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THE INFLUENCE OF FAMILY RELATIONS ON DECISION MAKING IN FAMILY BUSINESSES

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Abstract:

The peculiarity and uniqueness of family businesses set them apart from other businesses in many things. Natural need of man to survive in these harsh circumstances forces him to constantly seek new sources of funding or simply tries to improve the existing. Secure existence is difficult to ensure.

The successful family business provides many benefits: reliable operation, to be your own boss, flexible working hours, family members are taken care of, to become successful with your own strengths. Also this kind of business brings a range of difficulties that have to be overcome.

Apart from the daily struggle for enterprise development in the complex conditions of tough competition and rapid changes in the environment, family businesses face problems of internal character. Namely, the parents are torn between the family relations, the love towards their children and the consistence in the decision making processes. Although this is a modern and very present theme however owners of family businesses rarely dare to speak publicly on the subject.

This paper presents an action research conducted on a sample of 26 family businesses in FYROM. This research study is primarily exploratory in nature, and the research instruments include survey through questionnaires with family member and employees that are not family members.

Key words: family businesses, family relations, decision making, family members, non-family members.

Jel Classification: M12

INTRODUCTION

Family businesses undoubtedly attract the attention of theorists. Challenges that they offer as well as the advantages they provide offer wide range of research fields. Pitfalls that stand in the way of entrepreneurs however they are explored, they can always be multiplied under the influence of various external and internal factors. All of that provides new opportunities for studying this specific type of business.

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This paper aims to uncover the secrets of the family business for the theorists and for the practitioners. On one hand, to check the application value of the research instruments and on the other to help all those who have family businesses to become aware of the emotional barriers that stand daily, that would impede the reasonable business decisions.

What is actually a family business?

“Family firms are companies of various sizes controlled by one or more owners tied by family relationship or solid alliances; they are dynamic systems including two subsets, the family and the firm” (International Encyclopedia of the Social & Behavioral Sciences 2001, 5319–5324).

It is the interweaving of the two systems: the family and the business that creates all the benefits / advantages that make the family business-business with dedicated, loyal and honest employees. Therefore, the result is increased productivity and profitability. Sure, beside benefits from the tangle of the two systems arise all the difficulties that are burden for the founders of family businesses such as:

- Whether to make the correct decision when it comes to their children,
- Whether the business is more important than the family wishes,
- Whether to hire an external person or at any cost to hire a family member,
- Should the family members always be given managerial functions
- What is be the job position that should be given to the family member on its first employment.

Decision making in family businesses

The interweaving of the benefits and difficulties related to family businesses inspired numerous researchers to pay particular attention in their research papers. In their research they include topics (International Encyclopedia of the Social & Behavioral Sciences 2001, 5319–5324):

- family business archetypes and life cycles;
- generational transitions;
- family structure and management;
- ownership structure and management;
- company governance;
- strategic management;
- different family business models in various countries;
- family vs. non-family businesses
- relationships with consultants;
- women’s role.

Regardless of the size of the business and the number of employees almost always the head of the business is a family member, while in the management boards the number of the family members differs depending on other elements (Garcia-Castro, and Casasola 2011).

Decision-making is closely related to the composition of the management board. In any case decision making is the most difficult part of the work due to the mix of family and business emotions. Although normally each of the employers is trying not to be

biased when it comes to members of the families versus non-family members, however, it is a trap in which he usually falls.

The choice of the form of decision making process is different in each enterprise. The following is presentation of a research conducted in that direction:

“Decision-making within family-owned businesses can entail an entrepreneurial approach or a consensus approach. In the 1997 Massachusetts Mutual Life Insurance Co. survey of family businesses, it was found that 34% of family-owned businesses use the entrepreneurial approach. This approach entails that the founder or current owner/CEO is the final decision-maker. The survey found that 48% of family-owned businesses made decisions based on a consensus. Six percent said decisions were made in their business by first discussing the issue and then taking a vote. Although the 6% figure appears small, when you consider that 53% of this group had lasted for at least three generations, their method of decision-making may be indicative of a basis for their longitudinal success” (Parker 2004).

