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MANAGEMENT PRACTICES IN FAMILY AND NON-FAMILY BUSINESSES

Családi és nem családi vállalkozások menedzsment-gyakorlata

ABSTRACT

Today, family businesses represent about two-thirds of the SME sector in Slovenia and are currently approaching their first transition into the next generation. However, they are fairly conservative in their attitude towards further growth. One major barrier to growth and development of family businesses has been that a strong need to maintain family control over business often prevails over common measures for business success, such as profitability, growth of the shareholder value etc. This paper studies the identifying characteristics of family businesses in Slovenia, as compared to non-family businesses, regarding their satisfaction with different areas of the business process: financial results, market orientation, human resources, R&D, employee satisfaction and the entrepreneurs' personal goal achievement.

INTRODUCTION

Many small businesses set up during the 1990s in Slovenia are family businesses. Three types of family business developed. The first were family businesses evolving from the tradition of handicrafts established during the 1970s and 1980s but which only gained true momentum during the revival period of the market economy. The second were the 'newly-established' family businesses set up during the 1990s, which were mostly opportunity-based and had weaker family ties. On average, however, these were more dynamic than the first type. Third, some 'old' family businesses reappeared as part of the restitution of previously nationalised enterprises. These focused mostly on harvesting the accumulated wealth and not on long-term business growth. While these three types vary in terms of their growth ambitions and financing needs, it is in fact the ambition to grow and to further the development of the business that has set the distinction between family and non-family businesses, and that is what presents the primary focus of this paper. We apply the Birley et al. (2000) approach of classifying businesses into three groups (namely, (a) family-in, (b) family-out and (c) those balancing family and business pressures) in analysing their attitudes to different economic and non-economic determinants of business success.

LITERATURE REVIEW

The tensions that can arise when a family owns a business are well-known across the world and discussed in almost every piece of popular literature on family business. Managing the demands of the two systems, family and business, often requires an emotional detachment that many people find hard to acquire. Consequently, founders become reluctant to hand over managerial responsibility to their children aged 40 or more because they still do not consider them capable of taking over. Having been caught in the family business with no alternative career options, the children become frustrated. Very often, in

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their view, their parents fail to exploit the market opportunities due to their growing tendency to avoid risk, slowly eroding the value of their inheritance. At the same time, other businesses are run by the founder, or owner-manager, for many years without any apparent family involvement.

It is generally recognized that family businesses comprise the majority of small businesses, with a 75% share of all businesses in the UK (Fletcher, 2000), even as much as between 75 % and 90% in the US (Holland, 1981). While more than 20 definitions of family businesses are in use (Wortman, 1997), Handler (1989) notes the lack of a consensus on definitions, which is one of the reasons for the contradictory evidence on the extent, performance and problems of family businesses as opposed to non-family businesses. Due to the large share of family enterprises among the newly created enterprises in Slovenia, their performance and specific problems are valuable knowledge for developing the policy of supporting and developing SME's.

As a distinct group of (mostly) SMEs, family businesses are subject to different treatment in the literature. Leach (1996) showed that family businesses considerably outperformed non-family businesses, but Westhead and Storey (1997) demonstrated that there was no significant difference in the performance and effectiveness. There were, however, some differences in the quality of management. Family businesses face a strong possibility of conflict between the interests of family and business (Hoy and Verser, 1994). Daily and Dollinger (1993) suggested that family-managed businesses tend to be smaller, younger, less formalized and growth-oriented, displaying less "entrepreneurial" and formalized managerial characteristics.

