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Conceptual Background of Success Factors of Sustainable Family Businesses

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Abstract: One of the essential sources of prosperity and stability on behalf of the global economy and society is undoubtedly family businesses. However, the most important problem when it comes to family businesses is the sustainability, which is very limited either in our country or globally as well. For this purpose, when successful 2nd or 3rd generation family businesses are observed, it has been recognized that these businesses have some commonalities. When the literature is reviewed accordingly, it is emphasized that succession planning process, institutionalization process or HRM practices are crucially important for family businesses. Particularly in recent studies, the women in leadership, the brand value of family business, or cybersecurity investments have been observed under several different headings. In this respect, the target of this study is to analyze the success factors related to large and successful family businesses that have been sustainable for generations by the literature review of the studies since 2000 till today. In this context, the studies related to success factors of the family businesses will be analyzed, the common success criteria will be determined from the studies examined and the results will be supported by the recent reports and the questionnaires. Based on this comparative literature analysis, it is expected to shed light on both the researchers for their family business studies and the professional family businesses as well.

Keywords: Family Businesses, Sustainability, Success Factors

1. Introduction

It is stated that the operations of family businesses in the world, the volume of their businesses, their economic magnitudes and their importance for the global economy are crucially important that cannot be ignored for the world economy. As it is the case in many studies in this context, one of the most recent studies that summarizes this situation is a research conducted by the cooperation of the University of St. Gallen and EY in Switzerland. According to this research, as of 2015, the world's 500 largest family enterprises provide employment opportunities to approximately 24.1 million people and generate a total income of 6.81 trillion dollars.

Therefore, the presence of successful family businesses are vitally important for the global economy. However, the main issue is the sustainability of these enterprises. Unfortunately, when it comes to the issue of sustainability, there is not any optimistic outlook. As it is mentioned in the literature, the life span of family businesses is usually limited to an average of 24 years when the founders are actively involved in the family business (Welles, 1995; Lambrecht, 2005). Even if considerable number of enterprises continue to perform after the death of the founder, many of them are able to survive by losing their character of being a family business.

In this respect, the target of this study is to determine the factors that make the sustainable and successful family businesses different from other enterprises and the factors underlying the success of these businesses in the light of the analysis of the previous studies in the literature. It is aimed to reach a conclusion based on success factors of big and successful family businesses, also by considering the sustainable family business report conducted by the cooperation of Kennesaw State University and EY.

2. General Conceptual Framework of Family Businesses

In general, family businesses represent the most common type of businesses in all enterprises. In other words, the number of family businesses, which are under the control and/or ownership of a family, is much more than other ownership structures. For example, the rate of registered family businesses is 90% in US, 75% in Britain, 80% in Spain, 95% in Italy, 85% in Switzerland and 95% in Turkey (Karpuzoglu, 2002; Günver, 2004; Semerciöz and Ayrancı, 2008).

The fact that family businesses have such a large share on the global scale has led to an increase in the number of family business studies. However, the biggest dilemma for the family business studies is the lack of any common definition of family businesses. This situation is defined as the “family business definition dilemma” in the literature (Klein et al., 2005).

In general, family businesses can be defined as organizations where the same family members gather ownership and management (Jauch and Glueck, 1988; Degadt, 2002). Any enterprise significantly under the control or effect of families are often described as a family business (Jauch and Glueck, 1988; Habbershon et al., 2003; Kalkan, 2006).

According to the definition of London Business School dealing with family businesses in the context of ownership, family businesses, in which a family owns more than 50% of the shares of a family business, and particularly family members have the majority of control and management within the enterprise, and a significant portion of the board of members is the family members are called as family businesses (Hulshoff, 2001, p. 30; Kalkan, 2013).

According to Barnes & Hershon (1976) and Shanker & Astrachan, the main criteria of defining the family business are the family ownership of the enterprise, the control of the current management of the family business by the family itself and the voting control. Additionally, if the founder or founders of the family business to be the family members and different generations to take part in the active management of the family business, they are called family businesses.

According to Koçel (2012), family businesses are family-owned by family members with entrepreneurial characteristics, managed by the members of this family and whose management is passed down from generation to generation within the family.
In such a family business, the family members give strategic decisions and the management is controlled by the family business as well.

When the family member relations are examined in terms of organizational behavior, it is assumed that the concept of family is composed of spouses and children living in the same house and communicating with each other. However, in terms of family business studies, in addition to spouses and the children family businesses are considered as all family members regardless of the generation of family members working in the same family business or its shareholders. Therefore, it is possible to define family businesses as a concept composed of people who come together through blood ties, marriage or adoption and who have rights in the decision process of the enterprise (Berent and Uhlaner, 2012; Perl, 2014).

