Management of family businesses

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The study reviews three main models of the familiness after defining family business and estimating the economical power of this kind of businesses. The familiness is a specific factor of the familiy-controlled businesses which allows family businesses to achieve a competitive advantege over non-family-controlled businesses. The first model attempts to define the factors of the familiness within the framework of the theory of social capital. The second model provides a quantitative comparison between companies interpreting the familiness as continual dimension. The third emphasizes the possible advantages and disadvantages of the familiness on the strength of analisysing interviews. The three models have been developed by different methodology. Understanding the advantages and disadvantages of these three models we got closer to make the complex system of the cooperation of the family and the business allowing more control over family business to their leaders.

Keywords: business, family, resource-based view, competitiveness, familiness

1. Introduction

The Act I. of 1988 about economical corporations opened the doors to free enterprises again in Hungary. Most of these businesses are family businesses as opposed to non-family businesses. In order to compare family versus non-family busnesses, the clear differentiation between these two types of businesses ought to be clearly established. These two types with specific features can only be compared to each other, if the differentiation is well-established. In several countries at least the half of the agricultural companies are family businesses. However, experts and entrepreneurs do not construe the family businesses in the same way in all cases (*Chua* et al 1999). In the first chapter, omitting the profounder historical survey, I demonstrate the latest, widely accepted definitions related to the concept of the family business, then the estimate concerning the economical importance of these kind of businesses. After this I state the several approaches of the concept of familiness, which is considered by the experts as a factor that affects the family businesses and their competitiveness exlusively (*Habbershon–Williams* 1999, *Irava–Moores* 2010).

2. The concept of the family business

In order to define family business it is important to understand the concepts of family and entreprenurship, because several researchers use different definitions by operationalization, and take qualitative and quantitative factors into account in different measures (*Klein* 2000). This is why the concept of the family business is not self-evident specially in Hungary, where only a few published attempts were made at its survey (*Filep–Szirmai* 2006, *Soltész* 1997). Furthermore, the multiple generation family businesses are missing almost completely for historical reasons. Even the definitions of family are not uniform in different studies (*Bańczerowski* 2007). Determining the academic definition in this paper is the definition is used innational censuses. According to the Hungarian censuses the concept of the family and the household has undergone several changes. At the end of the 20th century we define the family as people among whom the closest ties of blood can be found and single-parental as well as common-law marriage based family. The concept of household has played more and more important part in the surveys, which means the people who live together in a household and bear the expenses of it (*Szűcs* 2006). On the basis of the last national census the

Hungarian Central Statistical Office used the following definition, which regards every descendant as a child, until they settle down:

„The family is the narrowest bounds of those who live in marriage or common-low marriage, or are in ties of blood. The family can be:

- married couple
- married couple with an unmarried child or without
- common-law marriage with unmarried child or without
- or singe-parent (father or mother) with unmarried child.”(*Szűcs* 2006)

Business can be defined as a legal, tax category. However, innovation and risk-taking are usually emphasized by capturing the substance of the business (*Drucker* 1993, *Schumpeter* 1976). The definition used by European Commission is: „Entrepreneurship is the mindset and process to create and develop economic activity by blending risk-taking, creativity and/or innovation with sound management, within a new or an existing organisation.”(*Green Paper-Entrepreneurship in Europe* 2003, p. 6.).

The European Commission examined the situation of the family companies in the member states of the EU, in EU Candidate Countries and those which are related to the European Economic Area (EEA) in 2008. A large number of definitions and estimations can be found in the documentation of this project from the examined countries. The research report announces those elements by each country, what the experts use by defining „the family business” in some countries. The European Commission suggested the following definition:

„[…] a firm, of any size, is a *family business*, if:

1. The majority of decision-making rights is in the possession of the natural person(s) who established the firm, or in the possession of the natural person(s) who has/have acquired the share capital of the firm, or in the possession of their spouses, parents, child or children’s direct heirs.
2. The majority of decision-making rights are indirect or direct.
3. At least one representative of the family or kin is formally involved in the governance of the firm.
4. Listed companies meet the definition of family enterprise if the person who established or acquired the firm (share capital) or their families or descendants possess 25 per cent of the decision-making rights mandated by their share capital” (*EC* 2009).

