

Family business ownership and management

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Our research deals with a boosting sector in Pakistan's economy that is the small and medium enterprises that are being managed and run by the families (family business), because these firms are the very important asset of Pakistan like any other country which contribute about 65% in the economy of Pakistan. The aim of this contemplate is to diagnose the ownership and management style in family businesses. That is whether there is any difference in running a family business and a non family business. And if there a difference exists then to investigate that difference. This research design is a self reported research because it is the most commonly used method of business research for small business and entrepreneurship quantitative research. In our research we are going to understand and investigate the different variables like leadership style, family conflicts while running a family business, succession planning in family business and many other variables with a non family firm. In the past there are many researches on these issues in family business yet these areas need much more attention of the researchers and the other businessmen. The result of our research showed that there are significant difference in a family firm and a non family firm because a family firm has much more other pressures on it. The result of our research suggest that the leader of the family business should adopt a participative leadership style through this he/she can share all business and management decision with his/her family and employees which helps him/her to get family trust and employees loyalty along with increase productivity and expansion in the family business. This research is being conducted in on the small and medium enterprises in a selected area of Sargodha Pakistan. Therefore results may not be generalized around the globe.

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Introduction

The management and ownership of family business was a very serious issue in the past and a number of researches have been made on this issue currently. In Pakistan most of the businesses are family business and our research is also representing the same issue but the main focus of our research is on the family business management and ownership. That is "the family business owned, operate and control by the members of the family".

Family business management means "A family business owned controlled and operated by the family members of that business". Family businesses exist in different forms and styles. It is not wrong if I can say that the oldest form and the oldest way of doing business is family business.

It is not necessary for a family firm that the whole organization is manages and runs by its own family members. It also means that a single person in the family who is the owner of business can run the business with the help of non family employees. Different researches have shown that more then 65-80% businesses around the globe are family business. Family Business contributes 60-70 percent of GDP of most developed & developing countries.

Family businesses are the fundamental and intrinsic feature of Pakistan's economy. About 80% of all the listed companies in Karachi stock exchange are based on family business or have family involvement in them or they are directly or indirectly associated with family businesses.

This study seeks to understand the difference in doing management, control and operation of a family firm and a non family firm in same environment and by considering a number of factors such as leadership style, decision making, and management with increase in productivity and good will of the business.

This research paper reports the study of 70 family businesses in Sargodha Pakistan where the family members are involved operating, running and managing the business. These ownership and management characteristic variable have been identified in many of other researches.

Literature Review**Family business:**

According to William Hara, "Before the Multinational Corporation, before the Industrial Revolution, before the enlightenment of Greece and the empire of Rome, there was family businesses".

Leadership style and family business ownership and management**Leadership style:**

The way by which the top management or owner of a business lead their business i.e. make decision and manage business. The relationship between leadership style and family business ownership and management is "positive". Kongo Gumi family (family) who was involved in contraction of business says that the management and leadership in a family business is the oldest form in the businesses.

Prof. Shanthy Nachiappan, Ms. Devi and Ms. Kiran says that family business, also have no family members as their employees but the top management consist of the family members who take decisions and manage the business in their own style.

Some researchers like Baskin, Birley (2000); Chua et al, 1999; Daily and Dollinger, 1992; Fullard, 1999; Gersick et al. 1997; Handler, 1989; Watkins et al. 1997) said that the family business have some additional pressures on it because a number of family members are in management so it is important to manage a family business with some other style such as participative leadership style.

According to Eagly and Johnson in family business where leadership style is characterized by cooperativeness, collaboration of managers and lower control leaders is more effective to increase productivity of family business. They also said that a woman can run the family business much better because they have a participative leadership style. Some other researchers also said that the participative and cooperative leadership style is much better than a directive leadership style to increase trust, employer-employee interactions and business productivity.

Family member conflicts and family business ownership and management

Family member conflicts:

The conflict arises due to the leadership of family members in family business and ownership. The relationship between family member conflict and family business ownership and management is "positive". The family members have dual role in family businesses as they are running both family and business unlike non family members. The family is a critical variable in a family firm that is the family members may support each other to increase business performance or spoil the management to put an end of the business.

Stafford, Duncan, Danes and Winters researched that family members and family business are reciprocal of each other and in this reciprocal relationship there is an effort by the family members to develop their families as well as to make their business more profitable through improved business performance.

