The family's influence on the strategic planning effectiveness in small family run firms

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Abstract: Family Business is one of the most dominating forces in any economy. Indian Family Businesses however forms the 'backbone' of the Indian economy and hence there is a need to extend the life span of the family businesses so that the economy can continue to derive benefit from their contribution. One of the greatest assets of any family business is the family and how the needs and the values of the family are blend to achieve both the family goals as well as the business goals. In this context it is essential to understand the influence of the family on the different aspects of business. This study conducted on 212 small family businesses in the Indian context is an endeavor to understand the influence of the family measured in terms of the FPEC scale on the strategic planning effectiveness of the firm.

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Introduction

Family business is a specific form of organization,is how and why a family firm behaves and performs in a distinguishably different way from a nonfamily firm. (Justin B. Craig and Carlo Salvato, 2012).The economic landscape of most nations remains dominated by family firms (Shanker & Astrachan, 1996). They represent 50 to 90 % of the Gross Domestic Product in all free market economies. Hence the economic significance of understanding the family owned business as a population needs no testimony. This is more so in the Indian economy where the family business contributes 75 percent to the employment of Indian citizens and 70% of market capitalisation on the Bombay Stock Exchange is attributed to family businesses(Indian express, Dec 2012). They have persisted as an organizational form into the 21st century across a wide variety of capitalist economies, despite repeated forecasts of their inevitable demise.(Carlo Salvato and Howard E. Aldrich, 2012)

On the other hand,research in this discipline has gained a considerable amount of attention over the past few years (Ward,1987), progressing rapidly (Allison W. Pearson, and G. T. Lumpkin, 2011). However most studies in this area have been anecdotal and undertaken primarily in the United States (Wortman, 1994). In India studies have been taken up, but not very exhaustive in nature.

This uniqueness of the family business in balancing the goals and the needs,of the family and the business is what makes this a worthwhile study.A review of the pertinent literature indicates that academic research has focused primarily on a narrow range of specific areas, such as succession (e.g., Handler & Kram, 1988; Lansberg, 1988), culture (e.g., Astrachan, 1988; Dyer, 1986), crosscultural comparisons (Donckels & Fröhlich, 1991), conflict (e.g., Dyer, 1989; Lansberg, 1988), organizational structure (e.g., Kahn & Henderson, 1992), and gender issues (e.g., Lyman, 1988). (Smyrnios, Tanewski, Romano, 1998). One of the important areas of research that has been overlooked is strategic management, as it relates to family business (Wortman, 1994; Ward, 1988). Some authors have suggested that research into family business strategies has not only been scarce in quantity; but it also has lacked an adequate level of rigor (Brockhaus, 1994; Hoy & Verser, 1994).

The basic strategic management processes remains the same whether it is undertaken by the family business or a non family business. Developing the goals, setting objectives, crafting strategy, implementing and executing the same and finally monitoring developments, evaluating performance and making corrective adjustments(Thompson, Strickland, Gamble, Jain, 2011). However the difference are in the way the activities are performed, the participants involved and the components of the planning process. Within this framework, the family business may differ from non-family businesses because the controlling family's influence, interests, and values have overriding importance

These similarities and differences hold substantial opportunities for family- business studies. The similarities provide the field with a general working model of the factors that should affect a family firm's performance. The differences, or possibility of differences, suggest that each aspect of the strategic management process in family firms needs to be carefully explored

Strategic management literature has also long recognized the importance of planning in small owner managed businesses. Planning has been shown to increase success rates and levels of performance of small businesses (Schwenk & Schrader, 1993). However, there is surprisingly little empirical work that has investigated planning methods employed by small family businesses (Sharma, Chrisman, & Chua, 1997). Recent work (e.g., Wortman, 1994) has indicated a need for such a perspective. Moreover, while researchers such as Harris, Martinez, and Ward (1994), and Ward (1988) have concentrated on conceptualizing strategic management issues in family business, others (e.g., Rue & Ibrahim, 1996) merely provide a descriptive analysis of the status of planning. (*Tanewski, Romano, Smyrnios, XXXXX)*

Despite these research efforts and the growing importance of family owned business, there is surprisingly little empirical work that has examined the techniques, tools and approaches to planning (Rodrigo Basco and María José Pérez Rodríguez, 2009) that has been actually used in small family businesses. This study is a small step in that direction. It aims at understanding the family's influence on the strategic planning effectiveness.

