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## Asymmetry of the information and the knowledge between owners and workers in large family companies, as the determinant of their success

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**Institute of Economic Research Working Papers**

**No. 25/2015**

**Asymmetry of the information and the knowledge  
between owners and workers in large family  
companies, as the determinant of their success**

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## **Asymmetry of the information and the knowledge between owners and workers in large family companies, as the determinant of their success**

### **JEL Classification:**

**Keywords:** *information, knowledge, asymmetry of information, asymmetry of knowledge, large family companies*

**Abstract:** In the majority economic areas of the world, family businesses are the overwhelming majority, it is certain in the case of small and medium-sized businesses. Large family companies – in opposition to common opinion – are not the economy margin. It is other way round, they are not directly identifiable as a family companies. Family companies often reached global success in just decades.

### **Introduction to access**

The theory is, and it is probably true, that for the question, who and what is at fault for this state of affairs? We want to answer on Camus's ground outlined in the "Stranger of Camus", recalling the Mejbaum's settlement in Amor Fati (Mejbaum, 1983), that the first cause, without giving the excuse, is IT/ICT<sup>1</sup>.

The technology development of processing information and the transfer of information is a main factor in the changes taking place in the area of management and in the area of social transformation. Like the unlimited exchange of information and, as Giddens wants, Einstein's shorten the time and space in communication between individuals and organizations post changes the traditional order of things. An influence of current resulting reports from the legislated order, the tradition, biographical order of the

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<sup>1</sup> A breakthrough which caused and causes changes in the sphere of the management (of course without excluding others) is the Internet. Start of the Internet began from generating data movement by only four applications: electronic mail (e-mail), letters, newsgroups, FTP – File Transfer Protocol. The Internet has become an important factor of changes in the conditions of competition, the boundary conditions for market entry.

individual and the organization is deteriorating, and a dialectical cooperation of global, regional and local is developing (Giddens, 2002). This is what the modern world restricted freedom, development (such as individuals and organizations), it was restricted, limited access to information<sup>2</sup>. Post modern "significance" is separated from "significant" (Bauman, 2000). Following Kuhn's concept of paradigm, and diverge from development of knowledge within the distinguish areas for exploration of interdisciplinary solutions (Morgan, 2001). We are changing the current methodology of research, we are moving away from the typical pattern: subject – object recognition, in favour of subjective assessments, without preliminary assumptions to his current situation, where is verbalization enhanced by image, sound, and other benefits associated with the research topic.

Changes, that occur in the area of social phenomena, known as post-modernism<sup>3</sup>, do not occur regardless of the changes occurring in the economy, known as post-industrialism. Beck and Giddens consider that in the post-industrial era, and the postmodern perspective vagueness, opaqueness, smoothness, chaos, high degree of risk are the inward features of late modernity. Alteration, temporariness are natural states in the area of the identity of the individual and the organization (Bauman, 2000). Globalization, which previously identified expanding markets, moving production to lower cost, unlike local economies will no longer be a significant parameter that specifies the behavior of the future organization, because there are no boundaries, no barriers to entry, no space and time restrictions specifies the ubiquity of the organization, as a natural condition.

In the era of modernist (post-industrial), where we have unlimited access to information, we can not see the difference between the surroundings near and far, and the global surroundings. In the decision-making process, in the assessment of odds and risks, we are taking into consideration those areas of surroundings that correlate with the objectives of the individual and the organization; in the process to formulate development strategies.

A separate problem is that information (knowledge) became itself a commodity and with negative phenomena of exploitation administrative rules, an outlier for to the changing socio-economic conditions, to the ap-

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<sup>2</sup> Means of communication, exchange of information allow the transmission of information, regardless of its material original carrier: image, photo, sound, text, newspapers, books; information transfer take place almost immediately, without the need to indicate the path which crossed over the network; The Internet has caused the elimination of concepts: time travel information, information transfer, distance; in the context of communication, reduce in terms of time and space, even more reduce section of space-time almost to zero.

<sup>3</sup> Bauman defines it as the era of postmodern or post-modernity, Giddens as the late modernity.

propriation of ideas, patents, inventions, marks and everything what possible, with purpose not always of honest market transition<sup>4</sup>.