One of the most commonly reported problems faced by family business research is the lack of a consensus on definitions, often rendering comparison of different research results impossible or causing results to be mutually contradictory. Definitions of a family business usually incorporate some degree of family ownership and managerial involvement (Handler, 1989; Barry, 1989). However, these definitions fall short of capturing the essential element of the phenomenon – the perspective of the owner-manager. On one hand, there are many examples of large quoted companies where the family has a minority share in the company yet family succession still prevails. On the other hand, there are other examples where the equity is held tightly by the founder and yet the family is not involved in the business at all. In the first case, it can reasonably be assumed that family considerations are taken into account when business decisions are made while in the second they are not. Thus, it may be assumed that in the mind of the owner-manager the first one is a family business and the second is not. The family business is defined by the owner-managers, through their attitudes to the relationship between the family and the business (Birley et al., 1999).

Small companies, as well as large ones, apply growth-oriented strategies. The research on the structuring of the organization suggests that successful businesses evolve through several phases of ownership and strategic stages from entrepreneurial single–owner–single–company businesses to corporate-form diversified and professionalized businesses (Hufft, 1997) with higher level of more sophisticated managerial technics. Research bearing on the efficacy of growth-oriented strategies indicates that growth-oriented businesses are twice as likely to survive compared to non-growing businesses (Phillips and Kirckoff, 1989). This sort of research provides growth incentive for owners/managers.

Gersick et al. (1997) argue that a certain rate of growth is critical for family businesses if they want to survive beyond the founding generation when it is likely that there will be more than one successor with an interest of pursuing their career within the family business. Some evidence shows (Ward, 1987; Benson, Crego in Drucker, 1990) that many family companies in the USA, which failed in their transition from the first to the second generation, had not grown at all during their respective life cycles. Empirical evidence to support this has been scarce; however, Ward (1997) lists six reasons for that limited ability to grow, among them disability to professionalize their businesses appear to be one of the most important reasons. However, Ward's contribution has no empirical background.

Examining the relationship between family and business is highly complex as the needs and demands in both systems are constantly changing. For example, at start-up the founder may be young and single with no apparent family considerations other than the need to provide a personal income. For him/her, the predominant system is the business which is in its early development phase so no formalization or sophisticated managerial methods seem to be expected. However, as nature and life take their course, it is probable that a family will emerge and that family considerations will evolve, although they will not necessarily become predominant. Indeed, studies of the reasons for start-up have shown that welfare (or family) considerations are only one of a number of possible reasons (Birley and Westhead, 1994; Baines and Wheelock, 1998) and were a significant source of motivation in only a small number of cases.

It is clear that the owner is continuously faced with a series of decisions since both family and business needs change over time (Gersick et al. 1997), irrespective of the predominant cultural values in their case. These decisions include family decisions such as the payment of incomes for family members, the pattern of the children's education, or the involvement of family members in the business (Handler, 1990; Foley and Powell, 1997); and business decisions such as adopting the growth strategy of the business (Drozdow and Carroll, 1997; Storey, 1994), the financial strategy and involvement of new investors, the development of a management structure, and succession (Fox et al., 1996; Rubenson and Gupta, 1996; Davis and Harveston, 1998).

The question that arises is the extent to which these two decision systems overlap. This can be seen, for example, in whether the decision on the children's education is based on an assumption that they will join the business. Whatever the particular situation may be, the point is these decisions are a function of the attitudes of the owner-manager to both the family and the business. In short, while Chua et al. (1999) defined family business by behaviour, we take a similar view to that of Robinson et al. (1991) and define family business by attitude.

Many authors aim to recognize different partial reasons of the assumed aversion of family businesses to growth. Apart from the above-mentioned financial reasons that have been proven not to be generally accepted, many authors indicate that growth abilities of family business are in correlation with their ability to effectively manage human resources (Astrachan and Kolenko, 1994; Leon-Guerrero, McCann and Hely, 1998; King, Solomon and Fernald Jr., 2001). Managerial skills, rather than entrepreneurial factors, of the owner-manager seem to be an important factor for the possibility of company growth, as well (Hufft 1997, Hufft 1999, Hartman, Gudmundson and Tower, 2000). Poza (1994) proves that ability to grow is connected with the quality of entrepreneurial tradition, quality of management skills and ability to pass it from one generation onto the next (Lumpkin and Sloan, 2002) taking into consideration that the younger generation may have more sophisticated knowledge about different issues (Davis and Harveston, 2000), both in management and technology. Some of the reasons for slower growth rate of family businesses have also been the consequence of a traditional approach to innovation (Moores and Mula, 1998), new product development and to the recognition of business opportunities (Romano, Tanewski and Smyrnos, 1999).