Theoretical framework

Strategic planning, the process by which an organization develops its vision, mission and in turn the necessary procedures and operations to achieve its future, has become an institutionalized process in most organizations over the last four decades. Consequently, there is a growing body of literature examining effects of various forms of strategic and operational planning activities on the financial performance of small and large firms (e.g., Bracker & Pearson, 1986; Robinson & Pearce, 1984; Shrader, Mulford, & Blackburn, 1989).

One of the most comprehensive models to understand the strategic planning process was developed in the mid 1980s by Vasudevan Ramanujam and Venkatraman which provided a frame work which involved two dimensions, The characteristics of the planning system and the effectiveness of the planning system. This study involves only the effectiveness variable of this model.

Planning effectiveness dimension

The effectiveness of a planning system is measured in terms of how capable the system is in terms of fulfilling the objectives and it's competitive performance.

PLANNING EFFECTIVENESS
System capability Objective fulfillment Relative competitive performance

System capability

An effective planning system in an organization should help foresee any crisis, should be flexible enough to adapt to unanticipated changes, identify new opportunities, key problem areas. It also helps stimulate managerial motivation, generate new ideas, integrate diverse functions, enhance innovation and creativity. It also helps to communicate top management's expectations down the line and the subordinate's concern to the top management.

Objective fulfillment

These include predicting future trends, improving short-term performance, improving long term performance, evaluating alternatives, avoiding problem areas and enhancing management development.

Competitive performance

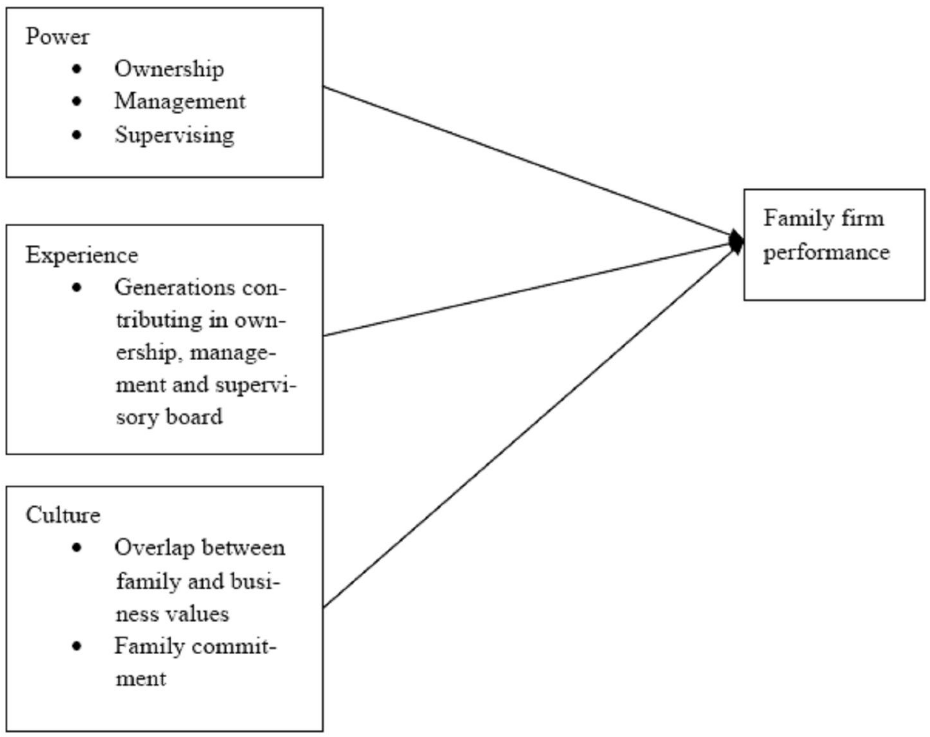
Competitive performance includes the sales growth, earnings growth, return on investment and market share.