How is an asymmetry of information and knowledge, affect the behavior of the individual within the organization? The uncertainty is no longer momentary regret, a condition that you can mitigate or even removed, best captures the problem, statement of Peter Drucker: *we have just one of these important historical periods, occur every two or three hundred years, when people no longer understand the world, and the past is not enough to explain the future* (Cameron, 2003, s. 11). Perceived the end of order, end of sequence "established once and for all", it causes only nervousness, which as says Baudrillard, this differs from the old fears, which brings usually hectic action, revolt, that is dispersed, not-focused, without certain starting points, with "non specific" ailments (Bauman, 2000, s. 44), finding escape not in a reflection on the rationalization of possible choices, not in the optimal choice for the future, but in pragmatic choice, which refer to self-interest of unit or organization in the near future and without pretensions to distance future.

## Introduction

You would think that from the point of view of the unit (organization), a new, unpredictable – chaotic in the long time horizon – postmodern reality defies any rational description. You would think that postmodern "Brown's cocktail"<sup>5</sup> composed of units (organizations), is not working according to specific rules and only potentially undergo statistical description.

How in this "cocktail" are companies functioning? How in this "cocktail" are family companies functioning?! In the majority economic areas of the world, family businesses are the overwhelming majority, it is certain in the case of small and medium-sized businesses. How does the situation look in the case of large family companies? It should be noted that large family companies - in opposition to common opinion – are not the econo-

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<sup>4</sup> Lyotard, in relation to departure from the two meta-story of the emancipation of humanity through knowledge and progress, as science has become valid, indicates a change of state of knowledge, when societies enter a new era: postmodern (culturally) and postindustrial (economically). Non-validate meta-stories deprive knowledge status of the objective in itself. Knowledge ceases to be owned by narrow sectors of society, it becomes a consumable good, product and the main tool of global competition.

<sup>5</sup> The reference to Brown's movement is not accidental. Brown's movement, it is chaotic movements of particles (molecules), particles dispersion phase -suspension in liquid or gas, caused by collisions with molecules in dispersion phase, performing continuous inert thermal movements. Brown's movement are intensified, when the viscosity of the liquid particle size of a suspension is smaller, and the and the temperature is higher.

my margin. It is other way round, they are not directly identifiable as a family companies. This state of affairs, result among others from the fact of the status of these firms as listed companies, suggesting the dispersion of capital. Out of a few hundred largest companies listed on the Paris stock exchange more than 60% has the family advantage (controlling interests)<sup>6</sup>. Similarly, above 50 % companies listed on the stock market in Frankfurt. Even bigger percentage of large family companies (the overwhelming majority) is listed on the stock exchanges in Tokyo, Beijing, Hong Kong and Seoul.

Family companies often reached global success in just decades. Large (of course small and average also) family companies in the majority are not subject to a scheme of the duration: initial stage, growth stage, maturity stage and stage of death, they have a temporal dimension multigenerational. Management boards of non-family companies (shareholders) generally have a short planning perspective, limited to the term of office<sup>7</sup>. With this, limited to term of office (of potential next choice) prospect, short-term goals are a priority. A family company sets goals often generational, where long-term option of profit is preferred to the success refer to one term of office<sup>8</sup>.

### Types of family companies

**Chaebol** (<http://en.wikipedia.org/wiki/Chaebol>), there is a large firm or a conglomeration, concentrating companies with different profile of activity. The most important feature of Korean corporations, including those that form the brand known all over the world, there is their family character. However, they should not be equated with typical family companies for example on the European continent. Chaebols are for example Samsung<sup>9</sup>,

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<sup>6</sup> Among the largest in the world include Ikea, Porsche, BMW, Carrefour, Michelin, Auchon, Aldi, Dr Oetker.

<sup>7</sup> Similarly, as parliamentary democracies.

<sup>8</sup> The family companies have been coping best during crises.

