

Conflicting Positions within the Family Firm: Generation's Different Entrepreneurial Attitudes to Business Co-operation in Portugal

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Presentation Outline:

- Rationale
- Characteristics of family firms
- Family succession
- Methodology
- Findings
- Conclusions

Rationale:

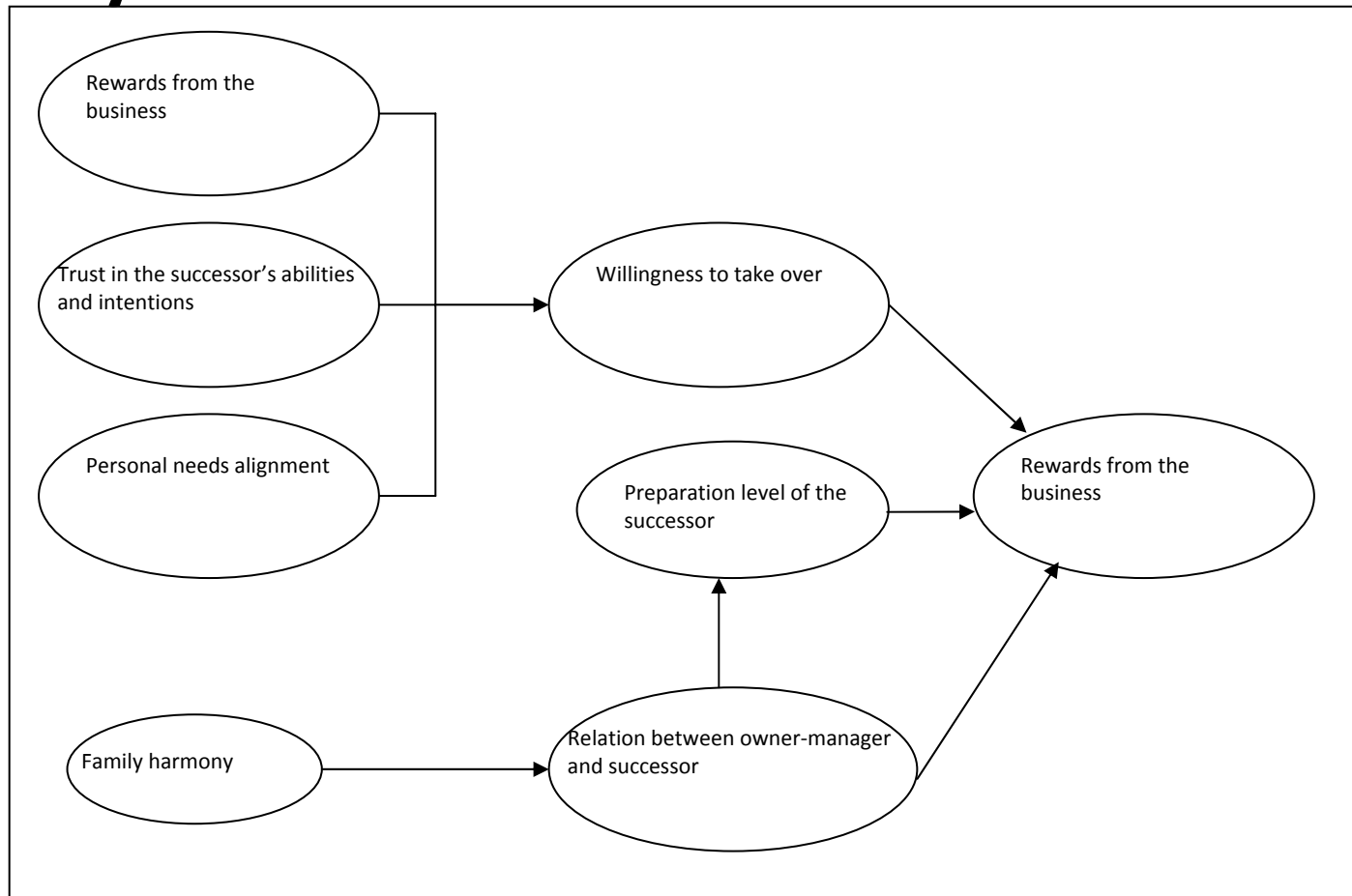
- The involvement of family in business is common in most countries
- In family firms, corporate governance and inter-firm relationships are different
- there is an important conflicting positioning when the succession of firm takes place

Characteristics of family firms (pros and cons):

