on a scientific approach, while SME play by intuition and instinct. Dunn (1996) and Reid et al. (1999) suggest that a substantial number of family firms differ from rational economic ventures by their methods of operation. SME managers are guided by many “no logical” actions, in the Paretian’s sense.

 Provision of continuing vocational training (E.U., 2000) is directly influenced by enterprise size. Penn et al (1998) prove the “training deficit” in small organizations, supporting that SME’ entrepreneurs prefer informal means to acquire knowledge, and owners participate in training only when they face really serious problems.

 If a rational system of allocation and the profit spirit are vital in the definition of the firm, is it possible to classify LE and SME in the same group? or are the two types so different that it should be possible to speak about two different natures?

 The differences are also present inside the FB category. Wart (1987) contents that family businesses differ with respect to their inclination to pursue a business-first or family-first philosophy. Dunn (1995), Reid et al (1998) find very important differences between these two types in aspects of centralization, rigid systems, growth’s strategies, assumption of risks, etc. Dunn (1996) supports that when family serves the business, the firm is more likely to posses the attributes needed for growth that when is the business which serves the family.

 The same question of the two natures appears again. But this idea is wrong. A brief review of the history of economic thought shows that the “official” rationality models; rational management’s systems, etc., have suffered many changes. They are “in-time” factors, and nature is built around “out-of-time” factors.

 The question that we need to answer is, therefore: *Where resides the nature of the firm?*

**The nature of the firm**

Firm is a thorny topic that resists easy definition. Many authors recognize that the neoclassic vision of the firm is incomplete and deficient (Dunn, 2000). Nevertheless, some support that, in the actual state of science, the neoclassic vision is the best combination between manageable and realistic concepts. On the contrary, others point out the evolutionary economy as spare.
Ronald Coase titled his more charismatic article “The nature of the firm” (1934). The Nobel Price of the Economy explained how and in what situations the system of authority moves system of prices of the market. The article is of high interest, because Coase was able to convince the scientific community that prices are only optimal in certain scenarios. In uncertainty situations and incomplete contracts, the firm can emerge as a more efficient system.

However, he explains little about the “nature” of the firm, or about the nature of the system of authority able to move prices. Coase affirms that his intention is to discover “why a firm emerges at all in a specialized exchange economy” (1937,388). His answer is that the operation of the system of prices is not gratuitous. Clearly, this nice contribution is not an explanation of the nature of the firm, but of the reasons of the existence of the firm in a bigger scenario: the market.

Authors as Demsetz (1995) have sais that to put together the existence of the firm and its internal organization is a source of confusion, and, therefore, both aspects can and must be studied separately. Others have essayed to join both maintaining —rationality and goal included— the neoclassic agent. The definition of the firm as a nexus of contract (Alchian and Demsetz, 1972; Jensen and Meckling, 1976, and Fama, 1980) is an example.

However, nature is not coincident with function, neither with inner organization, but it includes both.

If I ask why cars exist, I can obtain many answers: man has discovered a new pleasure, the speed; time is very expensive; man cannot follow his proper speed walking; etc. If I ask rational persons about its nature, I will obtain this unique answer: car is a motor vehicle. Can a man drive without to know the nature of the car? Obviously yes. The driver only needs to have simple instructions for working. If the car has a problem, the driver will need to understand the internal organization of the machine.

There are some differences between the car and the firm. The first has a simple and stable nature, the second a complex and dynamic nature. To know the nature of the car does not offer any advantage for the consumer. The question in the second case is not clear.

Is the nature of the firm an interesting topic? What is the utility to know something about its nature? Is it not sufficient to know separately its role and its internal
organization? In my opinion, there are questions—as the relation between internal organization and size, or the proper concept of family business—which cannot be explained only across rol and internal organization.

The neoclassical notion of the firm has two important handicaps. On the one hand, its agent is an individual, eliminating all problems around the organization. On the other, the formal model of rational choice does not permit to put the individual along his or her behavioral characteristics (Hodgson, 1989, 250), and they are specially important to explain some strategies, as imitation for example.