Although most of the members of the boards are family members as reliable evidence that the members due to high commitment to work will make better decisions, there are studies that prove the opposite. Thus, in research conducted in Sweden (Collin and Ahlberg 2012) proves to be justified intention to import primarily professional / expert members on the board, and thereby to exclude nepotism.

However, these and similar studies do not reveal more subtle situations in the organization in terms of combining the two mandatory systems in family businesses: the emotional and business system. In everyday decision-making and a number of smaller situations of the board of the organization, the intentions of parents to favor one's children and to protect them from the discomfort and effort with sparing in the work setting or in places that do not deserve are seen.

Bias leads to series of conflicts between family and non-family employees. Destructive impact of negative emotional relationship, work and interaction in the business, could seriously undermine the effectiveness of the organization's work (Sardeshmukh, Scott-Young, and Perera 2011). For these reasons, all of which are part of the family businesses, regardless of the level / rank / position we have in him, must be interested in the implications arising from the frivolity with mixing emotions and work, as well as the introduction of family problems within organization.

RESEARCH

The research presented in this paper is conducted on the University of Tourism and Management in Skopje. It includes 26 family businesses (small and medium-sized). In all of them on the leading position is the founder of the organization. The selection of companies was made according to the national ranking which presented the most successful companies in FYROM (Euro business center-Skopje 2012).

The ones that contain the family element are separated. In the survey as a research technique three closed questionnaires are used: for the leaders, for the family members and for non-family members. The survey covered a total of 462 respondents, 26 leaders, 144 family members and 392 staff employees who are not part of the family.

The general research hypothesis is: If the leader of a family business manages to control emotions towards family members then he will be making real decisions which

will reduce conflict situations, and it will increase efficiency. The general hypothesis is further subdivided 5 variables that are proved by using indicators of survey questionnaires.

Expected results from the survey include the following:

- To what extent do leaders of family businesses recognize emotions?
- How many leaders know how to manage their emotions?
- Are rules, procedures and norms established in the family business?
- How much do leaders stick to established rules, procedures and norms when it comes to their family members?
- Is the legacy of leadership position in business the motivation for staff family members in the family business?
- Are non-family members motivated to join the steering board of the family business?
- Can a nonfamily member in the business get the leadership position in the family business if he has the appropriate competencies and many more of the responsibilities of family members?

The following are separated issues that are indicative in terms of validation of the set variables derived from the general hypothesis.

DELEGATION ACCORDING TO THE COMPETENCIES

On the question: “Does the family business leader delegate the easier tasks to family members and the difficult ones to non-family members – exterior employees, regardless of their competences?”, yes answered high 69% of the respondents. Verified with a set of questions given in the same direction can be concluded that the leaders do not delegate tasks in accordance with the competencies of the employees.

But the answers of respondents that are family members on the same question show that their superiors (parents / relatives) only sometimes give easier tasks than the others. This implies that they do not notice the fondness towards the relatives or they are unwilling to recognize. On this question 68% answered *sometimes*, 19% said *no* and 13% answered *yes*.

The research shows that leaders’ decision-making largely differs when sharing tasks (delegating) between family members and non-family members. It might seem discouraging for the non-family members and their work. 48% of them have noticed that easier tasks are being delegated to family members, 18% answered that sometimes it has happened and 34% said that the work is delegated equally. Visually it is presented in Table 1 and Figure No.1.

Table 1. Results from the variable: Delegating according the competences

	YES	PARTLY	NO
LEADERS	18 (69%)	3 (12%)	5 (19%)
FAMILY MEMBERS	18 (13%)	98 (68%)	28 (19%)
NON-FAMILY MEMBERS	189 (48%)	69 (18%)	134 (34%)