<sup>9</sup> Samsung achieves annual revenues that exceed the GDP of many countries. In 2006 he was 35th place of the largest economies in the world (characteristic that chaebol which is not a country, after all is there between them – this indicates the properties of the organism's perceived economic, apparently on a par with structures of the country, as a separate and independently functioning entity). Samsung strongly affect their surroundings, not only on economic development and policy, but also on the media and the culture of South Korea. Meanwhile, their beginnings were modest: in 1938, Lee Byung-chull founded in Daegu trading company with 40 employees. The company changed several times their profile (in the direction of the food industry, and then the textile industry) and location (moving to Seoul and returning to Daegu). Lee whilst expending the company put pressure for industrialization, which he based on Korean companies-conglomerates. He created with them long-term ties by protecting them from competition and financial support, he was using the same

Hyundai and LG. These conglomerates are giving an employment to hundreds of thousands of people worldwide; most of them are not connected with family of company founder with blood ties. What is the uniqueness of these family companies? One of its features is a specific management structure. Regardless of whether chaebol is one large corporation, or whether it is a conglomerate of companies operating under the same name, each of them is owned or is controlled or managed by at least one family. Most often this is the same family, which in the 1950s in the last century it was taken over by one of the Japanese companies. It should be noted that in Korean culture, the family means exclusively people bound with blood bonds, relatives (in other Asian cultures, the concept of a family member can be extended to those adopted). Another important feature of chaebols is a way of understanding the issue of ownership: owner of the concern has usually only shares in the three or four largest companies. However, thanks to family relations (e.g. through the creation of management subordinate companies with close family members) they can take control of another concern, which then supervise subordinate companies. The third feature concerns is the nature of depending companies: chaebols often create them in order to ensure the production of components for export. Therefore, both the management level and economic characteristic for chaebols is centralisation.

The specificity of concerns is also based on creating not only internal, but also external networks of connections and the relations. Strengthening the social and economic position in the chaebols range and between them, and between chaebols and groups which exercise power often takes place through marriage. Around the relationship between the families forming the Korean elite has accumulated a lot of myths. To be the most enduring belief of exceptional unity of this social group, which is helping her build a strong position so that it would be able to even put the interests of country. Part of this myth is the belief in the inevitable antagonisms between the archaic structure of chaebols and created by them networks, and desire of Korea to liberalise the economy and the need to conduct reforms. Chaebols do not represent a single business model, although all are based on the same structure and they came into existence in similar conditions. Also, you cannot refer to them as it is in Western culture, as examples of clusters. They

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procedures which later applied the Korean Government to all chaebols (the protectorate seems to be a universal economic mechanism of South Korea). As a result, Samsung, from small business has grown into a network of 83 companies, currently producing among others, mobile phones, LCD monitors, medical devices, biotechnology drugs and batteries for electric cars.

should not be seen as isolation from their historical and civilization roots. The clusters are based on the voluntary cooperation of independent companies with a similar profile, and chaebols is the result of a strong identification with the family unit, family with the company and the company with country. Chaebols do not allow adoption people from outside the family.

**Zaibatsu** (<http://en.wikipedia.org/wiki/Zaibatsu>), it is a Japanese family cartel financially – industrial. This expression was used in the 19th century and the first half of the 20th century with reference to large banking – industrial groups controlled by single families. Four largest zaibatsu were even from the Edo period. These were: Mitsubishi, Mitsui, Sumitomo and Yasuda. Zaibatsu play an important role on the Japanese political scene, having a major impact on political parties and the Government. It is understood that the Zaibatsu were liquidated during the American occupation. However, total liquidation of zaibatsu was never carried out, it resulted among others from fear of the communism; Asano, Furukawa, Nakajima, Nissan, Nomura and Okura, Matsushita, Mitsubishi stayed. It is understood that the heir to the zaibatsu became keiretsu. In Japan, there have not been fundamental changes associated with large corporations. Despite the formal connections, horizontal associations of the type keiretsu, farther vertical structures of managing exist in the shadow, at the head of which is family, characteristic for zaibatsu.

**Chinese** family companies are characterized by a vertical model of decision making. Their specificity lies somewhere between chaebol and keiretsu. The companies have generation character, however they aren't creating one conglomeration. They aren't competing with themselves.