I will try to expose how my perspective compared with Coase there was before economic science did conceptualize the system of prices, another type of market. The difference among both will permit to understand the problem created around business’ size.

Market is, at the classical definition, a public site destined to buy, sell or permute goods and services. However, in the modern literature the market is conceptualized as a set of activities made by the economic agents without intervention of the public powers.

One of the first preoccupations of the modern economic’s fathers (Cf. Calderón, 1997) was to demonstrate that this last type of market could offer optimal results for society. Better results than the classical market with public intervention.

One of the most obvious difference between the classical and the modern market is its size. The classical market is necessary a small place, with a reduced number of contenders (buyers and sellers) where a single person, normally the prince (or a very reduced directory group) is able to make arbitration among all supplies and demands. Arbitration must secure obtaining an optimal level of common good.

As Frederic Hayek (Cf. 1973) details, when the size of the market grows, the prince losses the capacity of arbitration. Distance between agents increases and the acceptance of the public authority is reduced (Commons, 1934). The traditional market died when its size increased.

On the contrary, the modern type of market is naturally called to increase more and more its size. Since the writings of Adam Smith (1776), we know that the market’s mechanism is more efficient when the number of agents—supply and demand—is quantitatively big, and when barriers—enter or exit—do not exist.
The goal of an efficient modern market is to grow without limitations. We can say that a market, resembling to physical gases\(^1\), tends to occupy all the space available. The globalization’s movement is, therefore, the logical evolution for the modern market. In the future world, Smith (1776,IV.1) dreamed, humanity will be a great and unique commercial nation.

However, if Smith could contemplate our time, he would draw our attention on a conflictive point: the market must not have barriers nor limits, but enterprises yes. Inside the modern market there are, there must be, many agents, sellers and buyers, so many that it is assured that nobody will be able to influence more than another one the production of final prices; nobody should be able to increase his level of power. Otherwise, the modern market will convert itself in a classical market, where managers of big and monopolistic businesses will replace the prince.

In the age of Smith, technological competence was at its infancy. The situation is very different in the 20\(^{th}\) and 21\(^{th}\) century. Enterprises have been forced to increase the size of the business. Concentration of capital involves the concentration of agents, the reduction of number of business in the market, and the concentration of market power in a few number of hands. In this sense, the cycle of market and LE appears connected. Globalization of the market and growth of the firm; breakage of national barriers to the market and the internationalization of the firm.

35 years ago, Galbraith described a similar landscape in “The New Industrial State” (1967). He discussed the existence of two disciplines of market: prices for SMEs, and the negotiation without prices for LEs. This second Galbraithian’s discipline emerges when the corporate power is based in the control of technology, and the success resided in the extensive use of it. In this case, market is efficient if the negotiation’s cost is minimized. Under some conditions, the monopoly by merger could produce with minimum transaction costs. In this sense, business has growth as its principal motivation. Both markets, classified in accord with the size, or, better, with the size of their power, presented different management, control, and, even, goal. The differences between both types of market, according to the Galbraithian’s exposition, are so large that it is possible to speak about two natures.

**Borders and firm**
What I am saying is due to the mechanism of competition and of prices, growth is the natural development of the modern market. In spite that mass production, technologic development; the rapid extension of the global systems of communication, etc., have forced the growth of many LEs, the firm is not submitted to the same logic than the market. Unlike the system of prices which obtains a great part of its efficiency from growth, the firm cannot enlarge indefinitely.

Scale and scope economies present limits; managerial capacities, inner capabilities can lost its essence with a gross or/and rapid enlargement, etc. Unlike market, business is, by definition, an organization —a team formed by men and resources, building around work— created with express borders, which define it.

A national frontier, for example, indicates what territories belong to that country and which do not. Firm’s borders permit to identify that men and resources belong to the collective action called firm. In other words, borders permit to separate who and what are inside and outside of the firm.

Firm as an organization with borders has not been studied. However, the essence of the firm as contract requires to define its barriers. Men who are inside have a contract; men who are outside do not have a contract. Identical question can be formulated with respect to the resources of the firm. Each asset of the firm must be described and must be inscribed in the account, because property is also a contract. If the element is not inscribed in the balance sheet, then the relation with the firm is so short that it is not possible to speak of the element as “insider”.

