AN AGILE FRAMEWORK FOR DIAGNOSING PROBLEM AREAS FOR FAMILY BUSINESSES

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Abstract

In this paper we investigate the influence of the human factor and the organisational culture on the outcomes and the sustainability of family businesses and propose a Risk Management Framework for Family Businesses and hence improving the chances of success.

The framework is based on the results of a quantitative study (a survey comprising a structured questionnaire completed by 200 Finnish and Greek family businesses) and qualitative study (personal site visits and interviews comprising 20 interviews in both Finland and Greece) for obtaining deeper understanding of the research problem.

Subsequently a novel family business Diagnosis and Self-Therapy (DST) model and an ensuing electronic tool in three languages is under development, for identification of potential problem areas for family businesses and potential activities for their solutions. The aim of the DST model is to aid family businesses to avoid difficulties at an early stage and to serve as a self-therapy model.

Keywords: family businesses, organisational culture, trust, sustainability

Topic Groups: Entrepreneurship, Change management and organisational development, Organisational behavior

1. INTRODUCTION

The keys to growing a family business and maintaining healthy family relationships are trust, strong family values and open communications. One of the most complex organisations in the world is the family-owned business, where family, business and ownership interact in a dynamic system of strong personal relationships and conflicts influencing the performance of the business and the relationships in the family.

Emotional concerns, conflicts and different dynamics are prevalent in family businesses.

Family businesses play a significant role in the strength and dynamism of the worldwide economy and its long-term stability. Across Europe 70-80% of all enterprises are family businesses and totally they constitute 40-50% of all employment (Mandl, 2008). In Europe the family business sector is dominated by Small and Medium Sized Enterprises (SMEs) and particularly by micro enterprises with less than 10 employees. Family businesses are active in all sectors of the economy. Most of the family businesses can be found in traditional and labor intensive sectors. However, a shift towards more modern industries is taking place.

The aims of this paper are to investigate the cultural influences on family businesses and in particular their impact on sustainability, defined as process of change in which the exploitation of resources, the direction of investments, the orientation of technological development and institutional change are all in harmony and enhance both current and future potential to meet human needs and aspirations (WCED, 2014).

2. CHARACTERISTICS OF FAMILY BUSINESSES

The main differences in a family businesses compared to other businesses are characterized by two dynamic and sometimes conflicting reference systems, the family (the emotional) and the company (the professional). Family members may have competing goals and values, which may spring from complex conflicts and family dynamics that arise from a psychosocial history of the family (Dyer, 2003). Many of the family business members may also have several roles (e.g., owner, employee, parent, child, sibling) causing role ambiguity and inter-role conflict [4]. There is often an overlap between ownership, the board and the top management involving the same people from the family in all three of them (Mustakallio 2002; Florin-Samuelsson, 2002; Gersick. Et al., 1997), unusual in other types of organisations, where a separation of the task is a norm. Family businesses are also characterized by a dominant view of ownership and governance (Westhead and Cowling, 1999; Chua et al., 1999, Schwerzler, 2014).

An experienced family business adviser Don Schwerzler (2014)states that *"successful family businesses tend to have the family's values and culture deeply embedded into their business strategies, policies and practices"*. Having a strong and well defined organisational culture produces high performing businesses. Shared stakeholder values meaning a strong organisational culture are identified in the literature to be important for success (Hofstede, 2001; Schein, 1985; Siakas, 2002). Company practices, systems, and processes need to be carefully aligned with the values of the business and clearly communicated to the employees.

