

Family Firms Specifics: Business Impact on Family Climate

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Abstract

Purpose of the article Family business research aims to achieve better understanding of not only the differences between family and non-family firms, but also the interconnectedness of various characteristics of family firms. The main distinguishing feature of a family firm is its influence on family relationships (family climate). A healthy family climate is the key to a well performing family business. Assuming good family relationships, international research has indicated that family business leads to family cohesion and growth, as well as to better cohesion in the community and greater work and family satisfaction. This paper presents partial results of research on the impact of entrepreneurship on family relationships in Czech family firms.

Methodology/methods The data for the research was collected by means of a questionnaire survey. Survey respondents were family business owners. Analysis of contingency tables was used to evaluate the data on family relationships. The qualitative methods used for data analysis were chi-square test, Phi coefficient and Cramer's V, Person's adjusted residuals. Fisher's exact test was used in case of low frequencies.

Scientific aim The objective of the paper is to find out how family business affects relationships in families (family climate).

Findings The results provide a new insight into the current situation of family entrepreneurship in Czechia. From the respondents' answers it follows that stated positive influence of family business on family cohesion leads to a multitude of important positive consequences. It seems to be associated with higher social reputation, as well as a higher reputation in the business community and leads to a greater unity in the family business neighbourhood. In addition, in this case, family business also provides a better work-family balance and leads to an upskilling of family members.

Conclusions These findings help to understand family businesses better and the conclusions will be used in further research aimed at determining the value of family businesses.

Keywords: family business, family climate, frequency analysis, chi-square test, Czech Republic

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Introduction

The family business is generally seen as a link between family and business and should reflect family values. Family businesses have a long-term strategy in relation to stakeholders including employees, customers, shareholders and local communities. Building social connections leads to maintaining the reputation of not only the family business but also the family itself (Cennamo et al., 2012). Previous research shows that family businesses exhibit higher levels of social responsibility and community cohesion and care for the family's positive image and reputation due to strong identification with the name of the business and the influence of the external environment, where public judgement could have serious consequences for the business (Berrone et al., 2012). When owners and managers personally identify with the business, they are more likely to support socially responsible activities (Dyer & Whetten, 2006). A family business often bears the family name and is strongly tied to it (Berrone et al., 2012; Dyer & Whetten, 2006). For the family, what is important is the image and reputation presented by the business to customers, suppliers and other external parties (Dyer & Whetten, 2006; Berrone et al., 2012). The family also has a significant impact on its business employees, as well as on the entire internal process and the quality of services and products (Berrone et al., 2012). Family businesses are more socially responsible than non-family ones, and this is caused primarily by the family's worries about its image and reputation, and the efforts to protect family wealth (Dyer & Whetten, 2006).

Foreign research pointed out that the interconnections within the family business are therefore not only between family members, but extend to the wider surrounding. Identity is often shared with the business by its employees. Building and maintaining social ties often comes without obvious economic gains, as family businesses are often closely connected to the community in which they operate, not for financial benefits but for altruism (Berrone et al., 2012). Altruism can be defined as a moral value that motivates individuals to take actions from which others benefit without expectation of any reward (Schulze et al., 2002; Karra et al., 2006). However, altruistic behaviours also involve self-interest, where an individual's sense of utility is influenced by both personal well-being and the well-being of others (Chua et al., 2009). For example, altruism leads parents to transfer assets to their children, which is associated with respectfulness, strengthening family relationships, and better family communication and cooperation (Schulze et al., 2002; Karra et al., 2006). However, there are disadvantages as well; children can become selfish due to parental generosity (Schulze et al., 2002). As parents can increase their well-being by being generous to their family, founders of family businesses can use property rights for the same purpose (Schulze et al., 2002). Altruism is oriented towards the inside of the firm (internal altruism), but also outside the firm (external altruism). Internal altruism is focused on non-family employees and family members (family altruism) (Chua et al., 2009; Cruz, 2014). The owners of family businesses do not always behave economically rationally due to the concentrated ownership in their hands (Schulze et al., 2002). They care about the well-being of the family, employ relatives in the business and develop a legacy that they wish to pass on to the next generation (Karra et al., 2006). Altruistic behaviour has the potential to balance family concerns and create a competitive advantage, particularly in the early stages of entrepreneurship (Karra et al., 2006). Such behaviour brings a high degree of flexibility; relatives are often willing to work long hours without leave, if necessary (Karra et al., 2006). A characteristic feature of family businesses is that they provide family members with stable employment as well as with benefits and privileges that they would not receive by being employed outside the family business (Ward, 1987 in Schulze et al., 2002). Good family relationships therefore provide the benefits of a highly committed workforce with shared goals and values, but may also develop nepotism and conflict if family altruistic behaviour does not work well (Dyer, 2003). Family climate – the dynamics and relationship climate – influences personal identification with the business (Cabrera-Suárez et al., 2014). Altruism allows family businesses to use resources even in difficult times, as they can use both human resources and personal savings to overcome the crisis (Schulze et al., 2002; Neff, 2015).