Olson, Zuiker, Danes, Stafford, Heck and Duncan found that the success of a family business depends on the management overlapping of family business leaders on the family and the business rather than on resources in either family or family business.

Some researchers have said that one of the conflicts in family business between family members is of position in the family business that is the line of authority. Carson, 1969; Gersick, Davis, McCollom, Hampton, and Lansberg, 1997; Kahn, Wolfe, Quinn and Snoek, 1978; Katz and Kahn, 1978.

Succession plans and family business ownership and management

Succession plans:

Succession planning is a process for identifying and developing internal people with the potential to fill key leadership positions in the company. The relationship between Succession plan and in family business ownership and management is "positive". Researchers have shown that the issue of succession planning is more important in family business where more family members are employed. Also the organizations must make develop formal plan for succession, communicate the identity of the successor, and provide

training/mentoring to the incumbent CEO. (Jaideep Motwani) Grand Valley State University, USA Nancy M. Levenburg Grand Valley State University, USA Grand Valley State University, USA Charles Blankson University of North Texas, USA).

Some researchers said that in family businesses where there is no male successor the women will become the successor of that family business. (By Vicente, Azucena; Idígoras, Idoia and Aldamiz-echevarría, Covadonga University of the Basque Country, Spain (UPV-EHU).

Long-term planning and family business ownership and management

Long-term planning:

It means formulating a long term plan to meet future needs estimated usually by extrapolation of present or known needs. The relationship between use of outside advisors and family business ownership and management is "negative".

Vince Maietta wrote the "Business Journal" that to formulate a strategic plan all elements can be folded together that focuses on where your company wants to be in long run and how plan to get there and it also helps entrepreneurs focus on the strengths and weaknesses of their firm as well as opportunities and threats. Maietta, Vince. "Business Plans Map Your Growth." The Business Journal. March 14, 1997.

According to the Ewing David basic types of plans are strategic plans and tactical plans. Strategic plans cover a relatively long period and affect every part of organization by defining its purpose and objectives. And tactical plans focus on the functional strategies through the annual budget. Therefore, tactical plans deals with micro organization view and strategic deals with macro. Ewing, David W. Long-Range Planning for Management. New York: Harper & Row, 1972.

According to the Bangs, David successful business planning requires a time and time in a systematic approach which involves assuming the present situation, anticipating future profitability and market conditions, determining objectives and goals, outlining a course of action and analyzing the financial implications.

Formal versus informal management style and family business ownership and management

Formal versus informal management style:

These are the professional and non professional styles of doing business. The relationship between Formal & informal management style and family business ownership and management are "negative".

The Researcher Christman Chua, and Sharma states that many questions remains unanswered and many researches remains to be done to determine how family involvement affects firms performance because there is a significant gap in regard with the issue of formal versus informal management styles of family and non family members. Christman, Chua and P. Sharma (2005) "Trends and directions in the development of strategic management theory of the family firm". Entrepreneurship Theory and Practice, 29(5), 555-575.

Christman, Chua and Sterier also discussed the formal and in formal management styles with the need to better understand top management teams in family businesses as this is a topic of great importance so the decision of top management considered to be of great importance in family business. Christman, Chua and Sterier, (2005). Sources and consequences of distinctive families: An introduction. Entrepreneurship Theory and Practice, 29(3), 237-253.

The Researchers Mitchell, Morse and Sharma pointed the view that in formal management style must adapt to the family firms and need assistance in doing so. Mitchell, R.E. Morse and P. Sharma.(2003).The transacting cognitions of non family employees in the family business setting. *Journal of Business Venturing*, 18(4), 533-551.

Another group of studies investigate the negative impact of informal management style in family firms. Several researchers concluded that the presence of in formal management styles can result in “creative destruction” when in formal management styles creates too much firm growth and thus weekend’s family’s managerial or financial control. Morck, R. & B. Yeung (2003), Agency problems in large family business groups. *Entrepreneurship Theory and Practice*, 27(4), 367-382.

Debt versus equity financing and family business ownership and management

Debt versus equity financing:

It means how much finance will be given by the financial institutions to a business. The relationship between debt versus equity financing and family business ownership and management is “positive”.