F-PEC SCALE

A relevant issue as far as Family Business research is concerned is the influence and the involvement of the family in the enterprise. The F-PEC scale is a recent development in the family business field, defining the potential channels of influence a family can establish in a company, an index of family influence. This index enables comparisons across businesses concerning levels of family involvement and its effects on performance as well as other business behaviors. (Joseph H. Astrachan, Sabine B. Klein, Kosmas X. Smyrnios, 2004). In this study this index has been used as a construct to determine the influence of family on the effectives of the strategic planning process of an organization. The F-PEC in this context defines the channels, power, experience, and culture, and provides an easy to use, validated instrument to measure family influence onto any company on a continuous scale.

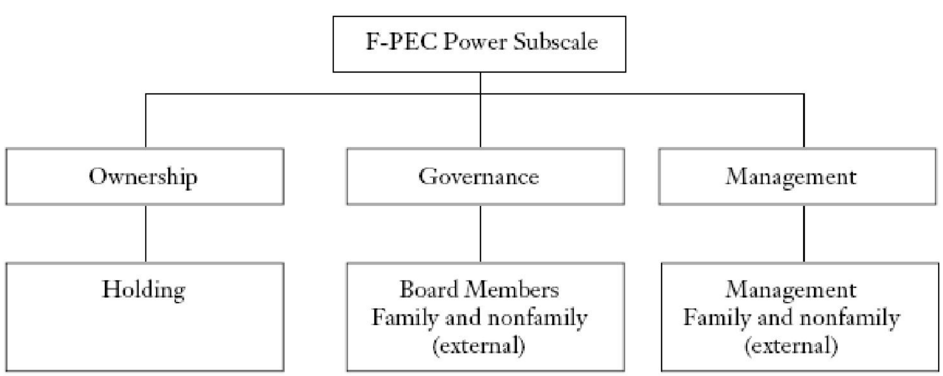
Figure 1: Sub-dimensions of F-PEC as performance antecedents

(in accordance to Astrachan et al. 2002)



F-PEC Power subscale

Figure 1. Dimensions of the F-PEC Power Subscale

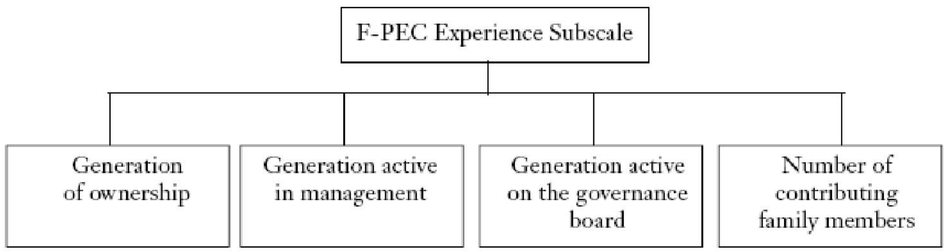


Joseph H. Astrachan, Sabine B. Klein, Kosmas X. Smyrnios, 2002

A family can influence a business via the extent of its ownership, governance, and management involvement. The F-PEC power subscale takes into account the percentage of family members on each board level as well as the percentage of members who are named through family members on the management and governance boards. (Joseph H. Astrachan, Sabine B. Klein, Kosmas X. Smyrnios, 2002).Since this subscale is not applicable to our population of small family business, this subscale has been omitted.

F-PEC Experience subscale

Figure 3. Dimensions of the F-PEC Experience Subscale



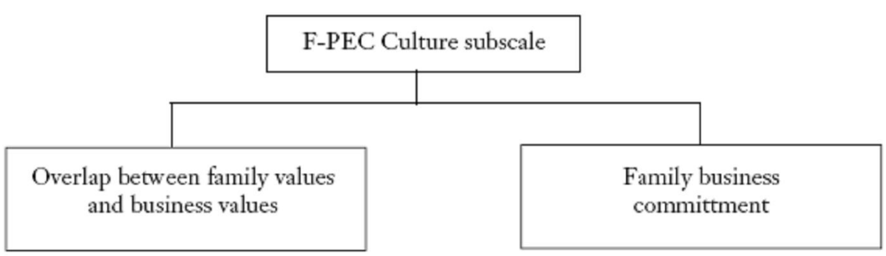
Joseph H. Astrachan, Sabine B. Klein, Kosmas X. Smyrnios, 2002

