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A Study on the Strategic Management Characteristics of Family-owner Firms and Family Farms : the Similarities and the Application for Farm Household Studies

Ko, Kyung-Ho*

가족기업과 가족농의 전략적 특성에 관한 연구 : 그 유사성과 농가연구 적용가능성을 중심으로

고 경 호

This study aims at identifying the characteristics of family-owner firms from the business studies and searching for the usefulness of the concept for the farming research. From the 1980s, there have been a lot of studies on family business which found out its different features in term of management characteristics. Exploring the concept of the family business, this tries to figure out any kind of similarities of the family farm concept which could be applied for the studies on identifying novel characteristics of contemporary family farms in capitalised societies.

Key words : *family business, family-owner firm, family farm, SMEs, Management characteristics*

Ⅰ. Introduction

There is a considerable literature on family businesses suggesting that the goals, strategies, implementation methods and performance of family businesses differ from those of non-family businesses. These studies seem to assume that the family’s interests and values play an important

* Corresponding author, Dankook University (khko0419@naver.com)

role in business management, and that these make family firms somewhat different organisations, which are difficult to explain with the general concept of business management. However, as many authors (Wortman, 1994; Gudmendson et al., 1999; Sharma et al., 1997) have pointed out, family business research is largely descriptive and there is no unified conceptual paradigm for the field. Moreover, there has been very few empirical studies.

It is also widely recognised that there is no common definition of a family firm, and that empirical demonstrations of differences in business strategies and management process within types of family firms or between family and non-family firms remain unconvincing. These findings seem to express difficulties in defining or applying the two intrinsically different concepts of ‘family’ and ‘business’. In the contemporary academic arena, the term ‘business’ has strictly been used as an economic concept, which deals with capitalistic relationship of production or exchange. In contrast, the term ‘family’ usually refers to non-economic or pre-modernist circumstances. Failure to reconcile the two concepts, as the current situation of family business studies show, is likely to either lead to an emphasis on the involvement of family in business or economic relationships regarding or splitting family members into a labour or an actor for quantification, or results in descriptive enumeration of familial characteristics of family business. Considering such circumstance, this paper through reviewing literature on family businesses tries to show how to achieve the combination of the two different concepts in order to identify common or consistent features of family businesses, which are far from being non-family businesses or even other types of family businesses.

Ⅱ. Characteristics of family business

There is no consensus on definition of family business. However, the definition in general has been made as an opposite concept of non-family businesses, which are regarded as contemporary models of business organisation. Non-family businesses are widely regarded as organisations having clearly separated ownership and management by shareholders and employed professionals, respectively. Family firms, as contrary forms, could be defined by combination of ownership and management by family members. Davis (1983) argues that family business refers to an organisation in which policy and direction are subject to significant influence by one or more family units through ownership and sometimes through the participation of family members in management.

However, even though such a definition may be accepted as covering common features of family businesses, we may find such organisations over whole range of business organisations from micro businesses to very large firms. On the one hand, as Ward and Dolan (1998) show, there could find at least three types of family ownership in a broad sense. On the other hand, some authors regard intergenerational succession as a main condition for family businesses. Under such situation, researchers may necessarily need to define their own operational concepts suitable for their specific purposes or subjects of studies. Therefore, this paper deals with family business within small and medium size enterprises (SMEs) and micro businesses in order to get some implication for farming businesses.

Ⅲ. Characteristics of family businesses in SMEs

1. Overview

According to Harris, Martinez and Ward (1994), they summarise characteristics of family businesses based on research findings so far, as follows; inward orientation; slower growth and less participation in global markets; long-term commitment; less capital intensive; importance of family harmony; employee care and loyalty; lower cost; generations of leadership. Some (Ward, 1987; Davis, 1983; Gallo & Sveen, 1991) argue that contradictions between family and business system cause differences in strategic orientation between family and non-family firms. However, there have been very few empirical studies identifying the impact of family characteristics on business strategies or performances. Moreover, many studies have focused on the familial characteristics of family firms with a somehow static point of view, rather than identifying dynamic interaction between the family system and the business system. In other wards, it may need to investigate whether such features of family businesses are permanent elements for the business life, and in what circumstance the features could be altered.