From the foregoing it is clear that it is not uncommon to find hardly classified examples besides definitions and situations that are considered offical, but opinions are divided about them. Therefore it is necessary to set the further research framework to accommodate for similar definitions as above. Since the research results are difficult to compare due to the different definitions, we review some of the research that estimates the economical importance of the family businesses in the next chapter.

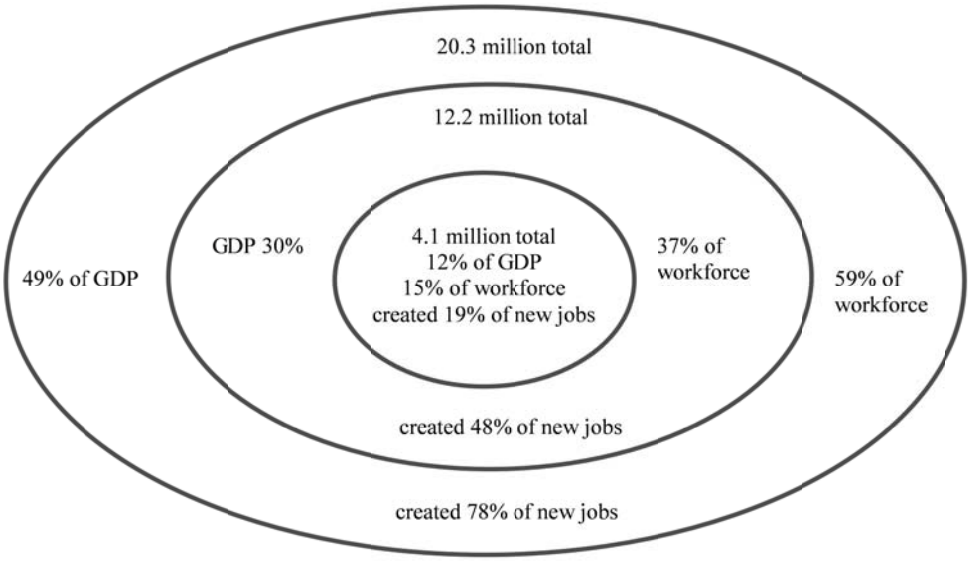
3. The proportion of the family businesses in the economy

Since National Bureau of Statistics of the USA and the Member-States of the EU create statitistical categories only based on the size of the companies (defined by the income, the number of the employees, and so on) in the present, we can refer only to non-official estimates by each country in connection with how big the impact of the family business is on the economy. These estimates have not been obtained by the unified methodology.

In the USA they tried to get rid of the untraceable belief first in the nineties, that more than 90% of the companies are family business, which give at least half of the GDP and the employment (*Shanker–Astrachan* 1996). According to these secondary estimates the result is a value depending on the severity of the definition what led to a result which is lower by the oral tradition, but closer to the estimated value in several westerly-type economies. Following research was classified by this definition model in order to make the estimates more comparable (*Klein* 2000).

Shanker and *Astrachan* (1996) define the family business on three levels based on the importance of the family's role. In accordance with the wide definition, a basic requirements for a family business is that the family is a strategic leader and strives to keep the family leadership of the business. More narrow definition requires the founder or its inheritor to lead the company formally and to have the critical majority of votes in the case of shared power. The most restricted definition says that only those companies can be considered as family business that are at least the second generation, the family is the immediate leader and owner and the other members of the family participate in the operative management. These three definitions have been used in order to estimate the measure and contribution of family firms in the USA. The Bull's Eye modell, shows the result of the estimation using both the wide definition on its exterior part, and the restricted definition on its middle part (Figure 1).

Figure 1. Family business bull's eye



Source: Shanker–Astrachan (1996, p. 116.)