According to the point of view of Muslim scholar Rodney Wilson equity financing can be conducted in a very moral manner and the cooperation and participation of both men and women in family business is generally preferable to the conflict of interest which normally exist between borrower and lender so the limitations of debt financing are increasingly evident at both macro and micro level specially by the growth of bad debts. Wilson, Rodney. (1993). “Equity Finance of Economic Development: Feasibility and Ethical Desirability”, *Managerial Finance Volume 19 Number 7 1993,p 75-79*.

Monzler Kahf (2006) states that in a case of debt based financing completely in the credit worthiness of user rather than the purpose of their use creates a better social justice than personal financing. Kahf, Monzer (2006), *Maqasid Al-Shari’ah in the Prohibition of Rib and their Implications for Modern Islamic Finance*, Presented Paper at IIUM International Conference on Maqasid Al-Shari’ah , August 8-10 2006.

According to another scholar mehmat’s (2007) point of view he actually gave stress on the importance of Islamic economics aims in creating the homo Islamic individuals and it is also the aim of society and he does so by introducing new behavioral norms of individual to create a equitable system in society. Mehmet Asutay. (2007). Conceptualisation of the second best solution in overcoming the social failure of Islamic finance: Examining the overpowering of homoislamicus by homoeconomicus. *IIUM Journal of Economics and Management* 2007, 15, 1-17.

The views of all researchers are explained above and according to all of them the firms having good will can borrow more loans from the lenders. As the family firms have strong pillars of good will so they can get more loans from financial institutions then non family firms.

Financial management tools and Family business ownership and management

Financial management tools:

These are the tools used by the businessman to run the business efficiently and to achieve the business goals. The relationship between financial management tools and family business ownership and management is “negative”.

There is no previous research on the issue of financial management tools and the family business. According to our

research the family firms cannot use these tools in their business like budgeting and sale forecasting. Instead they focus on their daily transactions and routines that is they can run their business on actual they earned and expense rather than estimations.

Founder’s influence and Family business ownership and management

Founder influence:

The influence of founder’s decision on successor while taking any decision and managing the business. The relation between founder’s influence and the family business is “positive. Like financial management tools there is no pervious discussion of researchers on the founder’s influence in a family business. According to our research the successor of family firms must consider the style of running the business, decision making and managing business by the founder of that business. The successors can preview the founder’s reaction against a problem or decision and then take decision as most of the decision and problems in a business are similar and similar action is made against them which save time as well as money.

NOTE:

There is no any research on founder’s influence and financial management tools in pervious literature.

Research Methodology

The research design is a self reported research because it is the most common method of business research use in the small business and entrepreneurship quantitative research.

Type of research:

It is descriptive type of research.

Sample:

The sample consists of small and medium family businesses in Sargodha Pakistan. The sample was taken to understand different in nonfamily businesses and family businesses ownership and management characteristics of different family businesses.

Sample size:

The sample size consists of 70 different small and medium businesses in Sargodha Pakistan.

Survey instruments:

The survey instruments used in the research meets the standards of being valid and reliable. This survey instruments includes the likert scale from 1-5. The questionnaires are translated into Urdu from English according to requirement. The survey instrument was used by the authors of the base paper the *Gender in family business ownership and management”* A six country analysis and these authors are Matthew C.Sonfield and Robert N. Lussier.

Descriptive analysis:

| | N | Mean | Std. Deviation |
|---|----|--------|----------------|
| Leadership style and family business | 55 | 2.8545 | 1.20828 |
| Family members conflict and family business | 55 | 3.6364 | .96922 |
| Succession planning and family business | 55 | 3.0909 | 1.22130 |
| Use of outside advisers and family business | 55 | 1.9636 | 1.03573 |
| Long term planning and family business. | 55 | 3.3636 | 1.14445 |
| Financial management tools and family business. | 55 | 2.5455 | 1.05089 |
| Founder’s influence and family business | 55 | 3.1273 | 1.03735 |
| Formal and Informal management style and family business. | 55 | 3.0182 | 1.04511 |
| Partner’s relation in family business. | 55 | 2.4182 | 1.25744 |

Interpretations:**Family business ownership and management* Leadership style**

In family businesses the style of leading the business is different from that of non family firms. From the table it is clear that in a family firm when ever some important decision is going to take by the management it should known to all of the family members whether they are involved in the business management or not. The member running the business has a participative leadership style that is they consult each and every problem with their family for solution

Family business ownership and management *Family member conflicts

According to the table in family businesses where many family members are involved in the management of business the conflicts may arises among them. The conflict can arise due to important decisions in business like sales, production, successors and line of authority etc.