- The family values are also present in the firm (integrity within the firm; the relatively higher desire to be successful; the commitment to present and future generation, and therefore an increased responsibility in ensuring the business success; the importance of education; and the concept of religion and public service.)
- The organisational culture becomes an important strategic resource (The family as the most efficient organisational form)
- “too much involvement with the family interest may prevent a company from capitalizing on new market developments or on major growth opportunities” due to ‘excessive nepotism’ (Donnelly, 1964)

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Family succession within the firm (Venter et al. 2005)



Methodology:

- Data collected via 29 in-depth interviews, with firms in the furniture and the events organisation industry;
- Qualitative data collection, aiming at a *Grounded theory* approach to research;
- Validation of data with interviews with business associations, participation in exhibitions
- Two case studies (one in each sector)

Findings:

- Strong ties are more important in the first years of the firm, and then tend to give place to weak ties. However, strong ties prevail mostly in the furniture industry, where the family plays a more important role.
- Family helps on providing the firms with resources, and the social network of the entrepreneur

The data contain an example of an events organiser, who mostly works for the pharmaceutical industry. There is a family link to the pharmaceutical industry, and hence access to the customer is gained via the family. The family also provided him with premises for the business. In the same way that the social network of the entrepreneur contributes to the customer base of the business (as shown in the previous chapter), in a family based firm the social network of each family member also contributes to the potential customer base.

Findings:

- The family is a source of reputation, which plays a major role in the context of some businesses

The reputation also plays an important role in contracting new employees. The family of the employee (local reputation) is a great indication of employee attitude. It is common to hear comments about the potential quality of an employee as he comes from a hard-working family. The gains arising from this phenomenon are related to decreasing the risk involved in experimental recruitment of unknown employees (whose attitudes may not fit the expectations of the recruiter/entrepreneur for the creation of a firm identity).

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Findings:

- Division of labour within the firm

Five sons and daughter of a former furniture entrepreneur created 5 different firms in the furniture industry. Although competing in some markets, one of the entrepreneurs (the daughter) admits that between all five firms there is no need for written contracts for business related transactions. From time to time, each pair of firms (and not on a regular basis) accounts for the amount one has to pay to the other. In that sense, costs associated with completed contracts are zero; hence it becomes less costly to establish transactions between themselves than with firms outside the 'family network'. This case exemplifies the lower transaction costs verified between family related firms.

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Conclusions:

Factors associated with success	Lit.	Data	Factors associated with failure	Lit.	Data
Family members in-depth business knowledge	√		Shortage of financing opportunities	√	√
Family members. high commitment to business	√		Lack of management capabilities	√	√
Remaining innovative and entrepreneurial	√		The family's growing financial demands tempt owners to harvest the company's profits rather than reinvest them in additional growth	√	
Introducing excellent management training systems	√		Tendency toward autocracy	√	
Training family members in ownership rights and responsibilities	√		Reluctance to change	√	
Treating employees fairly and with loyalty is usually reciprocated	√		Unwillingness on the part of the older generation to 'let go' of ownership and management power at an appropriate moment	√	
Having a strong sense of responsibility to society	√		Fit between the senior executive's leadership style and company's stage of development	√	
Emphasizing value for money and quality	√		Inability to attract and retain competent and motivated family successors and non-family managers	√	
Taking decisions quickly as everybody knows where the locus of power is	√		Sibling rivalry or competition between the generations	√	
Less bureaucracy and quicker decision making	√		Family members. employment without competence; question of nepotism	√	√

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Factors associated with success	Lit.	Data	Factors associated with failure	Lit.	Data
Verbal and nonverbal communication can be greatly speeded up in families	√	√	Unmanaged conflict between the cultures of the family, the board, and the business	√	
Taking a long-term strategic perspective	√		Human emotions such as pride or jealousy may become enlarged when home and work are intertwined	√	
The long-term perspective; the company and its products affect the very identity of family members	√		Authority and responsibility may not be clearly defined; roles in the family and in the business may become confused	√	
The long-term perspective; quarterly results are not driving the business	√		Decision making hierarchy is bypassed	√	
The family culture and spirit determine the prevailing attitudes, norms, and values in the company	√	√	Family tragedies that can accompany business disaster	√	
Special strength from shared history, identity, and common language of families	√	√	Brings familial problems into the core of business activities.		√
Widening the network of social contracts for businesses (including a wider pool of potential employees)		√			
Provides resources for the firm (money and other physical resources)		√			
Eases the division of labour		√			

Thank you!

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