Taking into account of general economic or markets circumstances, James (1999) argues that the importance of family system, which features are pre-existing, implicit, social ties among family members, “depends on general business conditions and problems”. To the extent of difficult to evaluate and monitor of activities, limitation of access to capital and labour markets, and increasing burden of labour costs, family involvement may provide a competitive edge to businesses with operations that require continuous loyalty among family and non-family members (James, 1999). In contrary, he also argues that the competitiveness of family firms would be weak when implicit social ties of family are weak and when the family is either unable or unwilling to respond to market changes. Another disadvantage of family firms is to the extent of requiring specialised aptitudes and scale economies. With such consideration on the advantages and disadvantages of family involvement in businesses, he concludes "family firms can prosper in a competitive economic environment by both selectively adopting formalised, explicit contracts and by drawing on the strengths of the family" (James, 1999). Although James' study does not have empirical findings but extract from previous studies, it is likely to emphasise dynamic aspects of family firms responding to external changes based on internal resources. This flexibility in family firms may be difficult to find even in the SMEs, however, it seems to be identified with empirical findings of family managed micro-businesses, discussed in later section. Before that, it may need to explore the relationships between ownership and strategies in SMEs.

2. Relationship of ownership and strategies in SMEs

There have been few empirical studies of identifying the difference in strategy orientation between family and non-family firms. As Gudmundson et al. (1999) say, many studies of family firms focused on issues related to strategy processes or actions and their relations to family characteristics rather than on the actual differences in strategies between types of ownership. It may need to point out here that the concept of strategy or strategy orientation is not the same as strategy processes or actions. The latter is made or based on the former, but not vice versa. As a result, it needs to investigate whether there is a difference in strategy itself, as expressing an intrinsic aspect of business management, between family and non-family firms.

Some studies (Donckels & Frohlich, 1991; Daily & Dollinger, 1993; Daily & Thompson, 1994; Gudmundson et al., 1999) have been done to deal with this theme. They, however, provide conflicting results. While the first two studies find some differences in strategies between family and non-family firms, the other two studies do not find significant differences between them. However, the last study (Gudmundson et al., 1999) argues that although family firms' strategy orientations are not significantly different from non-family firms in the organisational level, family firms' strategies to consumer and business markets are significantly different from non-family firms. Family firms have a greater prospecting orientation than non-family firms in business markets, where buying inputs from and selling products to other businesses, with stronger corporate networks and access to information from the long-term relationships with others on the one hand. On the other hand, in consumer markets, the family firms' strategies may attempt to avoid some risks of being the industry leader, who would have to develop new products in order to catch up rapidly changing product preferences of consumers.

Despite such empirical studies, we could not take the results as general evidences identifying common features of the relationships between ownership and strategies. This is because, as many authors have pointed out, there are some other aspects, which influence on both ownership and strategies. These are, for example, the stages of family life cycle, different roles of each family member in business. Unless an analysis takes into account of other elements affecting strategies, it is difficult to say that strategies of family firms are different from non-family firms.

Ⅳ. Micro-businesses

There are very limited numbers of studies of micro-businesses, but no studies have focused on identifying the differences in strategies between family and non-family. Even though the limited numbers of studies, however, we can find very interesting characteristics of family owned micro-businesses, something are very similar to the extent of SMEs, but some others are very specific to micro-businesses. In relation to growth orientation, Gray (1997) identifies the heterogeneity between size groups of micro-firms. Smaller micro firms, which employ less than 4 people, tend to be less growth-oriented and more likely to be ‘anti-growth’ than larger firms employing 5 to 9 people. On the other hand, a study done by Centre for Business Research (1998) provides useful data for micro-businesses. It shows that while a minority of micro-businesses has experienced very high growth rates for the last decades, more than half of micro-firms is interested in modest growth.