Family business ownership and management *succession planning

The table explains the succession planning in a family business that is in family businesses the next successor is already identified and he or she is known to the whole family that he/she will be the next successor and the firm or business provides necessary training and information related to business so that he or she can perform their best at their tenure and they know each and every thing about the their business.

Family business ownership and management *use of outside advisers

From the table it is quite clear that such family business cannot take help of outside advisers for important management decisions in their business. In fact the family members managing the business can take decisions by themselves. They can discuss the important business issues with each other and with their employees or mangers and made several ways for solution related to problem. Then select the best solution and implement it to solve the problem.

Family business ownership and management * Long term planning

According to the table it is clear that the family businesses can do long term planning in their business related to the income, profit, sales, expenses, production and inventory. The can make judgment of sales, production, profit or expenses for the whole year from income statement and balance sheet of the previous years. In case of new business the top management takes such decisions after watching the market and competitors.

Family business ownership and management * Financial management tools

According to the research analysis the family businesses does not use financial management tools in their business to increase their business productivity. In fact the managers of such business can run the business normally and make necessary change when required which will give them a budget under their estimates. They can also not use such tools because business expertise are required to use such tools for a specific business and they demand high cost due to which the business budget may be disturbed by using these tools.

Family business ownership and management * founder's influence

From the table it is clear that in family businesses when the management are going to take same important decision related to business they can influenced from the founder of that

business that is the management can consider the decision of founder of that business in the same situation or for the same problem and then take decisions with required changes or amendments.

Family business ownership and management *Formal and informal management style

From the analysis results it is found that in family businesses the owners or the management can only use the formal management style that is they can run the business and takes decisions in the same way as the founder of the business was took. They can run the business in the same way each and every day with very little changes.

Family business ownership and management * Relationship with partner

From the table it is clear that in these businesses the relationship between partners is not good. The partners must find a partner which best suited them to increase their business productivity.

Discussion:

Our research shows the different aspects related to the family and non family businesses. Family owned businesses are recognized today as an important and distinct organization in the world's economy. It offers two separate and connected systems with uncertain boundaries and different rules. It provides closer contact with management, less bureaucratic and established relationship with trust. Whereas Non Family business is less closer to the management, have a fear of trusting its members, chance of bureaucracy also exist in these businesses. Some discussion about the family and non family business made by different researchers is given below:

According to researchers Naldi and Nordquist family business present special challenges to those who run them and the financing behavior of family business repot higher control risk than non family firms. Naldi, L. M. Nordqvist, K. Sjoberg, & J. Wiklund (2007). Entrepreneurial orientation, risk taking and performance of family firms. *Family Business Review*, 20(1), 33-47.

The Researchers Autio and Mutakallio the founders of family business are more conservatives in their decisions because of high risk failure of their venture than the founders of non family business. Autio, E. & M. Mustakallio (2003). Family firm internationalization: A model of family firm generational succession and internationalization strategic postures. Paper presented at the Theories of the Family Enterprise Conference, University of Pennsylvania, Philadelphia, (December).

According to the Weber and Camerer non family business owners display different preferences than family business owners because when non family business owners compared to family business owners are bound to business to a much lower degree since they are less emotionally tied to their business for investment. Weber, M., Camerer, C.F. (1998).. *The Disposition Effect in Securities Trading: An experimental analysis of Economic Behavior & Organization*, 33, 167-184.

By Sharma, christman and Chua the family business have been seen to choose conservative strategies on a result of their organizational cultures. Chrisman, J.J., J.H. Chua & P. Sharma (2005). Trends and directions in the development of a strategic management theory of the family firm. *Entrepreneurship Theory and Practice*, 29(5), 555-575.

Findings and Implementations:

Our study refers to the ownership and management in a family firm that is "How a family firm is being managed How

should it operates who control the management of family firms” and who the family firms are best firms of any country around the globe.

In contrast to non family firms the family firms continuous develop new abilities and skills to pave the way of learning, increasing organization’s bent to bring changes through different strategic actions and steps, improving organizational overall competency.