Altruistic behaviour may not only concern family members, but also other employees whose education the business pays for, or even, for example, weddings (Karra et al., 2006). Non-family employees are often considered as family members in family businesses (Berrone et al., 2012). These companies usually provide more stable employment than non-family ones even during a crisis, since without the pressures of shareholders and stock markets there is no reason to reduce the number of employees (EFBB, 2018). Trust also plays an important role in family businesses; non-family employees believe that if the family is trustworthy, then the business is trustworthy (Neff, 2015). Nevertheless, altruism is usually asymmetric in family businesses, and family employees benefit more than non-family ones (Chua et al., 2009; Cruz et al., 2014). For example, only family members are usually on the board (Schulze et al., 2002). The differential treatment of family and non-family employees can lead to feelings of unfairness (Schulze et al., 2002).

To this point, only internal altruistic behaviour has been mentioned, but businesses also build relationships with the community. Family businesses are more responsive to demands of external stakeholders than non-family ones, and they usually take better care of the environment, the community and their customers. According to Cruz et al. (2014), altruistic behaviour is manifested mainly towards external stakeholders because they do not directly threaten emotional attachment to the company or influence on society, but through this behaviour a positive reputation and image of the family is built. The family business is reluctant to implement social practices if family control of the business is threatened by the involvement of proactive internal stakeholders. (Cruz et al., 2014).

This implies that family businesses take a proactive stakeholder engagement (PSE) (Cennamo et al, 2012). Multi-stakeholder engagement is a way to build shared trust and consensus on business direction and its leadership. However, there is no evidence that this behaviour also has positive economic impacts. The financial benefits of PSE may be only indirect, difficult to quantify or possibly non-existent. For this reason, this approach is hardly applicable in a non-family business where the manager would find it difficult to explain lower profits due to social orientation. Given the difficulties in proving a direct link between PSE's activities and its financial performance, these activities may be questioned by shareholders. PSE must, therefore, be under direct control of those who control the company.

There is also another way to look at this issue. For example, Kellermanns et al. (2012) state that not all family businesses take care of their stakeholders. It is possible to find examples of non-family stakeholders being ignored or exploited. There are also businesses that meet the characteristics of a family business and yet cause conflicts in the local community or do not care about their employees. What does this imply? Strong family ties can have both positive and negative effects. Emotional attachment can also lead to conflicts between family members and potential successors. Family control and identification with the family can lead to successors feeling trapped by the family and the business (Schulze et al., 2001 in Kellermanns et al., 2012). Pressure to enter the family business regardless of personal preferences can lead to the fact that multigenerational intentions may be associated with negative emotions (Freudenberger et al., 1989 in Kellermanns et al., 2012).

In our research we aim at discovering whether Czech family businesses have the same typical family business features as reported in foreign literature. This paper focuses on the analysis of questionnaire responses related to family climate. The respondents were family business owners who either agreed or disagreed with the formulated statements related to family relationships and business management.

1 Data and methodology

For the purpose of the analysis, data from Czech family businesses was used. A family business was defined as a business in which one family has an absolute majority of the number of partners or exercises a majority of the voting rights. At least one member of the given family is a member of the statutory body of the company. At least two members of the given family must be engaged in the company for it to be considered a family firm. In view of the fact that there is no exhaustive database of family businesses in the Czech Republic, it was first necessary to identify family businesses. Firstly, businesses were contacted via email with the single question of whether they were a family business. After that, the survey data collection started in August 2019 and ended at the beginning of 2021. The long period of data collection was caused by a change in the method of data collection due to the epidemiological situation. It was no longer possible to visit the businesses in person, and only online communication could be used to collect the information. The final number of completed questionnaires is 233, with a return rate of 9 %. Questionnaires (21) where the owners indicated that they did not consider their business to be a family one, or where the owners did not have a majority share in the business, were discarded. The total number of questionnaires that are further analysed is 212. This paper presents the results of the respondents' opinion on whether family business leads to family cohesion. The respondents' opinion on this statement is evaluated in connection with the other statements. Respondents could indicate whether they agreed, disagreed or were unable to comment (no opinion) each statement.