Therefore, many enterprises, from family affiliates to multinational enterprises, are called as family businesses. The important point is that in any stage of control, ownership or management, a certain family member is in a dominant position. Nevertheless, it does not mean that this is the equivalent of a generally accepted common definition of family businesses in the literature. This problem has still existed since Handler has introduced in 1989s that the main problem of family business studies is the lack of a clear definition of family businesses (Littunen and Hyrsky, 2000).

In family business studies, the characteristics of family businesses are defined in different ways. For example, Kachaner, Stalk and Bloch (2012) classified the characteristics of family businesses as follows:

1) Family businesses are frugal both in bad times and in good times.
2) They put the bar too high at the point of capital expenditure.
3) They are cautious about loans.
4) They include a little number of enterprise and particularly the smaller ones.
5) They are surprisingly different from each other.
6) They are more extroverted and international.
7) They are more talented than their competitors.

To sum up, no one can deny the essence of family businesses for the world economy. Nevertheless, the problem is that very few of these enterprises can be transferred to the next generations by successfully ensuring their sustainability. According to the researches, 30% of those family businesses are successfully transferred to the second generation and only 10% of this amount is being transferred to the third generation (Tarhan, 2010). Therefore, it is the sustainability of the family businesses that need to be addressed as a primary issue.

3. Sustainability in Family Businesses

As mentioned above, when the sustainability of family businesses is examined, it is observed that the life span of family businesses are very short and a very limited number of enterprises can be transferred to the second, third and even to the next generations. The enterprises that can manage this process successfully are the ones that have based on efficient communication between the family and the enterprise and have been able to build an effective management system and have taken a significant path in terms of institutionalization.

Particularly in the literature, there is an emphasis on different system models. As the systematic studies of family businesses were initiated during 1960s and 1970s with Donnelly in 1964, Levinson in 1971, Barry in 1975, Danco in 1975 and Barnes & Hershon in 1975 (Gersick et al., 1997; Erdirençelebi, 2012), the below mentioned system models are revealed respectively:

1) Family-System Theory (Two Circle Model),
2) Three Circle Model,
3) Four Circle Model,

4) Sustainability Model.

Among these models, the most prominent and the advanced one is the sustainable family business model which belongs to Stafford et al. (1999). According to this model, family business success depends on the success of family and the business systems separately. However, the family and the business systems need to be in such a harmony that both systems do not affect each other's success in case of any conflict or disagreement.

As seen in the sustainable family business model (Olson et al., 2003), the components of both systems affect each other and the components of the counterparty as well as all their interactions (Danes et al., 2008). In this model, family and business systems are handled separately and it is argued that family businesses will ensure the sustainability of the family enterprises by the cohesion of those two systems (Stafford et al., 1999; Erdirençelebi, 2012).

The sustainability of family businesses is also related with the institutionalization level of the enterprise. In a general sense, the sign of institutionalization in any enterprises is to use special organizational forms and to create an organizational field, which is accepted as the separate special area of the business system (Melin & Nordqvist, 2007). In this context, the first step of institutionalization of any family business is the preparation of the family constitution. This constitution implies the regularization of the functioning of the family business and the meeting of all its stakeholders on the same, common ground (Özkaya and Şengül, 2006). The core principal of institutionalization is to put forward the legal personality of the institution instead of individuals, and to settle a modern business system, which will dominate completely the organizational structure, business policies and its culture (Yazıcıoğlu and Koç, 2009).

However, the problems faced by family businesses make it difficult to complete this process successfully. There are various internal and external factors that affect the sustainability of family businesses. These external factors are parameters related to environmental conditions such as market conditions, the state of the economy, political decisions and foreign markets (Fındıkçı, 2014). As stated by Alacaklıoğlu (2009), the reasons for the problems in the family business are the conflicts between the siblings (43%), problems regarding succession (19%), intra family conflicts (19%), conflicts between the brothers and cousins (14%), and conflicts between the families (5%) (Ilkoğlu and Acuner, 2015).

Actually, conflict is an inevitable issue both within the business and within the family systems. This is particularly the reality for family businesses because of their complicated relationship dynamics. Lack of trust between the family members may lead to serious problems, which in turn lead to debilitating conflicts. Therefore building and maintaining good relationship should be one of the prior issues for the family businesses (Ernst & Young LLP, 2014). Nevertheless, a certain degree of conflict can be an advantage as well, if those families are addressing and resolving the roots of those conflicts. By the way, those family businesses are considered healthier and more successful than those that either ignore or simply do not recognize their conflicts (Ernst & Young LLP, 2014).

In consequence, sustainability, accordingly the family and the business success are based on the initiatives taken in the name of institutionalization and also the resolution and management of conflicts (Stafford and Duncan, 1999). In this sense family constitutions, family councils and strategic development plans for the purpose of institutionalization of family and business relations are essential for the sustainability of the family businesses. However, the scientific studies show that solely the rational measures in managing these problems in the family businesses cannot lead the enterprise to a sustainable success. It is also important to have a more detailed analysis of the sub-factors that will enable all these processes to be carried out successfully.