3. CULTURES

"*The world is full of confrontations between people, groups and nations, who think, feel and act*" (Hostede et al., 2010). Social scientists use the terms in-groups and out-groups. "Culture consists of the unwritten rules of the social game" and is learnt from the environment in which a person grows up (Hofstede, 2001). The personality on the other side has to do with individual differences among people in behavior patterns, cognition and emotion (Engler, 2009). The theory, that anatomical structures located in the brain contribute to personality traits, is the biological basis of personality. The expression of a personality trait depends on the volume of the brain cortex it is associated with (Astrachan et al., 2002). Hofstede et al. (2010) assert that we circle throughout our life in moral circles and that group-related emotions are universal. For example we are proud of the achievements of our children and we are ashamed of the failures of the members of our group. There may be disagreement in society regarding who and what is considered good and who or what is considered bad. In politically pluralistic societies the politicians serve to sort out these differences; right-wing parties tend to protect strong members, left-wing parties protect weak members, green parties protect the environment, and populist parties stamp part of the population as bad guys. The moral circle is a key determinant of our social life and it creates and carries our cultures (Hofstede et al., 2010). Philosophy, spirituality and religion are catalysts for what we consider good or bad, right or wrong, acceptable or not acceptable. In other words values of the group are affected by the moral circles. Family loyalty is an important cultural factor and the saying that "*blood is thicker than water*" is probably still valid, although stronger in some culture than in others. We have a relentless need to classify other people to belong to our in-group or to out-groups. We do this for family and in-laws and are emotionally more involved with in-groups than with out-groups. From childhood we learn who the members of our in-group are, and what that means. People delineate an invisible mental line around those who they consider belong to their in-group. Only members of the moral circles have full rights and full obligations.

Through years of culture research, a fuller picture of family firms has begun to emerge. It has become increasingly clear that family business sustainability and accomplishment is rooted in something deeper, something beyond superficial explanation (Westhead and Cowling, 1999). Belief in the innate value and uniqueness of the family business culture is believed to be the cause for greater resistance toward the impacts of the financial crises (PTA, 2009).

4. THE HUMAN FACTOR IN FAMILY BUSINESSES

According to the Open-Systems Approach the family business is a complex system composed of several subsystems and simultaneously the family business itself is a system that is a member of a larger economic and political system (Pieper and Klein, 2007).

The environment consists of the company's customers, competitors, suppliers, the state and other social institutions and organisations. Pieper and Klein (2007) argue that current research omits the "human" in the study of family businesses. Also Zahra (2005) emphasizes the "human factor as a module in family business". Everyone involved in the family business; founder entrepreneur, family members, future successors and staff who are non family members may simultaneously belong to more than one subsystem and affect every subsystem in a unique way.

4.1 Organisional Culture and Performance

Another key parameter which has preoccupied family business researchers is the "business, organisational or corporate culture". Corporate culture has long been considered the key to organisational performance in general (Zahra, 2005; Ouchi, 1981; Pascale and Athos (1982); Deal and Kennedy, 1982). Organisational culture can be managed to improve a company's competitive advantage contrary to national culture which is outside of the control of the company (Pascale and Athos (1982). For the family business the concept of business culture is complicated. The company's founder is a primary creator of the business culture of the family business Voithofer and Mandl, 2004). The business culture consists of shared values and beliefs, manifested in symbols and behaviors; the business culture guides individual decisions and actions at the unconscious level. As a result, it has a significant effect on the well being and success of the business.

Because of the dominant role of the founder, the personal values and incentives are key factors of the configuration of the family business culture. This is not only obvious during the first years, but also when the business passes to the next generation (Simpson, 2014). Dyer acknowledged four different types of business culture in the family business a) paternalistic, b) liberal, c) participatory and d) person-centered (Dyer, 2003).

The interaction of several sub-systems and individuals in the family business system can cause particular problems Denison et al., 2004). Neubauer and Lank (2012) have grouped the particular problems into four major categories, namely

- Strategy;
- Governance;
- Intra-business and intra-family controversies;
- Successions problem.