The collected data were statistically analysed according to the following steps. First, we searched for links between the statements, then the strength of these links was examined, and finally the structure of the links was analysed. Differences between categories of variables (statements) were examined by using the chi-square χ^2 test (test of independence). The chosen significance level is 5%. Therefore, when the calculated p-value is less than this level, we reject the null hypothesis that the variables are independent.

Subsequently, the strength of these statistically significant links between the variables was investigated. To analyse the strength of the link, Cramer's V was used. It takes values from 0 to 1. A higher value indicates a stronger link. As a next step, the adjusted residuals were calculated. If the value of this residual is higher in the absolute value than 2.00 (i.e. less than -2 or higher than 2), we can conclude that the difference between the observed and expected frequencies is statistically significant at the 5% significance level (Rabušic et al.; 2019; str. 263). Fisher's exact test was used when the chi-square test could not be used. JASP and SPSS software were used for data analysis.

2 Results

The majority of respondents (60%) agree that family business leads to family cohesion. The second most common answer is no opinion, selected by 23% of respondents. The view that family business does not lead to family cohesion is expressed by 17% of respondents.

Table 1 Family business leads to family cohesion: frequency of responses

Statement	Response	Abs. frequency	Rel. frequency
Family cohesion	disagree	36	0.170
	no opinion	48	0.226
	agree	128	0.604
Total		212	1,000

Source: own processing

Respondents' views on whether family business (FB) leads to family cohesion were correlated with other statements - see Table 2. This table presents statistically significant links between the statements.

Table 2 Family business leads to family cohesion: the links between the statements and their strength

	Chi-square	df	p-value	Cramer's V	Fisher's exact test
Successor preparation	10.986	2	0.004	0.229	
Disagreements in the family	43.423	4	<0.001	0.322	
Child at work	9.543	4	0.049	0.151	
Home Office	6.714	2	0.035	0.179	
Competitive advantage: loyal employees					0.025
FB is associated with a higher reputation in the business community					<0.001
FB is associated with a higher social reputation	31.490	4	<0.001	0.274	
FB enables balancing family and work	11.351	4	0.023	0.165	
FB enables child welfare					0.009
FB improves the qualifications of family members	17.515	4	0.002	0.205	
FB improves cohesion in the local community	18.767	4	<0.001	0.212	
FB improves job and family satisfaction	53.741	4	<0.001	0.359	

Source: own processing

We found that most of the links are weak based on the analysis. The strongest link is between the impact of family business on family cohesion and on job and family satisfaction (Cramer's V = 0.36) and on family disagreement (Cramer's V = 0.32). The tables below show exactly where the link manifests itself for each pair of statements for which a statistically significant link has been found.

Table 3 Family business leads to family cohesion: the structure of the links

	Successor preparation		Disagreements in the family			Child at work		
	no	yes	disagree	no opinion	agree	unacceptable	exceptional tolerated	children can be at work
disagree	1.0	-1.0	-4.0	-1.8	5.5	-1.3	2.9	-1.6
no opinion	2.8	-2.8	-2.7	1.7	1.7	1.1	-1.2	0.3
agree	-3.1	3.1	5.5	0.0	-5.7	0.1	-1.2	1.0

	Home office		Competitive advantage: loyal employees			FB is associated with a higher reputation in the business community		
	no	yes	disagree	no opinion	agree	disagree	no opinion	agree
disagree	1.6	-1.6	0.9	-1.5	0.8	2.4	-0.9	-0.6
no opinion	1.4	-1.4	-0.4	3.2	-2.6	1.0	4.5	-5.0
agree	-2.5	2.5	-0.4	-1.6	1.6	-2.7	-3.2	4.7

	FB is associated with a higher social reputation			FB enables balancing family and work			FB enables child welfare		
	disagree	no opinion	agree	disagree	no opinion	agree	disagree	no opinion	agree
disagree	3.6	-1.9	-1.0	0.2	0.5	-0.5	0.0	-2.6	2.3
no opinion	-0.3	3.9	-3.5	0.7	2.9	-2.6	0.2	2.6	-2.4
agree	-2.5	-1.9	3.7	-0.7	-2.9	2.7	-0.1	-0.2	0.3