In relation to competitiveness and innovation, the CBR study indicates that micro-businesses are more reliant on fewer customers than firms in other size groups and emphasise clients’ needs and product quality to get their competitiveness, and that they are less active innovators than other SMEs. This is mainly due to the difficulty to get financial assistance, which is likely to be the greatest barrier to innovation by micro-businesses. The CBR study does not intend to reveal the differences in strategies between firms, but it is likely to find the similarity in characteristics between micro-businesses and family businesses in SMEs, shown in the previous section. This may be because many micro-businesses are managed by family members.

We could find more interesting characteristics from the study of micro-businesses in two urban areas (Baines & Wheelock, 1997; Baines et al., 1997). They argue that family members in micro-businesses are likely to be involved in management as well as production-related activities, and that the business premises are frequently located in the home. These seem to be characteristics specific to micro-businesses. In addition, they categorise micro-businesses into 4 groups by their growth intention. Of the 104 sample firms, while more than 67% goes to either 'growth rejecting' or 'growth ambivalent', 25% shows its intention to grow increasing the number of employees. However, as Baines and Wheelock point out, their ambition to growth is limited up to a certain number of employees, which is usually not more than 10 people.

Such empirical findings by Baines et al. (1997) are likely to be identical to the Friedmann's concept of 'Simple Commodity Production (SCP)' (Friedmann, 1986). The concept of SCP is based on the combination of ownership and labours in a family, and it extends or grows the businesses only in order to meet family needs in a certain stage of family cycle. The size of businesses according to the SCP is usually confined to those the family is able to manage covering main labour works by family members. To the extent of going beyond the size, however, it could transform the production form from SCP to capitalist production. In the light of the concept of SCP, most micro-businesses are likely to have the characteristics of SCP form of production.

Ⅴ. Conclusion : Implication for family farm

As we have seen, the characteristics of family businesses could be different according to their size of businesses, engaging sectors, the stage of family life cycle, the types of family involvement and so on. It may be accordingly difficult to say that general features of family firms can be either applied to family farm studies or the same as those of farm businesses. We may only find some similarity in the micro-business studies. Nevertheless, we can get some implication from the family business studies. As Gudmundson et al. (1999) argue, it need to distinguish strategy or strategy orientation from strategy process or action. Many farm business studies including diversifying businesses seem to confuse the two concepts. To the extent of Bowler et al. (1996) adopting the farm business typology of Whatmore et al. (1987), they try to find some configuration of farm household strategies. As they state, however, they fails to find any evidence that farmer and farm household characteristics have led to different business development path from other farms. They then naturally suggest moving into location-specific factors in order to find out the configuration. We can find many farm studies like this. Strategic actions like selecting a type of farm diversification businesses, are definitely decided by farm household on the basis of a pre-determined strategy, but not vice versa. Therefore, as family business studies show, before looking at the farm household actions, it needs to set up strategy configuration for farm businesses. Alternatively, the strategy configuration of Miles and Snow (1978), which has widely been used by family business studies, could be modified for farm business studies.

There have been conflicting results in family business studies in relation to the difference in strategy between family and non-family firms. This may be because ownership is only one of elements affecting on setting up business strategies. It does not seem to be enough to divide ownership into family and non-family, but to take into account of all other internal and external elements around family businesses. However, such consideration on all elements could lead to descriptive research without any findings about systematic interplay between them. In order to avoid these, especially related to micro-business and farm business studies, it may need to find some intrinsic parts for distinguishing some groups of family businesses from others. Therefore, Friedmann's concept of 'Simple Commodity Production' as including both internal and external relations of production may be useful for the classification. While it may be difficult to find firms in SMEs adopting non- or pre-capitalist form of production, in micro size of businesses, it may relatively be easy to find firms and farms having non-capitalist relationship between owner and employee. According to the SCP concept, the property ownership and labour are combined by the family and the growth or extension is limited by the family size and abilities. Therefore, this could be useful for classifying the relationship between strategy, action and business performance.

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