Succession as a widely researched topic in the field of family business has been dealt with in a rather comprehensive manner. Irrespective of the focus of each research many authors agree that until a business is transferred to atleast one generation (Daily & Thompson 1994, Barach & Ganitsky, 1995; Birley, 1986; Heck & Scannell Trent, 1999; Ward, 1987, 1988)) or there is an intention of being transferred to the next generation it cannot be termed as a family business. On the other hand a founder-entity can also be regarded as a specific case of family business (e.g., Klein, 2000).

When a founder transfers his firm to the next generation, he not only transfers the assets and liabilities but also transfers the value of his rich experience to the next generation, so the successors gain a lot by this.However second and subsequent generations contribute proportionally less value to the process.(Joseph H. Astrachan, Sabine B. Klein, Kosmas X. Smyrnios, 2002).Another aspect which adds to the experience factor is the number of family members involved in the business. When more family members are involved, the synergy flows into the business process also thereby enriching the business. Therefore, the number of family members involved determines the experience the business receives from the family.

F-PEC Culture subscale

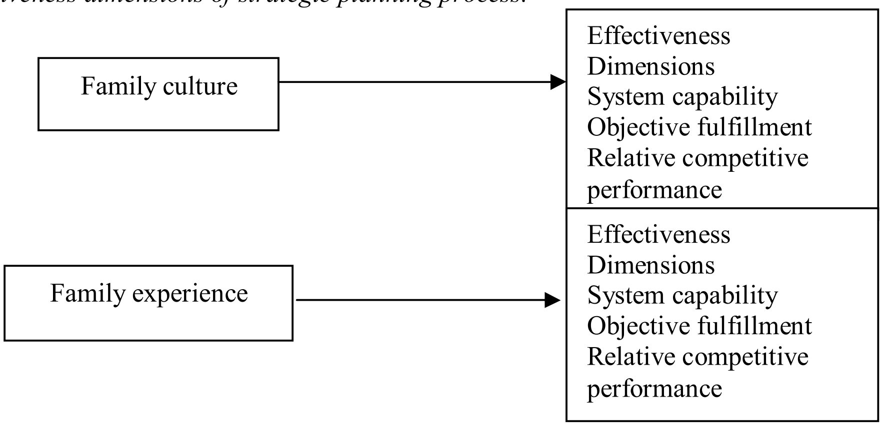
Figure 4. Dimensions of the F-PEC Culture Subscale



Joseph H. Astrachan, Sabine B. Klein, Kosmas X. Smyrnios, 2002

Organization culture is highly imperative to the success of the enterprise. More so in the case of family business where more than one generation and more than one family member is involved in the business. The founder creates a cultural system in the way he handles customer complaints, deals with sensitive employee issues and conflicts within the organization and within the family. The F-PEC assesses the extent to which family and business values overlap, as well as the family's commitment to the business. According to Carlock and Ward (2001), "the family's commitment and vision of itself are shaped by what the family holds as important … For these reasons, core family values are the basis for developing a commitment to the business*"*.

In this study we aim to understand the influence of family culture and experience of the family on the effectiveness dimensions of strategic planning process.



Research question/ problem

1. What is the strategic planning effectiveness of small family run firms?
2. Do families have an influence on the strategic planning effectiveness in the case of small family run firms?

Hypothesis

H1: There is no significant relationship between family culture and the system capability of the strategic planning process in small family run firms

H2: There is no significant relationship between family culture and the objective fulfillment capability of the strategic planning process in small family run firms

H3: There is no significant relationship between family culture and the relative competitive performance with regard to the strategic planning process in small family run firms

H4: There is no significant relationship between family experience and the system capability of the strategic planning process in small family run firms

H5: There is no significant relationship between family experience and the objective fulfillment capability of the strategic planning process in small family run firms

H6: There is no significant relationship between family experience and the relative competitive performance with regard to the strategic planning process in small family run firms

Methodology

Sample

The sample are small family business in Coimbatore.The CODISSIA list had 5200 members, out of this list 3480 were small scale industries according to the definition mentioned below. Out of this list 2728 members satisfied the condition of family business as defined below. When the questionnaire was mailed to these members 212 members responded.