**The big mafias** to be treated as family conglomerates, the more, that profits of the black economy in the majority of countries are counted in the GDP. The structure of the decision are similar to the structure between the chaebol and the zaibatsu with very hierarchical with structure of making decisions. They are working, as the conglomerate with the difference that the revenue from one area of black economy, are being invested in a second legal area. These large mafia conglomerations have a family character, with this difference that there are adopted outstanding and well-deserved individuals to the family. You can specify the following conglomerates mafia:

1. **Serbian mafia.** Deals with drug trafficking to the west, gambling, theft, armed robbery and killings to the order. The activities of gangsters go far beyond the boundaries of the country. You can meet them in Germany, France and the United Kingdom. Close cooperation – by rejecting historical conflicts – keep with Albania. Mafia members are recruiting together gasarbeiters (foreign workers) to Germany. They are taking the racket in addition into their pocket. In the ranks of this criminal organization have three



main subgroups: Vozdovac, Surcin and Zeman. They are controlling and monitoring of smaller groups. Currently are about 40 of them. The most profitable activity for Mafia is drug smuggling through the Balkans from Latin America to Europe.

2. **Mara Salvatrucha - MS 13.** Los Angeles has more than 1,350 gangs. This, however, is the cruelest. Experts are reporting that Mara Salvatrucha is most quickly spreading gang of criminals which continues to grow in strength. They derive profits from drug trafficking, prostitution and rackets. Characteristic of gangsters with Mara Salvatrucha are tattoos. With their colourful bodies can be seen all resumes. On their heads they paint the Devil's horns, swastikas, daggers and vulgarisms - signs MS 13. On the back are symbols showing the specialization, for example the grenade refers to the technique of the underlay of the explosives.

3. **Solntsevskaya Bratva**, also known as the Solntsevskaya Brotherhood, it is the largest and the most dangerous criminal organisation throughout Eurasia. The name comes from the South-western suburbs of Moscow. The group was founded in 1980. On her head was Vyacheslav Ivankov, nicknamed the Japanese previously successful wrestler, Sergei Mikhailov, also a former wrestler and Semyon Mogilevich, recidivist and the black-market money changer. In addition, its ranks with former KGB officers, and personnel from the main Intelligence Board. Mafia works according to the schema spy grid. Their residents are in 50 countries around the world.

4. **Albanian mafia** spent its Renaissance at the beginning of the eighties of the 20th century. They got even a nickname of Colombia of Europe or "Kosowo Nostra". It was presented as most efficient criminal organization on the continent. Its structure quickly progressed. It is estimated that the Albanian gangs count hundreds of gangsters. Their members are ruthless and vindictive. Do not tolerate desertions and they are having no scruples.

5. **Yardies**, the group was founded in the fifties of the last century. Is made up primarily of incoming immigrants from Jamaica to Great Britain. Most of them after arriving on the island could not find work. To survive, instead of legal work, they are started doing thefts and robbery. They constantly fight other groups. There are, however, not so highly organized. They aren't starting negotiating with the guardians of public order, and their influences don't reach government spheres.

6. **Sicilian Cosa Nostra** also known as The Mafia. Beginning of the Italian mafia started in the second half of the 19th century. Part of the structure was moved to America. Italian Palermo remaining till today, as the heart of the famous Sicilian Mafia. Currently brings together 80 families, from whom each controls the designated district. Gangsters penetrate pri-

marily to social life, but also political. Depend on drug trafficking and extortion collection, mainly shop owners and entrepreneurs. In the Mafia is immutable law of over 50 years. The pattern of mafioso is dictating by ten commandments, which contains for example the prohibition against going to taverns and clubs, the fraternization with policemen or looking around for wives of friends. The guiding principle is, however, true devotion to the mafia. The clan of the American Cosa Nostra is about 24 families, operating in different cities. Today the Sicilian mafia has been running around the world, mostly in Colombia, Bolivia, Russia, USA and Italy. In this regard, is considered the largest of this type criminal organization.

7. **The Calabrian N'drangheta** is being called the most powerful mafia of Italy. Long time ago they outshone the famous Sicilian Mafia. Now it is gangsters of Calabria a public enemy for Carabinieri. Its tentacles spread to Canada, Australia and South America. The members of the group are more or less related. Often arrange marriage between themselves to strengthen ties and not to introduce new people to the clans.

8. **Mexican - La Eme**, is the oldest and largest Mexican prison gang in the United States. The mafia members are prisoners of Mexican origin living in the eastern part of Los Angeles. The Group was formed in the 1950s. it features racist anti-black views.