It is clear, so far that the proportion of the family businesses are smaller than previously thought, but still significant to deserve attention. Despite of the wide reserach on family businesses we can find only a few estimates made by academic methodology beyond the oral tradition (*The PwC Family Business Survey* 2010/11, 2011). Many data can be found in several countries that what kind of owner structure the bigger companies function with. This datas can be misleading for the whole proportion of the family businesses, because the middle- and big businesses usually account for less than 10 % of the economy in each country. In a research like this not only the owner structure of the top 110 stock companies, but their long-spaced outputs were compared, as well. The estimates of the family character underlay that which stock businesses are those, where the majority of the shares are in possession of one, or a few investors, which means the quarter-third of the votes depending on the different regulation in each country (*Kirchmaier–Grant* 2005).

Great-Britain where the family business, as an owner structure in big stock companies, is estimated under 10 % is an exception. However, in all the other four examinated countries mostly those kind of businesses can be found. In Spain and Germany these kind of companies performe better than the stock companies, that weren't related to a closer owner group (*Kirchmaier–Grant* 2005).

There is research that using the above mentioned definitions (*Shanker–Astrachan* 1996) attempt to define the entire proportion of the family business in the economy of countries. It can be seen (Table 1.) that in several European countries even more narrow definition is applied, more than the half of the businesses are family businesses. However, the numbers often differ from those which are spread through the oral tradition, and the difference can be seen clearly in Germany that the estimate how much influenced is by the used definition.

Table 1. Comparison of the percentage of family businesses in european countries

Country	Definition	Based on	Percent
Germany	broad definition	turnover	58%
Spain	middle definition	turnover	71%
Germany	middle definition	turnover	49%
Great britain	middle definition	turnover	76%
Germany	middle definition	employes	49%
Dutch	middle definition	employes	74%

Source: Klein (2000, p. 160.)

In Hungary we can rely on the research conducted by European Commission according to which the proportion of the family businesses is about 72 % with 55% of the overal workforce happens in this kind of businesses. Moreover, the authors state that the proportion of family businesses is higher in the area of retail, wholesale trade, hotels and restaurants, transport, public health and social work (*EC* 2009). It is hard to verify the exact numbers as long as there is no unified method for measuring, but it is certain that the significant number of Hungarian people are fully aware of their family character, and are members of international council of family businesses in many cases. However, most of the firms do not know how to manage those advantages and disadvantages that come from the nature of the family businesses. The technical literature tries to capture this difference, still not widely known in this country, through the concept of familiness.

4. The function of familiness

Many definitions have been created in connection with family businesses and it has been proved in many cases that family businesses are capable of better business performance, have lower expenses, are more flexible and pull through a crisis more easily. However, it does not follow from the definitions that the competitiveness of family businesses is different, and the research biased towards succesful family businesses. The researchers didn't manage to convert the results into practical knowledge, because they couldn't determine the reason of the competitive advantage beyond the assumption of the family nature. Therefore *Habbershon* and *Williams* (1999) used the resource-based approach as one of the models of the strategic management to determine which inner features of the family business ensure advantages in contradiction to others.

According to the resource-based approach the businesses are in possession of resource systems which may be used to lead to sustainable competitive advantages. Not all the resources are suitable for this, because the resources are similar or can be mobilized easily, this is why they have no long-term advantage (*Porter* 1998). To use a resource to achieve the competitive advantage, four conditions have to be prevailed. The resource has to be valuable, in order to be suitable for increasing the advantage or reducing the disadvantage compared to the competitors. The transaction costs of this, of course, must not exceed the expected benefit. This is relevant by using any resources which were mentioned above. Besides ensuring the sustainable competitive advantage a valuable resource has to be rare, inimitable and irreplaceble. If the competitors are not or rarely in possession of the same resource and are not able to buy in the market, nor imitate perfectely, they can try to replace with something that comes to similar result. If it is not possible, the resource can result competitive advantage to the business (*Barney* 1991).

Demonstrating the resource-based approach *Barney* (1991) uses the physical capital, the human capital and the organizational capital allocation in which areas the business can achieve advantage. Later *Makadok* (2001) used the abilites phrase by describing those special resources which were embedded in a firm, can't be transferred and their purpose is to increase the efficiency of the firm by making the most of the other resources. The distinction of abilities and resources was used in the literature of familiness later (*Chrisman* et al 2003). Of course, there have been many supporters and opposers of this theory (*Kraaijenbrink* et al 2009), but its framework is useful in order to examine a complex system, what the collaboration of business and family causes.