CODDISSIA

The population comprises of members of CODDISSIA.CODISSIA is an Association comprising of small and medium industries in Coimbatore (Tamilnadu, INDIA)**.** Coimbatore is the third largest city of the state and one of the most industrialized cities in Tamil Nadu. It is known as the textile capital of South India or the Manchester of the South The Association serves for the growth and prosperity of Industries and it has made a significant contribution towards building a strong and stable industrial city of Coimbatore CODISSIA represents in all Advisory and Consultative Committees at the District/ State and National Levels and plays a leading role in policy formulation and grievance redressed for the Small scale Industries.

Definition: Family Business

Various authors have contributed towards the definition of Family Business on the basis of different criteria. The definitions are on the basis of Family Involvement (Chrisman et al.2003,Shanker & Astrachan 1996, Tagiuri& Davis 1996, Dreux 1996, Binder Hamlyn 1994, Carsud 1994) ranging from single member to multiple members(Covin 1994, Rosenblatt,de Mik, Anderson and Johnson 1985), single generation to multigenerational, direct to indirect control and degree of family involvement (Kepner1983, Lansberg1983b). However for the purpose of this study the firm which satisfies the following three conditions would constitute a Small Family Business entity (Sharma, Chrisman and Chua 1997)1. Family ownership and Control, Family influence on Decision Making 3. Intent to transfer the firm to the next generation.

Small Scale Industrial Undertaking

Industrial undertaking in which the investment in fixed assets in plant and machinery, excluding land and building, whether held on ownership terms or on lease or on hire purchase, does not exceed Rs. 1 Crore (One crore).(Confederation of Indian Industry)

Discussion

Descriptive analysis:

Out of the 212 respondents 102 respondents (48%) employ less than 15 people in their organization, 49 respondents (23%) employ 15- 30 people in their organization, and 61 respondents (29%) employ more than 30 employees. The average turnover for 106(50%) of the respondents was less than Rs50lakh, 62 (29%) was 50lakh- 1crore and 44(21%) of the respondents was more than 1crore.Of the sample, 112(53%) organizations were owned by the first generation, 86(41%), by the second generation and 14(6%) by the third generation. The first generating managing the business currently 100 (47%), second generation76 (36%), third generation 28(13%) and fourth generation 8(4%). Out of the respondents 33 units (16%) had one family member actively participating in business, 90(43%) had two family members actively participating in business, 63 (29%) units had 3 members and 26(12%) had four or more family members participating in the business.

	Mean	Std Deviation
Number of people employed full time in the organization	1.8	.86
Average turnover	1.7	.79
Generation which owns the company	1.5	.61
Generation now managing the business	1.7	.82
Number of family members actively participating in the business	2.4	.89

Factor analysis

Factor analysis using Principal axis method was performed; the significance value.000 clearly indicated the validity of the factor analysis. The Kaiser Meyer Olkin (KMO) coefficient of.890 represented a good factor analysis. Based on the Eigen values criteria in conjunction with the scree plot three factors evolved. The rotated component matrix showed clearly Factor 1 comprising of 8 items depicting family's commitment to business explaining 31.10% variance, cronbach alpha 0.92, ave.65, Factor 2 comprising of 5 items depicting the values of the family and the business explaining 24.40% variance - cronbach alpha 0.87, ave.66 and Factor 3 comprising of 3 items representing the experience construct explained variance 7.36%.