The owner of a family firm must adopt a leadership style that he earns maximum revenue along with his personal satisfaction. The satisfaction of his family and also he gets the loyalty of his employees through his business decisions. From our research we find that the owner of a family firm must have a participative leadership style that is before taking any important decision related to business he must share the views with his family and also discuss it with his employees who are a very important part of his or her organization. Because there a number of benefits of doing a participative leadership and management style and that are:

- His business good will and reputation will be increased.
- His employees will be more loyal to the organization and get motivated.
- The Family trust will be increased on him.
- Very importantly his/her revenue will increase.

After the leadership and management style the conflict among the family members are very important to be minimize in family firms. There are different types of conflicts ay arise among the family members and are:

- Conflict on some important business decision.
- Conflict related to succession planning in multi family business.
- Conflict in one’s self in doing both jobs “as an employee of the family firm” and “the member of the family”.

The leader of the family firm must have certain unique characteristics to over come all such types of conflicts. The leader may involve all family members in taking important decisions in business and satisfy the family. Also the successor of the business must be decided first and he or she should be known to the whole family.

Long term planning is also a very important part of business. In our research we have concluded that in family firms a little preference is given to the long term planning. Instead the leaders can do short term planning for their businesses and make their business budgets on daily or monthly basis.

Founder’s influence is also a very important part of our study. According to our research the founder of a family business has very much impact upon the business that is the successor of the family firms gives very importance to the founder of family business while taking important business decisions, Because most of the risk in a business are similar and same strategies are use to minimize them so the experience of the founders and elders help the successor to eliminate the risk in much better way without utilizing more resources.

Formal and in formal style of doing business is also very important to any business. Formal means the professional style or routine of doing same things in the business. In our research we have find that most of the family firms use the formal style in their business that is the leader of the family firms do not made great changes in their business instead only minute changes are to be done where it is important to change. Also continuous changes have a negative effect on the family business.

Limitations:

Our study has several limitations because the data based on self reports may be subject to bias particularly related to the sensitive questions that may create a risk of social desirability bias. Furthermore to affirm the validity of information provided by the respondents we have also get an additional information through direct questioning and interview to minimize the risk. The conclusion suggested in our study that should be implemented or interpreted with care when generalizing because the result may be different in other countries and even in the same country. Finally other variables which relate to our studied here like culture, elasticity, adoptability and reinvention would provide material for further research and issues. Further studies should be based on larger sample and will conduct in more entrepreneurs.

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Appendix:

Q1. The important management decisions in this firm are made after a discussion involving most or all of the family members in this firm and are not just made by the top-level manager(s).

1. Strongly disagree 2.Agree 3.Neither Agree nor Disagree
4.Disagree 5.Strongly Agree

Q2. Family members are often in conflict and disagree about management decisions in this firm.

1. Strongly disagree 2.Agree 3.Neither Agree nor Disagree
4.Disagree 5.Strongly Agree

Q3. This firm has formulated specific plans for the future succession of junior family members into top management positions, and all family members are aware of these plans.

1. Strongly disagree 2.Agree 3.Neither Agree nor Disagree
4.Disagree 5.Strongly Agree

Q4. This firm uses outside consultants, advisors and professional services.

1. Strongly disagree 2.Agree 3.Neither Agree nor Disagree
4.Disagree 5.Strongly Agree

Q5. Much of this firm's top management time is spent thinking about, and making decisions about, the long-term direction of the firm, rather than day-to-day operations.

1. Strongly disagree 2.Agree 3.Neither Agree nor Disagree
4.Disagree 5.Strongly Agree

Q6. This firm's top management uses sophisticated methods of financial management (such as capital budgeting, breakeven analysis, discounted cash flow, sales forecasting, etc.)

1. Strongly disagree 2.Agree 3.Neither Agree nor Disagree
4.Disagree 5.Strongly Agree

Q7. The original business objectives and methods of the founder (or founders) of this firm continue to strongly influence current top management styles and decisions.

1. Strongly disagree 2.Agree 3.Neither Agree nor Disagree
4.Disagree 5.Strongly Agree

Q9. This firm's top management style is: Formal, objective, non-paternalistic Informal, subjective, paternalistic

1. Strongly disagree 2.Agree 3.Neither Agree nor Disagree
4.Disagree 5.Strongly Agree