4.2 Family Businesses in times of crises

Wang and Zhou (2012) give new evidence examining whether family firms are better performers during a global financial crisis. Using several datasets covering firms from US, UK, Germany, France and Italy during the period 2006-2010, they found that family firms do not outperform non-family firms in the crisis. However, family firms with founder present (as CEO, a board member or a significant share holder) outperform in Operating Return on Assets (OROA) by 18 percent compared to non-family firms. In the crisis founder firms have less administrative costs incurred, less investment and better access to credit market compared to non-family firms,. The founder firms have less incentive to over-invest in risky projects with high likelihood of failure. The results suggest that in the financial crisis, founder firms bear the least agency costs (Zho, 2012).

A cultural assessment tool called the Denison Organisational Culture Survey, that has linked corporate culture to financial performance, was administered to a sample of 20 family businesses and 389 nonfamily businesses, allowing the comparison of cultures and family (Denison et al., 2004). The results showed that the corporate cultures of family enterprises were more positive than the culture of firms without a family affiliation. Family enterprises scored higher on all 12 dimensions of the assessment tool. The results suggest that family businesses perform better because of the family ties that keep the members together when threatened from outside (Denison et al., 2004).

Similarly it was found in (PTA, 2009) and in (Vlachakis et al., 2013) that family businesses had higher resistance toward the impacts of financial crises, due to the special family ties which can help them overcome problems with minimal losses.

According to research carried out in Greece (Vlachakis et al., 2011), family businesses have in-built mechanisms that can operate in crisis periods and thus contribute to meet the business needs more effectively, compared to a non-family business. Such mechanisms are:

- The economic crisis can be perceived as a "push opportunity" for the organisation in many functional areas of the business. It converts into a cause of reorganisation of the business plans and helps the firm to adopt more formal management procedures for decision making.
- The combination of emotion with entrepreneurship brings family members around a common goal. Every family business has invested in the relationship business and family, which help them to cope with the crisis, but also help them to create dynamic growth despite the crisis. Similarly the Piraeus Traders Association (PTA, 20009) asserts that the family businesses combine emotion with entrepreneurship and create a unique dynamic decision pattern with strong responsibility.
- The weight of the failure of a family business leader is much larger than that of a manager of a non-family business. There is high risk to the family property, negative publicity for the family's name, and the sense of cancellation of the family's legacy. Therefore responsible management is exercised, by adopting constant self-control aiming to avoid major errors. Similarly the Piraeus Traders Association (PTA, 2009) considers that in times of crises the concept of responsible management in family businesses is more obvious, due to the fact that in family businesses there is constant self-assessment and self-criticism, aiming to discover shortages in the property for coverage through the family or from the market.
- An essential element contributing strongly in response to the crisis is adopting a lean and flexible budget. While this is obvious for non-family firms, family ones have the advantage of being motivated and supported by all members of the family, who are involved in the family business; they share anxieties and problems; they are willing to work long days under difficult conditions, and often they are limitedly rewarded.

5. SUSTAINABILITY OF FAMILY BUSINESSES

Ernst & Young (2012) undertook a survey involving 280 family businesses from 33 countries. The results showed that family businesses are "growing against the economic odds". Long-term management perspective was ranked as the most important factor for ongoing business success. The need to adapt to new business was also considered a key issue. Succession intention was considered high despite the fact that only 30% of family businesses survive to 2nd generation; 13% to the 3rd generation and 3% to 4th generation (Ward, 1987). A reason of major problems in business transfers to the next generation is that the planning for the transfer process started too late. Raising awareness about the need to prepare for the transfer a long time in advance is the starting point for a successful transfer. Once entrepreneurs have been made aware about the necessity, they need information and support to prepare the transfer (Voithofer and Mandl, 2008). The potential successor needs also information about the process. This type of support should give an overview of what steps need to be taken, what kind of more specific advice is available and where to get it. In addition the key for thriving and succession to further generations are strong family values, open communication and trust. Family Businesses by nature have a long-term approach meaning they are primed to address some key challenges – from strong value chain management and resource stewardship to an appetite for innovation and a clear social purpose (Simpson, 2014).