With respect to the material resources of the firm, the contract is a good definition of the border. However, the legal point of view that offers the contract does not permit to have a complete vision of the firm understood as a collective human action.

To define firm as a nexus of contracts has limitations.

As Bowles (1998,102) confirms “economists have followed Hume rather that Aristotle in positing a given and self-regarding individual as the appropriate behavioral foundation for considerations of governance and policy”. The individual agent is the minimal expression of the economic agent. It is possible that the social and the political level of the action of the agent could be hidden when the researcher thinks in exchange among productive agents because these relations could be completed in the short run. However, it is not possible when the researcher thinks in firms.
If many enterprises in the market have recurrent relations that transforms a collection of short contract in a long term relation, so much inside the firm, when repetitions of requirement are converted in skills, habits and particular routines of the firm.

A contract lodges all the facets which permit to complete relations only if the exchange is very simple —standard good, agent, and rules. In other case, the contract will not be complete. As Williamson (1985) explains, many investments are observable ex post by economic agents and a contract cannot pick up condition prices on ex post investment. Neither contract can prevent mutually beneficial terms of re-negotiation (Hart and Moore, 1988). In the employment relation (Cf. Williamson et al, 1975), firm contract individuals hailing of a uniform stock market, but in a short run, it exist a difference between the worker of the firm and the individual of the market, etc.

When the legal border does not permit to explain the relations, to understand who and why someone is inside or outside, other borders are needed.

Penrose (1959,137) supports that in the long run ‘the profitability, survival and growth of the firm does not depend so much of the efficiency with which it is able to organize the production … as it does on the ability of the firm to establish one or more wide and relatively impregnable bases from which it can adapt and extend its operations in an uncertain, changing and competitive world”. These impregnable bases should correspond to our other types of borders.

Market is not an organization. An agent who operates at the market only needs to have basic rights and obligations unanimously accepted. He does not need to evaluate what is not in common with the other part of the contract. He only needs to be sure that the other part will fulfill the contract, and the legal bases permits to secure that if the contract is not observed, the bad agent will be sanctioned and the good agent will be compensated. However, when the agent enters inside the firm a new environment appears.

As Nelson and Winter (1982) expose, the firm is an organism that learns. Its knowledge resides in the memory of the organization which appears in a certain number of routines. Each firm has a different memory because skills and routines are converted into memory when they are lived, and they are lived when they are embodied. Each person has a different form to live skills and routines, and this form transform dynamically the organization.
When individuals share some habits, tastes or costumes, a social relation is created. When individuals share some habits and employ this coincidence to increase the efficiency in the execution of the habit, a social organization is created. In the firm, individuals share productive habits which can be replicated though imitation and socialization. When habit is sufficiently stable and extensive in the firm is transformed in routine.

Routines, Nelson and Winter support (1982), have a similar function than genes in a natural organism. They reflect impregnable bases of the organization, where form and normal behavior are built, immutable over relatively long periods. However, as an organism, the firm does not live alone and separated. The firm lives in an environment which continually pushes firm’s borders.

In general terms, we can think that little changes in the scenario do not produce any problem to borders in the short run, but it is possible that the accumulation of short run problems may generate the erosion of borders in the long run. In the erosion processes, the impregnable bases can be changed, and the routines can suffer mutations: this is a genetic answer of the organization. Processes of enlargement or reduction of size; growing mechanization or tendency toward artisan production; home’ work or big productive plants.

There are, moreover, big changes. It is possible that these changes in the environment may destroy the borders — and the firm dies —; or that they incite Lamarckian adaptation to the environment through changes of the permeability of the borders, or incite the reinforcement of the borders.

The panorama of the market show that LE is very sensible to the little changes of the environment, that the erosion comes easily, and that the big changes are Lamarckian, while SME is very stable, and with genetic changes. How to explain these differences?

II.- TYPES OF BORDERS

In my vision, the different strategies of adaptation can be explained through different types of borders. If a firm must be defined as an organization dotted of borders, it will be the borders were the strategies will be supported.