In their overview paper of entrepreneurship research, Murphy, Trailer and Hill (1996) conclude that the growth of a company's sales has been most commonly used to measure growth. Ostgaard and Birley (1996) correlate entrepreneurial success with company size and growth in revenues and number of employees, which was also confirmed by Weinzimmer, Nystrom and Freeman (1998). On the other hand, Cooper and Artz (1995) assert that economic factors alone are not an adequate measure of success of a company and/or an entrepreneur. Their conclusion that achievement of personal goals may be equally important as economic goals, was confirmed by Amit, MacCrimmon, Zietsma and Oesch (2000) who proved that entrepreneurs that had not started their business with the key objective of fulfilling their financial goals, generally earned more money than their counterparts.

According to the findings reported in the literature and according to our knowledge of the characteristics of Slovenian SME, family businesses in particular, we postulated the following five propositions about the differences between family and non-family businesses from the aspect of their growth orientation and business success:

P1: Family businesses are more satisfied with the majority of business issues than their non-family counterparts.
P2: Family businesses are less growth-oriented than non-family businesses.
P3: Family businesses place more emphasis on the importance of market orientation and tend to neglect the R&D function.
P4: Employee satisfaction tends to be higher in family businesses.
P5: Entrepreneurs of second or higher generation family businesses are less satisfied with their personal goals achievement than the founders.

DATA AND METHODOLOGY

We use data from a survey of Slovenian SMEs carried out in early 2002. An extensive questionnaire was mailed to 2.000 SMEs randomly chosen from a stratified sample. 222 SMEs returned their completed questionnaire, 35 % being sole proprietors and 52 % limited liability companies, the rest assumed other legal forms. The response rate of 11.1 % is somehow expected. Because of the random sample with no data to identify the respondents, we were not able to perform any follow-up activities to increase the response rate. In the sampling procedure, we doubled the share of SMEs in manufacturing and halved the share of those in trade which would otherwise have been predominant in the sample. The questionnaire was partly based on research done by Birley et al. (2000), also known as PRIMA, and questions on business success were added. We performed ANOVA tests for means and contingency analysis to identify any significant changes between groups.

We first classified businesses as family/non-family businesses based on their own statement whether they consider the business to be a family business (see Birley, 2001), with 58.6 % being family businesses.

This research was the first large-scale attempt in Slovenia to compare family and non-family businesses and we do not have other estimates about the share of family businesses since other research usually focused exclusively on samples of family businesses (e.g. Duh, 1999, Vadnjal, 1996).

RESULTS

We used 215 SMEs in the analysis comparing family and non-family businesses, while due to some missing data only 204 SMEs were considered in the cluster analysis.

SURVEY DEMOGRAPHICS

Family businesses in the survey are mostly the founding generation (83 %), second generation manages 15 % of businesses and the third only 1 % (compare for other countries in Birley, 2001). This structure makes it difficult to study the process of transition. Owners consider their children as the "natural" choice for succession, but they are quite tolerant to the children's decisions: the majority (59 %) would allow their children to make their own free decision, while 20 % think children should continue the family business and only 2 % would deny their children to succeed them (19 % did not respond). Founders mostly started the businesses after accumulating extensive work experience elsewhere (77 %, compare with 16 other countries in Birley, 2001), only 10 % straight after secondary school and 12% after university. Family businesses mostly deal in manufacturing with a 32% share, as compared to 16 % in non-family businesses (the difference threshold in the structure of economic activity was set at 0.031).