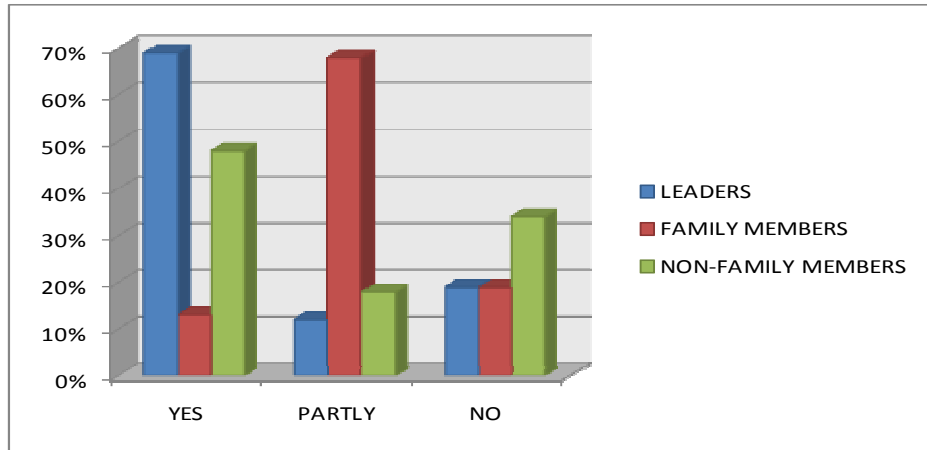


Figure 1. Delegating according the competences

“TAKING” HOME PROBLEMS AT WORK

Questions that are addressed to the leaders but refer to the distinction of business problems and problems at work show that is impossible to “leave” problems at home. Specifically on the question: “Do you leave home problems at home?” half of the respondents answered affirmatively. Only 19% of respondents answered that they fail to distance home problems from the work. It is an indicator that shows that it is not easy to work with family members and home problems to remain out of work.

On the same question the family members employed in the business responded with similar answers suggesting that they fail to leave home family problems. All of this is noticed by the non-family members employed in the business and it affects them. Even 44% of non-family members replied that leaders’ home problems and family members influence the work and the attitude towards them, and only 36% said that sometimes that happens. Visually it is presented in Table 2 and Figure No. 2.

Table 2. Results from the variable: “Taking” home problems at work

	YES	PARTLY	NO
LEADERS	13 (50%)	8 (31%)	5 (19%)
FAMILY MEMBERS	65 (45%)	37 (26%)	42 (29%)
NON-FAMILY MEMBERS	166 (42%)	139 (36%)	87 (22%)

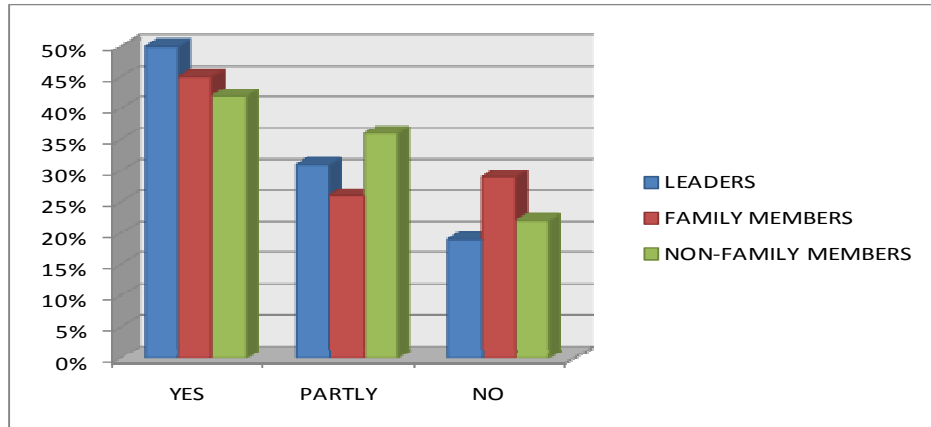


Figure 2. "Taking" home problems at work

EXCEPTION FROM THE RULES, PROCEDURES AND NORMS IN FAMILY BUSINESSES

Every organization as part of the culture has established value system based on rules, procedures and norms of behavior. It is very important that they are applied equally to all staff regardless of whether they are family members or not. On the question for the leaders: "Do you make exception from the rules, procedures and norms when it comes to family members?" 50% of respondents denied that, and only 27% said they sometimes make exception from the rules and procedures for family members.