In my opinion, it is possible to show that three are the types of borders of organization: law, knowledge and identity. They represent the mechanism that permit to retain the
definition of the firm and, at the same time, to adapt its function and organization to the changes of the environment. As I have said, there are many types of exchange and also many strategies of adaptation.

**Legal borders. The tasteless firm.**

Law is the more permeable border of the firm. It is able to evolve quickly if there are changes of the environment. It is, also, the weakest border of the firm.

Weakness has two facets. One the one hand, a border is weak if it is not able to realize its function. If a frontier permits to enter or to leave with a very little resistance, the frontier has lost his essence. The national frontiers of the countries of the European Union are actually suffering this process. In a market where the majority of the businesses adopt juridical forms; where not the person but the capital embodies the vital rol; where there are rapid and large changes in the owners, legal borders are weak borders. In very flexible labor markets the sense of belonging (Simon, 1965) is very weak, while the monetary exchange vision gains weight.

On the other hand, one border is weak if it can change easily. If a little change in the environment implicates rapid changes in the organization, borders are not strong. As all institution, law is constructed as a collection of *minimal* requirements with indifferent application. All firm, any size, must accept and fulfill its content, but the content is so little that the law is weak.

Nelson and Winter (1982) support that productive routines of the organization are the genes of the firm. However, genes are stable or immutable in short periods of time (Kundsen, 2001). Therefore, basic contractual relations in modern market do not respond to the genotype of the organization.

All firms have legal borders. One group of firms has only legal borders, while other has legal borders and other type of barriers.

Those firms that have only legal borders, present a fundamental problem: the main contracts of the firm —workers and owners are “insiders”— are realized around the work, and around the concept of work all contracts are specially incomplete.

The unique form to realize a contract around work with only legal borders is thought the standard and basic work: the people that are inside the firm only are united by one *labor*
idiosyncrasy. The formation of productive skills are acquired by imitation of the system of labor (Arendt, 1958), independently of the persons who work.

In this sense, it does not appear to be many differences between firm and market. It is the firm which adapts to the market. It is the market which imposes the direction of the evolution. I have denominated “tasteless firm” the one which has uniquely legal borders, because in my opinion the “salt” of the organizations is based in the contribution by agents when they behave like persons, not like “labor animal” (Cf. Arendt, 1958). The homogeneity in management systems; size, etc, is common to tasteless firms.

The big rotation of workers, managers and owners in firms which have exclusively legal borders, is explained by strict self-interest. A worker accepts a labor contract because in the firm his result is greater than the result that he thinks to obtain in the market. When the monetary data change, he will leave the firm.

**Knowledge as border. The horizontal firm.**

Knowledge, understood as the domination of a productive or process technique, is the second type of border that an organization can have. As a superior habit of man, knowledge needs more time to form habits and skills.

Coase (1937) supports that there is one possibility, few frequent in his opinion, that permits to explain why an agent enters in a firm: a person desires to work together with other, and the agent is disposed to receive less money if he obtains some learning.

Knowledge borders permit to retain insiders because (and while) his self-interest can be developed, and the routines are operative. Knowledge is developed analyzing and resolving process problems with others insiders and with others resources which are in the firm. When the self-interest cannot increase more or more quickly due to the scarcity of resources, or of the scarcity of teams which produce knowledge, the insider leaves the firm. Persons who cannot form knowledge teams will be always outsiders.

I denote Knowledge as a social border because agents are open, need to be open towards others to obtain stable habits. Knowledge is an active border because (and while) interpersonal relations permit insiders to better develop their self-interests. The collective action is taken as a positive factor because the cooperation permits that each self-interest increases with the contribution of others. “Poor of knowledge” is not
admitted: there exist only horizontal relations. As Teece and Pisano (1994:544) support the learning includes the mechanic process of experimentation and repetition, but also “the process of joint contributions to the understanding of complex problems”

As legal borders, knowledge submits its validity to the evolution of the technological market, but it is not a border very permeable, because techniques do not change quickly, and habits can have a greater level of stability.