Habbeshon and *Williams* (1999) suggest four types of resources which define the familiness: „physical capital resources (plant, raw materials, location, cash, access to capital, intellectual property), human capital resources (skills, knowledge, training, relationships), organizational capital resources (competencies, controls, policies, culture, information, technology), and process capital resources (knowledge, skills, disposition, and commitment to communication, leadership, and the team)" (*Habbershon–Williams* 1999, p. 11.). These resource have been examined by many reserches separately, thus organized within clear compasses.

The familiness is defined as „the unique bundle of resources a particular firm has because of the systems interaction between the family, its individual members, and the business". (*Habbershon–Williams* 1999, p. 11.). Familiness does not mean competitive advantage in all cases. In fact it can be a burden in some cases, but because of those resources, developed over a long period, as the common values of the business and the family, or the reputation of the family and the business is the company able to use such a strategy what ensures competitive advanteges.

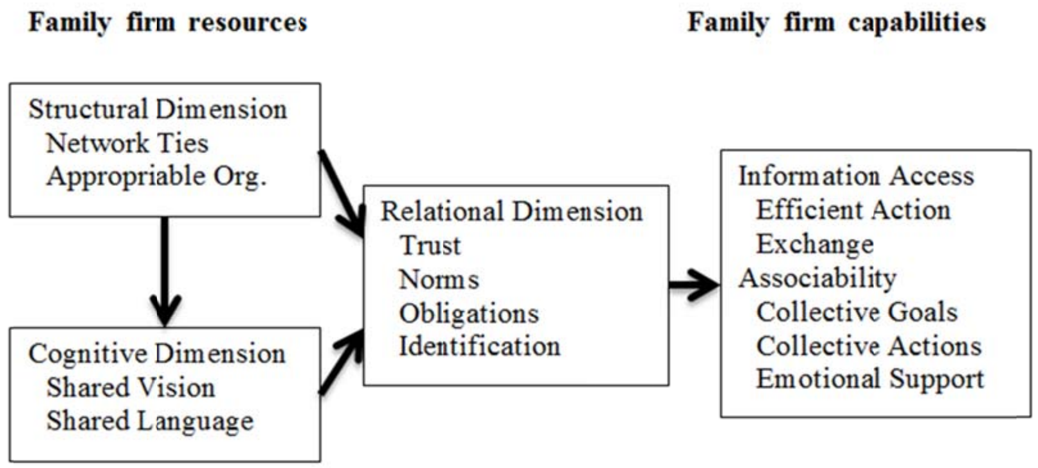
Familiness can't be regarded as black box if the competitiveness of the familiy and non-family businesses is compared. Despite the fact that even the managers are not often familiar with these resources, and their exact function, efforts should be made to discover and integrate them in the business strategy and reconsider them sometimes. Only this ensures that the competitive advantage of familiness do not disappear from businesses in which, for instance, a generation change or entry of an external investor happened.

In connection with this I demonstrate three models which define the familiness via observation of its components. The first tries to eliminate the deficiency of resource-based approach within the framework of the theory of social capital (*Pearson* et al 2008). The second is based on the quantitative comparison between companies interpreting the familiness as a continual dimension. The third possible advantages and disadvantages of the familiness on the strength of analysing interviews (*Irava–Moores* 2010).

According to Pearson and his associates familiness is a tacit factor, which comes from the synergy of the family and the business and includes those rescources and abilities, which mean the social capital of the family business. In the regard of the social capital they concentrate only on the internal business relations within the company. The structural, cognitive and relational resource dimensions result the idiosyncratic combination of the abilities related to the familiness (*Pearson* et al 2008).