On the same question employees that are not family members answered with 40% that there are no exceptions for them in the business, 48% partially recognize making exceptions, and only 12% recognize that the rules, procedures and norms of behavior do not apply to them as to the other employees.

On the contrary, non-family members said that they feel that the rules, procedures and norms do not apply to them as well as for employees who are members of the family (73%), which puts them in a bad position. Visually it is presented in Table 3 and Figure No.3.

Table 3. Results from the variable: Exception from the rules, procedures and norms in family business

	YES	PARTLY	NO
LEADERS	6 (23%)	7 (27%)	13 (50%)
FAMILY MEMBERS	17 (12%)	69 (48%)	58 (40%)
NON-FAMILY MEMBERS	286 (73%)	69 (18%)	37 (9%)

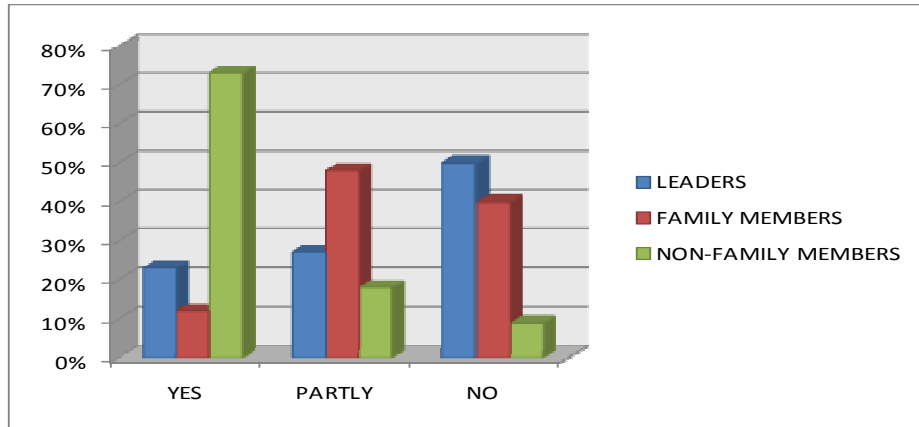


Figure 3. Exception from the rules, procedures and norms in family business

MOTIVATION OF NON-FAMILY STAFF THROUGH SUCCESSFUL WORK TO GET TO THE MANAGEMENT BOARD

As far as the staff motivation through building competencies and career development to get to the management board of the firm, leaders said that external members are motivate the same as family members. Even 61% of respondent leaders answered that equally stimulate all employees. Family members 67% answered that non-family members are motivated to progress in their career as they would become part of the firm's management boards. But only 11% of non-family members think that through promotion they can get to the management board, the remaining 22% only partially agree, and even 67% do not agree with it. Visually it is presented in Table 4 and Figure 4.

Table 4. Results from the variable: Motivation of non-family staff through successful work to get to the management board

	YES	PARTLY	NO
LEADERS	16 (61%)	8 (31%)	2 (8%)
FAMILY MEMBERS	96 (67%)	36 (25%)	12 (8%)
NON-FAMILY MEMBERS	43 (11%)	86 (22%)	263 (67%)

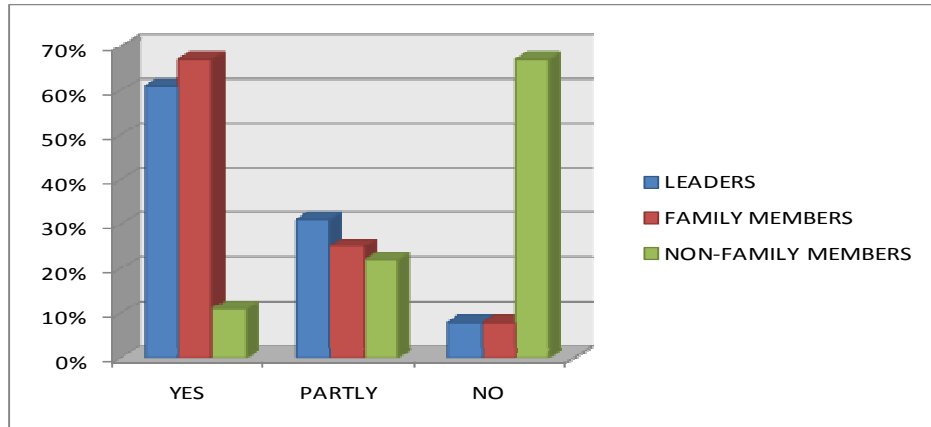


Figure 4. Motivation of non-family staff through successful work to get to the management board