In my opinion, knowledge must not categorize as the genetic version of the boundaries but as a phenotype version of the firm because maintaining the impregnable bases depends on an external factor —time that the new techniques need to develop. When the technique is introduced in the market, the firm evolves quickly.

**Identity**

In the legal borders and the knowledge, market competition induces firms to open borders to adopt efficient forms of inner organization. In the third type of border, the situation is the opposite.

Akerlof and Kranton (2000) support that the concept of identity —“a person’s sense of self”— is fundamental to the behavior of the economic agents. I support that the identity of the firm is fundamental to the behavior of the organization. In the core of the organization there are sources of values, critical resources (Rajan and Zingales, 2001) and mechanisms. One of these critical resources is to know, and to arbitrate politics, to maintain what the organization and the agents want to be.

The identity of the organization and the logo of the products of the organization are comparable. Logo does not evolve with the market. It is possible that the logotype changes because this is accidental, but no accidental change should not be admitted. For example, if VOLVO is identified in the market of cars with the security, to reduce the budget to investigate new systems of security should be comparable to poisoning the identity of its products.

This third type of border is based in the greater stable basis of the firm, and of the agents of the firm. If the knowledge is a superior habit than the labor, political relations occupy the most excel place in human behavior. The third border is formed by transcendental relations and ideas, which in some form includes the Smithian’s benevolence, friendly, familial relations, creativity, long term learning, etc.
These factors have in common that they are *politic borders*; the agent evaluates the impact of his action in others without evaluating the replica of the others in his self-interest. This evaluation is understood as a *moral canon* that the agent must pay to maintain stable political relations. The moral canon must be added to the impact of the action in the self-interest that is formed by the aggregation of the monetary exchange and the knowledge increase.

I have denominated this border *‘genetic memory’*. Nelson and Winter (1982) affirm that the knowledge of organization resides in the memory. In this sense, the memory should be a type of identity. In my opinion, identity is an accumulation of knowledge, but not only. Identity is useful knowledge and credible routines, but not only. It is true that skills, habits and values form part of the memory when its fulfillment is observed; they are accepted when the agent accepts that routines are important as stable bases of the organization. Nevertheless, the identity of the organization resides in a *special manner* to solve new problems. Problems that present conflicts to the firm because they cannot be defined.

If there is scarcity of information, some effective skill can solve the problem. If the problem is the evaluation of the consequences, other skill in vigor will solve the problem. The true problem of the organization is the uncertainty: the ignorance in the definition of the problem.

Any problem can be well defined once you accept the identity. If the agent is “tasteless” only will be able to observe the solution that in the short run increases his interest. An horizontal agent is able to observe more: the solutions that permit that the agents learn technical knowledge. If the agent is transcendent, he is able to formulate the problem as *organization*.

*Managers, Anderson says (1997,26), decide which principles are relevant to a situation and then use these principles as a basis for choosing values and developing standards that make sense in terms of the organization tasks*. However, it is possible to speak about a previous level: this is the level of the correct principles, the level of the borders firm. *If we know how to read them, we won’t get lost, confused or fooled by conflicting voices and values* (Covey, 1992,4). The correct principle of the organization is the principle that resides in the identity of the firm.

If the matter that *encapsulate* (Russell, 1998,78) interests of the members are monetary, borders are legal barriers. If it is knowledge, borders are legal barriers and social
frontiers; if the matter is the mutual benevolence and the evaluation of profit in the long term, borders are legal barriers, social frontiers and politic bases.

Russell (2001) suggests that besides contract (legal borders), the values affect the behavior of agents and, therefore, organizational performance. This is clear, but the question is: Is the influence positive or negative? Is the identity, as barrier to the adaptation to the environment, efficient, or, is the automatic and non-human adaptation more efficient?

III.- THE REPLICA OF THE NO TRANSCENDENT FIRM

As I have said, he evolutionary theory supports that the development of markets induce changes in the firm as evolutionary strategy. In this sense, Chandler (Cf. 1977) has explained the emergence of large vertically integrated corporations in the 19th century as the answer of the American economy—building around small and fragmented businesses—of the growth of the market; rapid increase of population; technological innovation, etc.