The net of the family relations is an attaching, communicational network. This communicational network, which is used by the family members within the business, what can have beneficial effects, because these kind of relations do not develop in a non-family business. This relation system is based on common visions, culture, langauge, historicity. This cognitive dimension is usually rooted deeply in the familiy's history. The relation dimension creates trust, norms, obligations, and identification with the family. Thus the business is built up on these two dimensions. While trust is usually fragile in non-family businesses, because it is based on written contracts, regulations, trust is stable between family members, because it is the base of the family's connections. Norms and obligations can also have an effect on the life of the business, because they correspond with the family values in many cases, and provide powerful motivation. While the workplace is variable in the case of non-family business, the family can not be replaced in the case of family businesses. This close relationship of the family and business leads to identification, which contributes the family to be insistent, and to give its name to the business (*Pearson* et al 2008).

Figure 2. A social capital perspective of familiness: family firm resources and capabilities



Source: Pearson et al (2008, p. 956.)

The cooperation of structural, cognitive and relational dimensions createts the possibility of effective information flow and succesful joint work, which provides more social capital for family businesses. According to the models four factors contribute to the development of the social capital which is considerably typical in family businesses. The first is a temporal stability, which comes from the slowly changing structure of the family and from the historictiy of the family. The second factor is the closeness between the family members, which results from the interweavement of the family and business. The third is mutual dependence, which is based on their common purposes. The fourth is interaction, which does not stop after working hours in family businesses (*Pearson* et al 2008).

This model tries to find out the determinative factors of familiness only theoretically, but it is a progress in some way as it opens „the black box" of familiness and propose a motion what empirical research should cover. The model, however, does not provide answers to questions such as how the number of generations of family businesses effects the familiness, or the impact of new family types. Furthermore it does not examine the cases where familiness can have both positive and negative effects. Besides it does not contain the retroactive, cyclical relations between variables and its scope is limited to account only for the changes within the business. The authors consider a creation of a measuring tool as a necessity, which could help to examine the familiness in its details (*Pearson* et al 2008).

The F-PEC scale (Figure 3) is a previous attempt at the quantitative measurement of familiness, which measures the family involvement in the business through three dimension (*Astrachan* et al 2002). Its question were created by the experts and the leader of the family business, and were examined using the method of focus group survey and pre-test check firstly. The questionnaire has been developed after extensive statistical analysis made by principal component analysis, factoranalysis, and SEM method. It is not the purpose of this tool to create a final dichotomy between family and non-family businesses, but makes any business measurable taking the extent of the impact the family has in the business as a baseline.

The questionnaire has three subscales. The subscale of power measures the family share in the property, the management and the leading corporation separately. In Hungary the same person can serve more than one function but the German law, for instance does not allow the same person to be a member of the management and also a member of the leading corporation. The experience scale examines which generation is activ in the business. The experts agree that many values accumulate as more and more generations pass, moreover there are definitions which state that family business are only exist where generation change happened at least once. The third subscale examines the cultural connection of the family and the business through the common values and commitment (*Astrachan* et al 2002).