Scale items and Factor loadings

Culture – family's commitment to business	**Cronbach alpha=0.92**
We feel loyalty to the family business.	**0.769**
We find that our values are compatible to those of our business.	**0.682**
We are proud to tell others that we are part of the family business.	**0.835**
There is so much to be gained by participating with the family business on a long term basis.	**0.841**
We agree with the family business goals, plans and policies.	**0.874**
We really care about the fate of the family business.	**0.776**
Deciding to be involved with the family business has a positive influence on my life.	**0.809**
I understand and support my family's decisions regarding the future of the family business.	**0.810**
Culture- Family and business values	**Cronbach alpha=0.87**
My family has influence on my business	**0.820**
My family members share similar values	**0.885**
My family and business share similar values	**0.871**
Our family members are willing to put in a great deal of effort beyond that normally expected in order to help the family business be successful.	**0.803**
We support the family business in discussions with friends, employees, and other Family members.	**0.674**

The chi- squared test revealed that there is a significant association (p <0.05) between the number of family members actively participating in the business, the generation which runs the business and most of the cultural factors. The statement that they support the family business in discussions with friends, employees and family members did not show a significant association with any of the dependent variables. However no significant association was seen between the generation which owns the company and the cultural factors involved. As expected there seem to be no significant association between the numbers of people employed in the business, the turnover of the company and the culture construct.

Hypothesis testing

PLS Path Modeling structural equation technique was conducted to ascertain the validity of the constructs proposed and the paths postulated in the model

H1: There is a significant relationship between family culture and the system capability of the strategic planning process in small family run firms

The hypothesis was accepted (t value 4.052, Beta value 0.253). Family culture seems to be having an influence on the capability of the planning process system in anticipating surprises or crisis, in identifying new opportunities, key problem areas and in generating new ideas. Family ties and values are often said to create a strong business identity and a high level of internal 'closeness', which may lead to better performance of the firm in terms of internal trust and control (Baines and Wheelock, 1998). As the family culture becomes stronger, the business seems to be in a better position to face the strategic challenges.

H2: There is a significant relationship between family culture and the objective fulfillment capability of the strategic planning process in small family run firms

The hypothesis was rejected (t value -0.274, Beta value -5.126). There seem to be no relationship between the culture of the family and the objective fulfillment capacity of the strategic planning system in terms of short term and long term performance and in predicting future trends. The family culture does not seem to be playing an influential role on this construct.

H3: *There is a significant relationship between family culture and the relative competitive performance with regard to the strategic planning process in small family run firms*

The hypothesis was accepted (t value 2.537, Beta value 0.140) According to Alizadeh (1999), family interests tend to have a strong impact on the operation of family business. The sample also proves that the family culture has a definite influence on the relative competitive performance of the strategic planning system in terms of sales and earnings growth, market share and return on investment.

H4: *There is a significant relationship between family experience and the system capability of the strategic planning process in small family run firms*

The hypothesis was accepted (t value 3.789, Beta value 0192). The number of family members and the generation involved in the business seems to be having a significant influence on the system capability. Walsh and Seward(1990) used a sample of Italian firms to prove that presence of more family members in the top management team enhanced firm performance.

H5: *There is a significant relationship between family experience and the objective fulfillment capability of the strategic planning process in small family run firms*

The hypothesis was accepted (t value 3.933, Beta value 0.216) Researchers also focus much attention on the impact of family relationships on family businesses (Dyer, 1986;Ward, 1987).

H6: *There is a significant relationship between family experience and the relative competitive performance with regard to the strategic planning process in small family run firms*

The hypothesis was accepted (t value 3.160, Beta value 0.160)

Conclusion

According to Davis, a family business is defined as "the interaction between two sets of organizations, family and business, that establishes the basic character of the family business and defines its uniqueness" (1983, p. 47). As a result, the most common view of a family business is that it constitutes family and business systems interpenetrating one another (Whiteside & Brown, 1991) and "when one looks at a family firm, one is really looking at the interaction of two complex social systems" (McCollom, 1990, p. 251). Families in business directly shape and influence every step of the strategic management process (Harris et al., 1994; Chua et al.,1999). Growth and development of small family-owned businesses is usually characterized by trial and error, emerging managerial approaches to organizing and operating have been derived from a new understanding of the importance of family values (Shostack,1984)which have a distinct impact on the structure and operation of successful firms(Lewis, 1998) Yet, in troubled economic times, it is often the family business that survives, not necessarily because it is a ''good business'' but because of the family (Keough and Forbes, 1991; Winter et al., 1998).This study further strengthens the arguments,with the family culture and experience having a significant influence on the effectiveness of the strategic planning system in terms of capability of the strategic planning system, it's relative competitive performance and the system capability.

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