4. Success Factors in Sustainable Family Businesses

One of the most comprehensive recent studies considering the common characteristics of successful family businesses providing sustainability is revealed by the cooperation of Kennesaw State University and EY. The study was realized in 21 different countries including USA, Canada, UAE, the UK, including Turkey in 2400 large and successful family businesses work has been to demonstrate the common features. The survey and the face-to-face interviews with 2400 large and successful family businesses demonstrates the following features (Ernst & Young LLP, 2014):

1) 87% have explicitly specify who is in charge of succession process.
2) 70% are considering a woman for their next CEO.
3) 90% have a board of directors.
4) 90% regularly organize family or shareholder meetings to discuss business issues.

5) 76% of the family businesses refer to themselves as a family business in their branding.
6) 81% are philanthropic and give importance to social responsibility projects.
7) 83% expect spending on cybersecurity to increase

Among all those factors succession process is the generally accepted one as the most important success factor for family businesses. When the literature is reviewed, the majority of the articles on this issue is the main indicator of this situation. Sustainable family businesses are the ones who consider succession as a long-term process. Those family businesses explicitly specify who is in charge of succession process and accordingly they work steadily to prepare the next generation for the leadership.

One another important factor is the effective communication between the family members. It is vitally important for the sustainability for the family businesses, so that it is the common practice among the world's successful and sustainable family businesses. As it is mentioned by one another survey related the importance of communication, %90 of large and sustainable family businesses have regular family or shareholder meetings to discuss business issues and %64 have a family council that comes together regularly (Pieper and Astrachan, 2008).

Additionally, another important topic for the companies that successfully maintain their sustainability are the founders and the business values. Founders are the most important building blocks that underlie the internal dynamics of family businesses. The vision of the organization, organizational culture, values and responsibilities that constitute the essence of family businesses takes place under the leadership of the founders. Therefore, the founders have a critical role for family businesses and have an important role in terms of sustainability (Birincioğlu and Acuner, 2015). In addition to the founders, the values and culture of the family business are crucially important for the success and sustainability of the family business. Each generation in the family business is responsible for raising the successors, transferring important family values to the next generations, and preparing them for the future and providing the sustainability of the family business in the long run.

Finally, it is also important to emphasize the role of philanthropic activities as success factor for the sustainability of family businesses. Many studies show the positive effect of corporate philanthropy on financial performance as the philanthropic activities bring competitive advantage, better reputation, and higher customer satisfaction (Wang et al. 2017). Corporate philanthropy includes charities and different social responsibility activities in which an enterprise or any corporation donates a part of their profits or any of their resources to non-profit organizations. Moreover, those social responsibility projects can also attract talent to the firm and increase employee morale by improving its reputation. An enhanced reputation attracts applicants that are more qualified, prompt higher employee productivity, leads to better credit ratings and further helps firms to gain an advantage over competitors (Wang et al. 2017).

5. Conclusion and Recommendation

Based on the literature review of the family business studies regarding the success factors of those enterprises who have successfully achieved their sustainability, it has been observed that many of the researches emphasize the importance of institutionalization, resolution and management of the conflicts and the importance of succession planning.

However, according to the results of the research conducted internationally recently, seven main factors related to large and successful family businesses have been identified as mentioned below (Ernst & Young LLP, 2014):

- Succession planning
- Women in leadership
- Governance
- Communication and resolving conflicts
- Branding
- Corporate social responsibility, philanthropy and sustainability
- Cybersecurity

As a recommendation for future studies, those factors can be analyzed deeply and separately particularly in relation with “long-lasting family businesses” mentioned by Koçel (2006), and those success factors can be analyzed particularly in case of Turkey. Moreover, this study is taught to contribute to the family businesses in the professional life. Considering that the success factors highlighted above are the common characteristics of large and successful family businesses on the global scale, todays’ family businesses should consider themselves in terms of those success factors whether they are good at those factors and in which level they are.

Finally, the concept of organizational ambidexterity is also relatively a new term used for successful and long-lasting enterprises. Ambidextrous organizations are good at achieving sustainable competitive advantage as it considers not only short-term activity but also long-term innovation as well. From another point of view, organizational ambidexterity refers to the ability of simultaneously engaging in exploration activities to enable the organization to grow in the future, while at the same time providing the sustainability of maximizing profits.

In conclusion, considering that the success factors highlighted above are the common characteristics of large and successful family businesses on a global scale, the sustainability of the family business by the subsequent generations will require the presence of women in the senior management, social responsibility projects, cyber security expenditures, the organizational ambidexterity level or institutionalization process. Therefore, getting professional support on all of these issues, or building a team that will focus on these issues specifically is vitally important for the sustainability of family businesses.

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