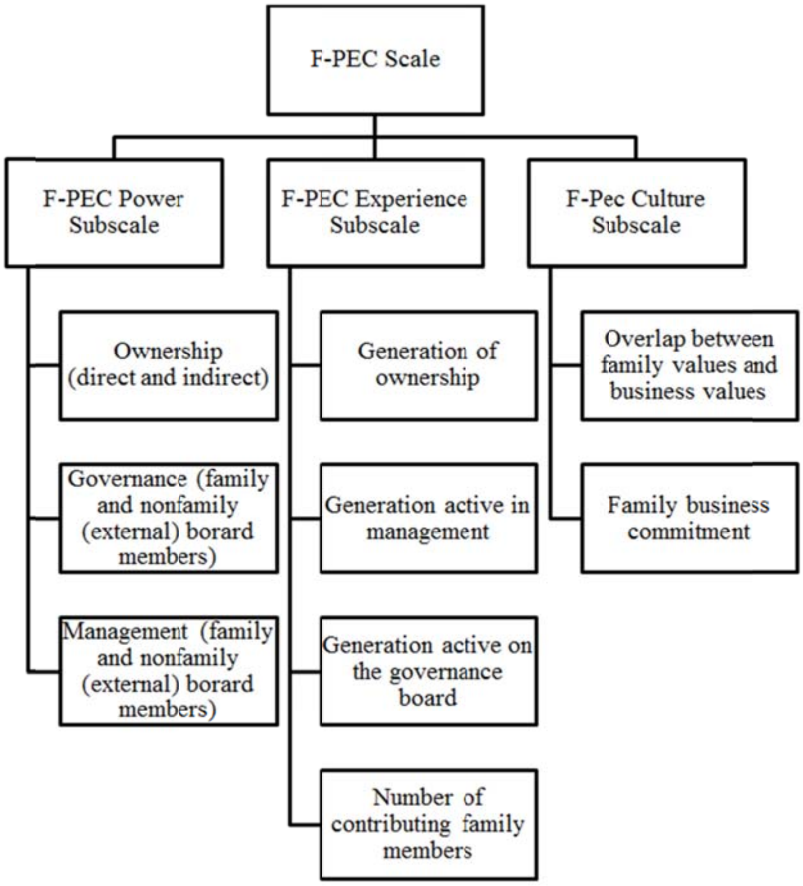
Later the validiting on a greater sample was conducted in Germany (*Klein* et al 2005). After that more publications were about the validation and reliability of the F-PEC scale with wide statistical toolbar besides exploratory studies. (e.g.: *Rutherford* et al 2008, *Holt* et al 2009). According to *Chrisman* and his associates (2005) the scale is capable to measure the extent of the family's involment, but competitive advantage does not ensue from this interweavement and can not capture the substance of the family nature. It is worth noting that culture and commitment is not necessarily tacit that much that it should show up in models that are based on reports (*Irava–Moores* 2010). Last we review one of these models.

The exploration of familiness was conducted with qualitative methodology. *Irava* and *Moores* (2010) examined four family businesses, each of these businesses was entirely owned by Australian families 100 percently more generations ago, and each of these businesses defines themselfes as a family business.

Beyond written information and observation they analyzed open, half structured depth interviews adapted from the STEP project (Successful Transgenerational Entrepreneurship Practices). All in all, after 16 interviews the researches recorded 30,6 hours of conversation with leaders, amongh whom were owners, managers, and outside the family, but in the business VIPs.

After the data was collected six resources have been identified which could be found in each of them. These can be classified equally in three broad categories, and all of them had both positive and negative presence. The authors presented these positive and negative ways on the list of features, but I demonstrate only the most typical resources (*Irava–Moores* 2010). The model is shown below, which displays the familiness on multiple leveles, but does not examine the assumed connections and effects between the resources.