Family businesses in our survey have managers with a lower education level than in their non-family counterparts: only 22 % have university education compared to 32 % in non-family businesses. Their managers have a more technical background (59 % vs. 48 %) which explains a higher share in manufacturing. Owner-managers in family businesses work longer hours, confirming the view of Leach (1991) about their flexibility in terms of time. 19 % of family businesses are managed by women, which is consistent with other findings for women entrepreneurs in Slovenia (Glas & Drnovšek, 1999). Only a few had previously owned businesses (14 %), but the majority of them know owner-managers among other relatives and friends (these close ties with other entrepreneurs have been identified as significant in the GEM Slovenia 2002 study (Rebernik et al., 2003).

CLUSTER ANALYSIS OF FAMILY/NON-FAMILY BUSINESSES

Families differ in their attitudes towards the business and the simple division of all SMEs to family and non-family businesses does not sufficiently explain thoroughly these complex issues of financing. In the research, we therefore applied the approach of Birley, Ng and Godfrey (1999) and Birley (2001), where three distinct clusters of companies were identified according to their attitude towards family involvement in business. We considered 20 statements about family and business to form these clusters. Since some respondents failed to answer all items, we were left with 204 questionnaires, out of the original 222, to analyze. We used the non-hierarchical cluster analysis (K-means clustering), the Quick Cluster procedures from the SPSS software (Hair, Anderson, Tatham & Black, 1998).

These three clusters according to their family-business behavior have the following characteristics:

Cluster 1. Family-Out (31,9 %): they consider business as separate from the family; family members are not involved and they do not enjoy any benefits over their employees. One can say that family-out businesses are professionalized.

Cluster 2. The Family-Business Jugglers (27,5 %): this group of owner-managers tries to establish an appropriate balance between family and business issues, they do not involve family members early on, they allow non-family managers.

Cluster 3. Family-In (40,7 %): they involve the family deeply and early on in business affairs; children study for the family business, being the "natural" successors, they receive some shares in the firm early, believe in a closely-knit family business.

FACTORS OF SUCCESS

The levels of the entrepreneurs' satisfaction with different aspects of business are interesting, though, of little statistical significance. Family businesses tend to be more satisfied with issues like the capability to recruit competent new staff, the quality of their products and services, the level of satisfaction of their customers, accomplishing the entrepreneur's personal goals, autonomy and personal freedom secured by the company, control over one's future, growth ambitions, strong wishes to create values for the customers, research of new products and services and ensuring employment for the children. Overall, family companies are most satisfied with 10 out of 23 issues. Balancing companies have the highest average rating in 3 issues (growth of the market share, need to harvest the business and development of high-tech products), while all other issues are predominant in professionalized companies.

Table 1.
SATISFACTION OF SMALL BUSINESS OWNERS/MANAGERS WITH DIFFERENT BUSINESS ISSUES

My satisfaction with:	Means				
	Professionalized companies N=65	**Family companies N=83**	**Balancing companies N=56**	**Total N=204**	**SD**
Growth of revenues in the last year	*3.3*	3.2	2.9	3.2	1.4
Profitability of the business in the last year	*2.9*	2.8	2.8	2.9	1.4
Growth potential in the future	*3.4*	3.2	3.3	3.2	1.1
Absolute growth of the market share in the last year	2.8	2.8	*2.9*	2.8	1.2
Relative growth of the market share in comparison to competitors	*3.2*	2.9	2.9	3.0	1.2
Overall climate and satisfaction of employees	*3.5*	3.4	3.0	3.4*	1.1
Capability to recruit competent new staff	2.9	*3.0*	2.9	2.9	1.1
Quality of our products and services	3.8	*3.8*	3.7	3.8	1.0
Level of satisfaction of our customers	3.8	*4.0*	3.8	3.9	0.9
Accomplishing my personal goals	3.0	*3.3*	3.1	3.1	1.2
Financial benefits secured by company	*3.1*	3.0	2.8	3.0	1.2
Autonomy and personal freedom secured by company	3.7	*3.7*	3.6	3.7	1.1
Control over my future secured by company	3.2	*3.2*	3.0	3.1	1.1
My company is too small and I want it to grow in the future	3.1	*3.3*	3.2	3.2	1.1
Future growth is not important, I want the company to stay as it is.	*2.8*	2.7	2.5	2.9	1.1
I feel a strong need to create new value for our customers.	3.3	*3.4*	3.1	3.3	1.0
I have a very good sense for understanding customer needs.	*3.5*	3.4	3.5	3.5	0.9