9. **Colombian drug cartels**. The famous cartels are organising the production and smuggling of white powder. They are doing everything to control the market and ensure safe transport. Smugglers armed up to teeth are transporting the clean drug by aeroplanes and boats to the hundred of ton to the USA and Europe.

10. **Chinese Triads** Chinese Triads formed as an underground organization in the 17th century, for the purpose of debunking the Manchu Dynasty. In the 19th century, the lofty goals of the organization were taken to the side, and the group began criminal activity. The hallmark of the Chinese mafia is a dragon tattooed on the body. It's a sign of understanding, wisdom and strength. Today it is estimated that in China operates from a few hundred to more than 5,000 Triad groups, each of which can count up to 40 thousand of members. The largest group of international importance is Shin-hai, which brings together more than 10 thousand people and is very active in Taiwan. According to estimates by the Chinese police, every year in the country legalizes 200 billion yuan, accounting for 2% of GDP.

11. **Japanese Yakuza** its roots date back to 1600 when samurai terrorised small villages. Local vendors and merchants connected in groups and fought the enemy attacks. Later became a refuge for any poor people, repeat offenders and other life freaks can feel invited. The group began to grow in strength at the beginning of the 20th century. Then they went down

to the underworld. They began to put pressure on listed companies, forcing them to pay extortion in exchange for ensuring quiet operation of companies. Currently in Japan are three large subgroup of the mafia. Sumiyoshi-rengo of Osaka, concentrating about 6 thousand of members, Inagawa-kai has its head office in Tokyo and Yokohama, and it has more than 5 thousand people and the Yamaguchi-gumi, which has 20 thousand members and works in Kobe and Osaka. In addition, 18 different groups are still acting and concentrating about 90 thousand of half-members, waiting for recruitment to the ranks of the mafia. Members of Yakuza have distinctive tattoos all over the body. For trademarks they chose animals whose images are tattooing for themselves on the back.

**Typical family companies** are European, South-, Middle-, North American and family companies of former colonies in Africa, East Asia, South-East and part of South Asia, and Australia with New Zealand.

**Not typical family companies.** To this group belong companies, which are investment funds, which at the very top of the pyramid are shareholders of the family. The ownership structure is hierarchical. The owner of the fund are other funds, which are owned by the next other funds, etc. At the end of this chain is specific family. An example of such a group of funds with one group of families who are the owners of these funds, there are four investment firms from the United States<sup>10</sup>, representing in their hands several dozen of percent of the most important assets in the world<sup>11</sup>:

1. State Street Corporation is an American Financial Corporation based in Boston, one of the world's largest providers of financial services for institutional investors with assets exceeding 15 trillion dollars.

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<sup>10</sup> The representatives of these funds sit in FR (Federal Reserve) and have an absolute majority of the votes.

<sup>11</sup> State Street Corporation, Vanguard Group, BlackRock and FMR LLC (Fidelity Investments) are among the 10 shareholders holding 100% of the shares in some of the largest companies in the u.s.: JP Morgan, Wells Fargo, Bank of America, Citigroup, Goldman Sachs, U.S. Bancorp, Bank of New York Mellon, Morgan Stanley. The Federal Reserve, consisting of twelve banks, is represented by a large seven-man board, where there are representatives of each of the four companies, as well as being present, as shareholders in all other firms. To the companies controlled by these four companies include: American International Group, AT&T, Boeing, Coca-Cola, Exxon Mobil, General Electric, General Motors, Hewlett-Packard, Intel, International Business Machines, Johnson Johnson &, McDonald's, Microsoft, Pfizer, Procter Gamble &, Verizon Communications, Wal-Mart Stores, Time Warner, Walt Disney, CBS, or NBC. For example: State Street serve about 40% of investment funds in the United States and 37% of the pension funds. In Japan, its share of the fund market is about 30%, while in Germany, Canada and Britain about 20% (Morgan, 2001).

2. The Vanguard Group is an American company operating in the investment management industry, responsible for the assets of 1.6 trillion dollars.

3. BlackRock is one of the world's leaders in the field of asset management. Under his keeping has assets with a total value of more than one trillion dollars.

4. FMR LLC (Fidelity Investments) is one of the largest trust funds and one of the largest financial groups in the world. Under his keeping have the assets to pay for a total of one trillion dollars.

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