Figure 3. The F-Pec Scale

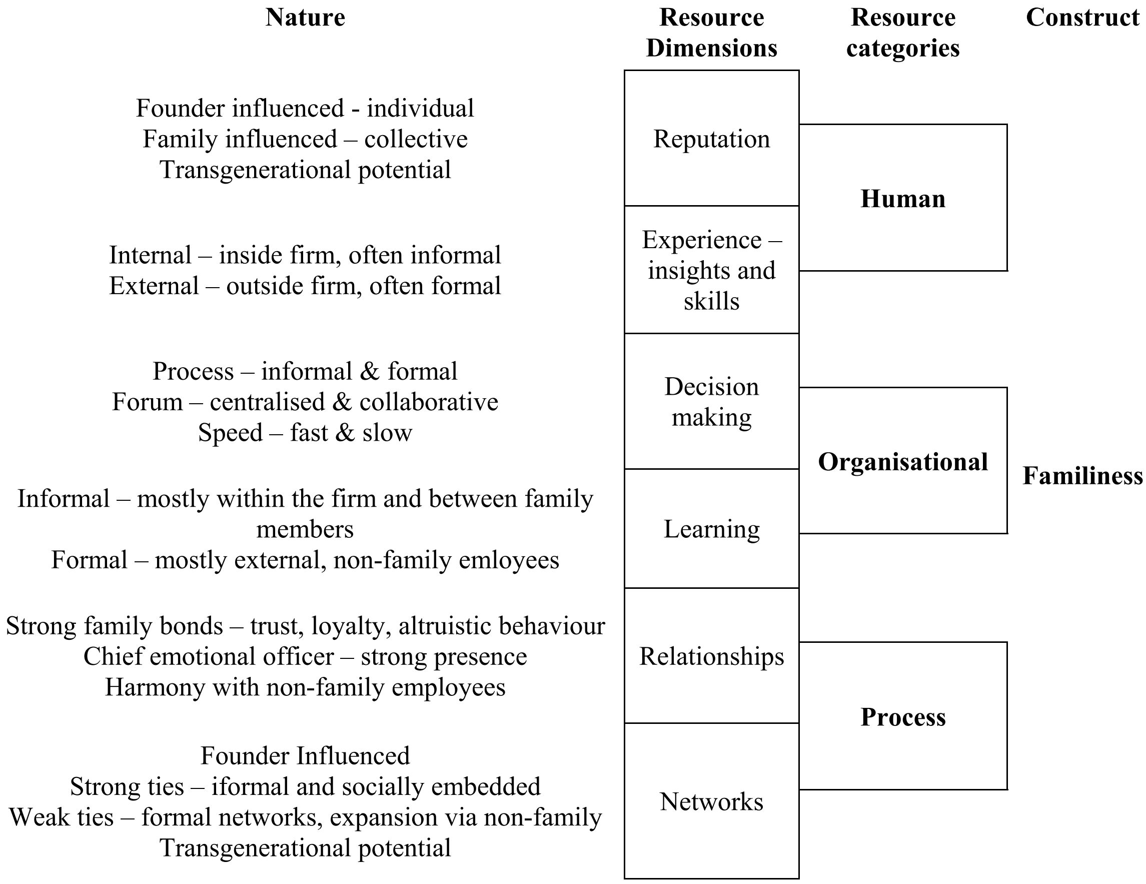


Source: Astrachan et al (2002, p. 52.)

Reputation can help to get new relations and provides advantage through generations against other, less well-known businesses, but the impact of the previous generation's charismatic leader can prevent new leaders from getting their own appreciation. Outside experience might be useful in the development of the business, but might cause conflicts with the traditions of the company. According to the research quick, centralized decision-making is typical in the family business, which makes the business flexible, but might lead to losses easily if risks were assessed wrong. Informal learning can strengthen the norms and values, but might also maintain harmful behavioral patterns. The thight and complicated system of the family and business relations can also stimulate or hinder the business process, also. Contacts out of the company can create new oppurtinites, but it can't be left out of account the less lojality of these kind of relations. These examples do not show any cases and do not inform how to strenghten the positive side of the resources or handle the negative consequences. As the nature of the resources is dual, or so-called paradox, the existence of these resources does not mean competitive advantage definitely, but a combination is possible which may provide advantage with the criterions of the resource-based approach.

Despite drawing a parallel between Pearson's model (2008) and several resources, the result of the research can't be generalized without restraint. The results based on relatively small number of interviews and the inquiry of only succesful, several generational, Australian family businesses, which raises the question whether the results would be the same in an other culture, with more inquiries or in the case of first-generation businesses (*Irava–Moores* 2010).

Figure 4. The familiness resource model



Source: Irava–Moores (2010, p. 138.)

5. Discussion

New theories have been coming up often in various topics in the research of family businesses so far, but it is not certain at all that they endure (*Reay–Whetten* 2011). The above mentioned theories, which connects the subject of familiness and competitive advantage, do not provide answer to several questions. There are no research investigating how the increase of the generations's number changes the role of familiness. The culture of the family based on equality or authority might also be an influencing factor. There are a lot of things to do in the subject of the quantitative measure of the factors of familiness, too.

The most important is to separate the familiness as resource and its possible advantages by family businesses (e.g.: family friendly workplaces, friendly garage startups) from empirical practice. Since these are non-family businesses by the definition, and the arising competencies, depending on the the seize of the company and the structure apparently, can be also copied by non-family businesses in any case. It is worth constricting the research of familiness to factors, which do not exist without family contacts or eliminate with its end (*Widmer* 2006). The three above-mentioned theories came into existence in three different ways. On the ground of literary research, professional operationalization, and qualitative reports. If we are able to totalize the advantages of these methods and capture the familiness in a progress model, we might be able to give a knowledge to family businesses which can help them in gaining competitive advantages.

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