In the 20th century, large scale has been evolving towards large scope (Chandler et al., 1990), following the evolution of the global market. In the process from scale to scope the development of capabilities—“knowledge experience and skills” (Richardson, 1972, 88)—conduces to the prototype of “generalist merchant” (Cf. Langlois, 2001), an idea that should reinforce this tendency.

Nevertheless, American family business and many American SMEs have remained with the same size and, even, the same inner organization. Market’s dynamic has induced some productive agents to change size, social definition, inner organization, etc., however, other productive agents have maintained these factors, both looking for the survival in the same market.

Evolutionary economy supports that the existence of divergences between firms should be expected. Businesses cannot calculate the best strategy, neither the structure and central capabilities associated (Nelson, 1991), in the complicated world around them. But in any case, it results evident that we have two different strategies.

The first is to imitate the cycles of the market. The imitation must be rapid, and therefore business needs to present very permeable borders because in other case, social
or political routines do not permit the speed in the changes. The next day of the dramatic events of September 11th, American Airline destroyed a half of the well-paid jobs that were offered in the USA. In this psychological moment, perhaps in all cases, it is not possible to calculate how and how much the market will decrease. Strategy is, therefore, to go ahead of the market. This is possible only in firms based in legal borders.

The second strategy is to defend the impregnable bases, the quality of the inner social or political relations, of the short run market’s attacks. Vitell and Dickerson (2000) find that the behavior of the top management of small business has the most influence on decisions in ethical situations. Inside the firm with transcendent borders reciprocity, trust and other “ancient” values have been praised as efficient (Cf. Prendergast and Stole, 1999) systems of allocation and exchange.

In all situations of adaptation, success is the criteria of efficiency. In this sense, I think that the replicas must be noted.

Sociologists and economists observe that the reinforcement of the globalization’s process has produced a social movement of reaffirmation of the national organizations. Apparently, the SME will be who must assure it. Proximity and other factors cause that SME present social and ethical-transcendent orientation (Spence and Rutherford, 2001), while managerial practices of LE impose to the society their cultural codes (Ogbor, 2000).

Nevertheless, it is not totally clear. Knight (1998) details that social capital, trust or civility, are involved in informal institutions. These informal institutions create informal rules which govern personal relations among agents; also business actors.

Bounded rationality (Simon, 1959) increases in a world characterized by the excess of information. Witt (2001) supports that the agent, unable to perceive the world, builds a self-scenario. The agent who cannot know all alternative courses of action, nor all consequences, attempts to surpass his limitation imagining a scenario where he can unit known alternatives and expected consequences. After, in the normal process of communication with other individuals, the agent captivates frame’s similarities and diversities among his vision and others visions.

If we follow the evolutionary perspective, actors observe successes and failures of patterns and frames, and to choose the successfully interpretation which is accepted by
everybody as leading to survival. It is expected that LEs imitate the rational model, the profit-maximization, etc., of the successful LE.

However, the global market shows big business that tend toward capabilities-oriented specialization which form in the market business groups, alliances and other relations based in informal institutions.

Rauch (2001) proves the existence of co-ethnic networks and business groups (Cf. Granovetter, 1995) formed by a small number of allied families operating in large scope who have greater probability of interacting themselves than with others. I think that we are in front of “encapsulate interest” (Hardin and Levi, 1998). Networks are used to suppress opportunistic behavior or to reduce the uncertainty of the environment.

Akerloff and Kranton (2000) support that the identity is associated with different social categories and how people belonging to that category should behave. These categories could be supported by “no logical factors” as co-ethnic factors (Greif, 1994), familial relations, or friendship.

The theoretical analysis of the competitive market shows that market is not based on bargaining, prince’s authority or other self-reliance, but in self-interest and spontaneous prices, while into firms the system of prices is not effective and it is the authority of the entrepreneur which occupies the place of prices. Networks seem to answer the “natural order established by external forces” (Knudsen, 2001,131)

**Family business and transcendent borders**

The great majority of the family business can be inscribed in to the transcendent borders’ category. As family serves business, as business serves family, there are many “no logical” decisions inside the firm. Looking for efficiency is made under much more rigid factors that in other types of the enterprise. Reid and Adams (2001), for example, find that family business practice “human resources management” differently.