6. AN AGILE RISK MANAGEMENT FRAMEWORK

The research reported in this paper comprised an extensive literature review, a qualitative study involving 20 open-ended interviews and on-the-sport observations in Finland and Greece, as well as a quantitative survey of 200 responses to a questionnaire. The insights gained from both the literature review and the analysis of the results of the study were encapsulated in an Agile Risk Management Framework, depicted in Table 1, where potential jeopardy characteristics of the family business are grouped and listed.

Table 1: The Agile Risk Management Framework

Vision & Strategy	**Administration**	**Motives**
• Level of Formality • Communication of Vision & Strategy • Decision Making Process	• Allocation of Roles & Responsibilities • Predefined Mechanisms • Decision Making • Use of ICTs, Marketing Tools, External Consultants	• The motives for creating the business (pull/push) • The business/work climate in the period of creation • External support
Succession	**Participation in Networks**	**Conflicts**
• Succession plan • Criteria for choosing successor • Agreement of plan by other family members • Successor(s) suitability ○ Value – stability – change ○ Experience in the family business / other experience ○ Education /training.	• Exchanging knowledge • Gaining experience • New opportunities • Clusters • Access to scarce resources • International business activities • Building capabilities • Facilitation of internationalisation of operations.	• The way decisions are taken • The wage-levels of family members • Employment of relatives in-law • Generation gap • Gender working in family business • Level of education • Different perceptions of ○ The future ○ How things should be done

Family businesses are one of the most complex types of organisations due to the involvement of emotions and personal issues, in addition to the business concerns.

Problems in the family are often transferred to the business and vice versa. When family businesses manage to identify potential problem areas and sit together to solve them the organisation usually becomes stronger than other types of organisations.

The agility of the framework refers to the capability of a family business to rapidly be able to change and adapt in response to changes in family dynamics, market conditions and the environment.

7. DISCUSSION AND CONCLUSIONS

Entrepreneurship on the whole can be considered as the real backbone of the Western economies creating needed structure and stability, especially during difficult economical times. It has been argued that whereas big corporations turn to downsizing and cut offs in hard times, the Small and Medium Sized Enterprises (SMEs) are often more patient and persistent with their practical day to day operations and ownership structure. According to the European Commission in 2003 SME´s count for a total of 99 per cent of all enterprises, while simultaneously providing a total of 75 million jobs in diverse fields. Although smallness may be a benefit in some aspects on the business level, it may have some downsides, particularly on the practical day to day level such as keeping up to date with legislation, management issues or information and communication technologies to name a few. In addition, those SMEs that identify themselves as family businesses also have to fight with a set of issues stemming from family networks and relationships.

The family businesses involve three overlapping elements that make them different from other types of business, namely the family, the business, and the ownership. Although many of the challenges facing family businesses also concern SMEs in general, some affect family firms more specifically, and others are exclusive to only them. The keys to growing a family business and maintaining healthy family relationships are trust, strong family values and open communications. One of the most complex organisations in the world is the family-owned business, where family, business and ownership interact in a dynamic system of strong personal relationships and conflicts influencing the performance of the business and the relationships in the family. Emotional concerns, conflicts and different dynamics are prevalent in family businesses.

The study resulted in new knowledge originating from the analysis of the observations in the field-visits, the recorded interviews and the statistical analysis of the questionnaire responses collected both from Greek and Finnish family businesses (totally 200). Correlations and parallels are drawn between family businesses in Greece and Finland, both small periphery countries where family businesses build a dominant form of the countries' economies. However, the business structure and hierarchy is rather different as well as the business conduct and culture. The findings are analysed from the viewpoint of two distinctive cultures with different business structures and have lead to the Agile Risk Management Framework described in this paper.

Future work will concentrate on refining the framework and creating the family business Diagnosis and Self therapy model with its electronic tool. This tool will be based on the characteristics identified in the Agile Risk Management Framework.

Family businesses will be able to use the tool for the identification of potential problem areas and potential agile activities for their solutions.

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