	FB improves the qualifications of family members			FB improves cohesion in the local community			FB improves job and family satisfaction		
	disagree	no opinion	agree	disagree	no opinion	agree	disagree	no opinion	agree
disagree	1.7	-0.1	-1.1	2.7	0.8	-2.5	5.3	0.0	-3.6
no opinion	0.3	3.4	-3.1	0.2	2.3	-2.3	-0.9	4.5	-3.4
agree	-1.5	-2.9	3.5	-2.2	-2.6	3.9	-3.3	-3.9	5.7

Source: own processing

If the respondent states that the family business leads to family cohesion, then the successor is more often prepared to take over the business. On the other hand, if the respondent has no opinion or disagrees with the statement about the positive impact of family business on family cohesion, it is most probably the case of businesses where the successor is not prepared to take over the business. The positive impact of family business on family cohesion is also linked to the frequent use of home offices. As in the case of evaluating the impact of preparation for a takeover, the use of home offices is more common in businesses whose owners report that the family business helps them to consolidate the family. Respondents' agreement with the positive influence on family business cohesion is also often associated with their positive view of the contribution of family business to cohesion in the local community and a good reputation in the business community, as well as a high social reputation.

The reverse is also true, if an owner states that a family business does not lead to family cohesion, then he/she is more likely to state that it does not lead to greater cohesion in the local community, nor does it lead to a higher reputation in the business community or a higher social reputation. The data also shows that family cohesion is associated with the statement that family business enables a better work-family balance than an ordinary employment and leads to developing family members' skills. This is also related to the respondents' view that family business does not cause conflict within the family. Interestingly, the data also shows that the respondent is more likely to be of the opinion that the family business does not lead to family cohesion if he/she agrees that the family business enables children's welfare. A more detailed analysis of the data will be necessary to determine the reason. Quite a typical characteristic for the respondents' answers is that if they choose to answer no opinion whether family business leads to family cohesion, they often choose no opinion for the other statements.

Discussion and conclusion

Good relationships are the key factor for a successful business, not only for the family one. Relationships are the core of organisations; they impact management structure, social networks, team dynamics, as well as succession, career or strategy (Dyer, 2003).

If a respondent states that family business leads to family cohesion, then he/she often also states that family business is associated with a higher social reputation as well as a higher reputation in the business community and leads to better cohesion in the local community. Therefore, building relationships with the community to gain social recognition is important for a successful family business. The reason could be the strong identification of the owner (family) with the business. The family is often closely connected to the business and the public's opinion of the business is reflected in the family. Thus, the family builds its good reputation and positive image (Berrone et al., 2012), which is also confirmed in our research. This behaviour can be described as external altruism, i.e. altruistic behaviour towards the company's surroundings.

However, family businesses don't just look after their external environment. Its employees often share an identity with the business. This is due to internal altruistic behaviour towards non-family employees (Berrone et al., 2012). It is not possible to evaluate the opinion of employees on the behaviour of the family business owners because the questionnaire was filled by the owner of the family business.

The answers also suggest family altruism, i.e. altruism between family members. If the respondent states that family business leads to family cohesion, then family business also often allows better work and family balance than a standard job and leads to higher qualifications of family members. This confirms that altruistic behaviour has the potential to harmonise family concerns and create a competitive advantage, as reported, for example, by Karra et al. (2006). The data also evidently demonstrates that family business cohesion relates to family satisfaction, recognition and fewer family conflicts.

The link to whether family business leads to child welfare, however, is different. The data analysis shows that in case the business owner supports the statement "family business enables child welfare", then he/she often disagrees with the statement "family business leads to family cohesion". A more detailed analysis of the data will be required to identify the reason. The data analysis also shows that both the opinion of the community about the business and the satisfaction of the family members are important to business owners in case the business owner agrees with the statement "family business leads to family cohesion". Based on the obtained results, it can be concluded that family businesses try to balance the needs of the family and the business, prioritizing family or community interests over a strict focus on financial goals. Family businesses can create conditions for balancing the work and family life, as well as to support the development of the regions in which they operate.

This paper focused on the links between the views of family business owners on different statements to find out how family business affects relationships in families (family climate). The achieved aim might help describe Czech family businesses and the results can be used to determine the value of a family business.

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