RESIGNING THE LEADERSHIP POSITION TO A NON-FAMILY MEMBER

Although leaders motivate exterior employees, they are not ready to resign the leadership position to a non-family member. Only 69% of the respondents answered on the following question: “Are you ready to resign the leadership position to a non-family member, even if he has more competences that the family members?” 23% said maybe, and only 8% yes i.e. only 8 % said that if the employee (non-family member) is more competent that the family members, the leaders are ready to resign the leadership position.

Employees (family members) are not willing (51%) their organization to be led by a man that is not a family member, even though he would have more competences that any other family member. 18% partly agree with that statement, and only 18% said it is ok.

When the answers of the non-family members in the family business are seen, it is easily to be noticed that the biggest percentage – 61% said that as non-family members have no opportunity to become leaders of the family business, and it is clear that only a family member can succeed and lead the business after the retirement of the incumbent leader. Visually it is presented in Table 5 and Figure No.5.

Table 5. Results from the variable: Resigning the leadership position to a non-family member

	YES	PARTLY	NO
LEADERS	2 (8%)	6 (23%)	18 (69%)
FAMILY MEMBERS	45 (31%)	26 (18%)	73 (51%)
NON-FAMILY MEMBERS	67 (17%)	88 (22%)	237 (61%)

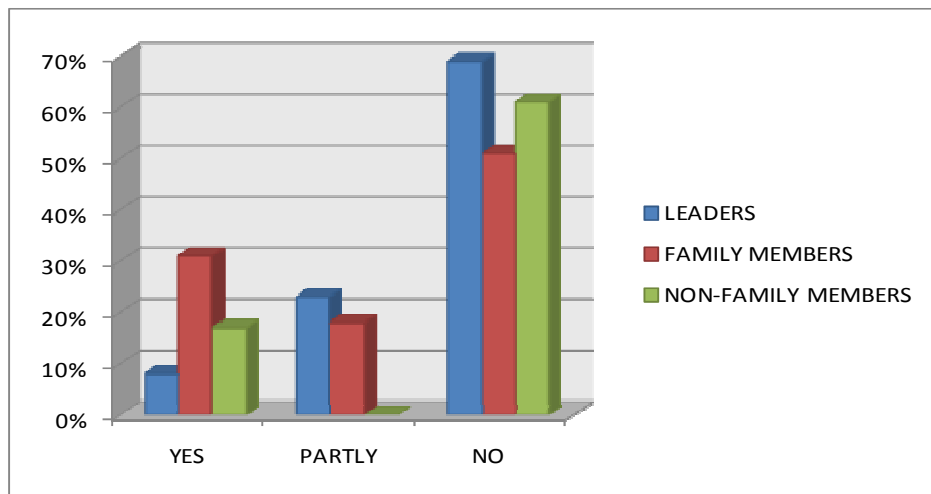


Figure 5. Resigning the leadership position to a non-family member

CONCLUSION

The results obtained in this research include opposing sides in respect of the same questions, but the answers to all involved (state, family and non-family members) indicate the same. The presented results indicate the following conclusions:

- The leaders of family businesses hardly fail to manage their own emotions,
- Family members “take” home problems to work,
- Non-family members feel the “home” mood of family members,
- The family business established rules, procedures and norms of behavior that do not always apply for family members
- Leaders do not stick to the established rules, procedures and norms when it comes to their family members,
- The legacy of leadership position and joining the management board is a motivation for staff members of the family business,
- Very few of Non-family members believe that with a good job and by building personal competencies they can become part of the management board of the company,
- Neither the family business nor the leader or any other family member do not allow the family business to be inherited by a non-family member, although he has the appropriate competencies, many more than any other of the family members.

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