However, the rigid factors of transcendent family borders —which include priority to familial managers; concentration of power in owners, etc., called to survival of the business inside the familial saga— find compensation in the increase of trust and the consequent reduction of negotiation and secure costs, ethical behavior, etc.

For example, Morris et al. (1996) prove that trust and communication in family business —with very little cost— appear to have the most significant impact on transitions. Edith
Tilton Penrose defines firm as a *growing organization, not as a price-and-output decision maker for given products*, and agent as a *profit-seeker* (Penrose, 1959, 14)

Many people have denounced that small tendency to growth in the family business, specially if it is family-oriented. But in the Penrose’s context, it is necessary on the one hand to secure the existence of one tendency toward profit; on the other, to accept that the profit-tendency would concrete itself in many diverse searches, depending of the different valuation of time. For example, when researchers speak about the life of the large firm, they use a “years” as a scale to quantify survival, while they employ “generations” to quantify the survival of family business.

In the evolutionary sense, it is possible to speak about family business as a firm with impregnable transcendental borders, with a long time genetic adaptation. Only since the point of view of the neoclassic economy it is possible to think that this strategy will not have success.

**Conclusions**

Large and Small and Medium-sized enterprises present many differences. From the neoclassical point of view, these differences are essential, because they affect the tendency for profit —maximization in LE; seek in SME— as well as the rationality models —based in “no logical” factors as intuition, trust, etc., in SME. However, both are different types of one unique reality: the firm.

This paper explains why two very different enterprises can share the same nature through the concept of borders of the firm. It is argued that the nature of the firm can be investigated across the differences between market and firm. The first looks for efficiency in growth, while the second needs to have frontiers to be born and live.

The paper identifies three types of borders. The legal borders, permeable and weakest, are very sensible to the changes of the market. The knowledge borders are also sensible to the changes, but the essence of the knowledge process does not permit the rapid adaptation. The identity is the third type. Its strategy is defensive, and the firm attempts to base its future growth by maintaining the quality of the inner relations.

The differences among firms can be explained across the differences of borders and, therefore, through the diverse strategies of adaptation of the environment: the rapid adaptation in LE, the genetic adaptation in SME.
Moreover, the paper points out that all strategy has a replica in the environment, and shows that the replica of the firm to the globalization of the market is the constitution of trust relations among LE. Future will tell us if this strategy is successful.
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1 I thanks Professor Martínez-Echevarría (University of Navarra) to offer me this analogy. I thanks comments and suggestions of Professor García-Durán (University of Barcelona)
border firms, this study addresses one of the core challenges in entrepreneurship research and provides for a better understanding of the entrepreneurial process. However, processes of venture creation are non-linear, iterative and messy (Rasmussen 2011). Researchers are, therefore, encouraged to consider subprocesses that could contribute to the emergence of. Theory of the firm is a central issue in economics since Coase (1937). Key question: When are transactions more efficiently moderated by firms than by markets? Theories appeal to some benefit of bringing transactions inside the firm: Transaction costs savings, Residual decision rights. A Fundamental Question. These benefits are almost always motivated intuitively and qualitatively. That are owned by the firm that owns the interaction: Origin and destination fixed effects. Implemented as FE Poisson model. Borders Group, Inc. (former NYSE ticker symbol BGP) was a book and music retailer based in Ann Arbor, Michigan, United States. Despite a purchase offer from the private equity firm Najafi Companies, Borders was not able to find a buyer acceptable to its creditors before its July bidding deadline, so it began liquidating its remaining 399 retail outlets, with the last remaining stores closing in September. The Chapter 11 case was ultimately converted to Chapter 7. Rival bookseller Barnes & Noble acquired Borders. Borders Law Firm, Toronto, Ontario. 427 likes. Thank you for visiting Borders Law Firm on Facebook! The law firm practices exclusively in the area of Canadian and U.S. immigration law. Founded in See More.