My satisfaction with:	Means				
	Professionalized companies N=65	Family companies N=83	Balancing companies N=56	Total N=204	SD
I spend a lot of time researching new products and services which bring new value to our customers	3.1	*3.3*	3.2	3.3	1.1
One of my strengths is ability to recognize products and services which customers want.	*3.5*	3.3	3.3	3.4	1.0
One of my strengths is understanding market opportunities.	*3.5*	3.4	3.4	3.4	1.0
I have a strong need to bring my company to the harvesting stage.	3.6	3.7	*3.8*	3.7	1.0
One of my strengths is developing hi-tech products and services.	3.5	3.5	*3.6*	3.5	1.0
I am ensuring employment for my children in my company.	3.1	*3.5*	3.40	3.3**	1.1

** Statistical significance ($p<0.05$), ** ($p<0.01$), ANOVA on three clusters of businesses*
Source: the authors' calculation

These findings may suggest the idea that businesses will, in fact, make a decision about their mainstream orientation: expansion and growth of the business versus family orientation, if they want their business to be successful in one way or the other. From the results, one may conclude that the worst thing for a company is to have confusion between family and business orientation. However, only two issues were significant at the level of 0.05, one of them being the ambition of family businesses to secure jobs for family members, which may be interpreted as a confirmation of the validity of the measuring instrument to define family business.

CONCLUSIONS AND RECOMMENDATIONS

The analysis of the survey of 204 Slovenian SMEs, 40.7 % of them measured to be family businesses, 31.9 % professionalized businesses and 27.5 % which try to balance company and family needs, has shown:

- Family businesses appeared to be the most satisfied among all three types of companies regarding ten issues, which is exactly the same number of issues that non-family businesses were satisfied with. P1 can therefore be neither confirmed nor rejected.
- Family companies expressed more concern and owner-managers even have nightmares about growth issues and ownership of the company by non-family members. They are also less satisfied with revenues, profits and the market share, but express a stronger desire to grow in the future. According to this, we can say that P2 can be partly confirmed.
- Non-family companies have even reported a statistically significant higher rate of satisfaction with the overall climate and employee satisfaction, so P4 should be rejected.
- Family companies claimed to be more market-oriented (P3 in this part can be confirmed), but also spend more time in R & D activities (P3 in this part can not be confirmed).

• Because of the very low number of second generation owners/managers we are not able to judge the validity of P5.

Using the clustering approach with more distinct behavior of family/non-family businesses has a negative impact on the level of the significance of findings. It should not discourage researchers from using more sophisticated analytical approaches, however, they should provide larger surveys in order to arrive at reliable assessments.

Family businesses are different regarding issues pertaining to growth and business orientation. However, company growth cannot be used as a synonym for entrepreneurial success and therefore, judgment of entrepreneurial success only from the common economic viewpoints can be misleading. As expected, family companies tend to be more satisfied with business issues like market orientation and customer care, employee satisfaction, autonomy, control over the future and of course care for family members, while non-family businesses devote more consideration to revenues, profit, market share, other business opportunities etc. Balancing businesses are somehow stuck in the middle, being predominant in only three out of 23 issues, thus asserting that they spend more energy in balancing family and business needs rather than real business issues. A recommendation can be that entrepreneurs should really decide on the mission of their company, whether entrepreneurship as such or a family-care service. It looks that either of the two extremes is better than balancing.

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