

Economic Effects of Family Business Professionalization

Doctoral dissertation

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According to the literature on the subject, in a family business three separate subsystems overlap and mutually affect: business, family and ownership.¹ The coexistence of family and business within one entity have its impact on defining their system of values, norms, goals, principles and ways of functioning, and affects the stability of ownership relations.² The literature describes the interaction of these subsystems as "familiness" effect.³ Seeking the theoretical framework for understanding the impact of this effect on family business results, researchers most often use the concepts of corporate governance theory, including: agency theory, stewardship theory, stakeholder theory and resource-based view.⁴ Despite the implementation of the above-mentioned theories into family business studies, researchers have not been able to clearly indicate yet whether family businesses, as entities equipped with specific attributes, more effectively than non-family enterprises achieve specific economic and non-economic goals. **Ambiguity of research results seems to suggest that family businesses should not be treated as a homogeneous group.** This group includes enterprises with different levels of external managers and advisors involvement, different scope of using formal planning, personnel management procedures, control mechanisms and opportunities to strengthen competence resources. The presented activities and company characteristics can be considered

¹ R. Tagiuri, J.A. Davis, *Bivalent Attributes of the Family Firm*, „Family Business Review” 1996, 9(2), pp. 199–208.

² J. Węclawski, *Przedsiębiorstwa rodzinne we współczesnej gospodarce*, [in:] H. Pernsteiner, J. Węclawski (eds.), *Finansowanie i corporate governance w przedsiębiorstwach rodzinnych*, C.H. Beck, Warszawa 2016, p. 15.

³ W.G. Dyer, *Examining the Family Effect on Firm Performance*, „Family Business Review” 2006, 19(4), pp. 253–273.

⁴ J. Chrisman, J. Chua, P. Sharma, *Trends and Directions in the Development of a Strategic Management Theory of the Family Firm*, „Entrepreneurship Theory and Practice” 2005, 29(5), pp. 555–575; C.A. Benavides-Velasco, C. Quintana-García, V.F. Guzmán-Parra, *Trends in Family Business Research*, „Small Business Economics” 2013, 40(1), pp. 41–57; K.J. Madison, *Agency Theory and Stewardship Theory Integrated, Expanded, and Bounded by Context: An Empirical Investigation of Structure, Behavior, and Performance within Family Firms*, rozprawa doktorska, University of Tennessee, Knoxville 2014; R.A. Litz, A.W. Pearson, S. Litchfield, *Charting the Future of Family Business Research: Perspectives from the Field*, „Family Business Review” 2012, 25(1), pp. 16–32.

as "**professionalization dimensions**" of a family business.⁵ Their implementation to a family business is aimed to strengthen its economic potential and reduce the negative consequences that arise from the emotional relationships between family members running the company. In existing literature on this subject, researchers focus on the economic effects of the selected professionalization dimension, less often on their bundle.⁶ There is no scientific evidence, whether the professionalization of a family enterprise, which may attenuate the positive impact of "familiness", may also differentiate their economic effects.

The identified research gap has become the basis for formulating **the research problem** of the doctoral dissertation, referring to the dimensions of professionalization occurring in family enterprises in Poland and the differences in economic effects that are achieved by entities classified into relatively homogeneous groups in terms of the level of professionalization.

Due to the fact that the literature on the subject does not describe the professionalization of a family enterprise in a sufficiently comprehensive manner (taking into account its various dimensions), in the doctoral dissertation the following definition was elaborated: **professionalization is a set of activities or features which support family enterprises in making rational economic decisions**. Introduction of this definition allowed to perceive professionalization as a complex phenomenon, which consists of a number of individual actions and characteristics. They can interact reciprocally to support or mitigate each other's potential effects. In this context, the concept of **professionalization profile**, i.e. a specific level or frequency of the studied dimensions of professionalization, has also been introduced.

The **main purpose of the research** was to identify differences between selected economic effects in family enterprises that represent different professionalization profiles. As part of the exploration of the research problem, five research sub-goals were identified and nine research hypotheses were formulated.

The doctoral thesis is both theoretical and empirical. In the theoretical part (chapters I and II), based on a review of the literature on the subject, issues related to the specificity of family business and the professionalization of their activities were presented. The empirical part (chapters III-V) was devoted to the concept and organization of research and the presentation of their results.

The organisation of empirical research was determined by the purpose of the thesis. **The subject scope of the study** included the set of activities and features of family enterprises that may indicate the level of their professionalization. On the basis of the frequency and saturation of these features, identification of various profiles of family business' professionalization was carried out. The key challenge for the dissertation was to examine whether groups of enterprises representing different professionalization profiles differ in terms of selected economic effects they achieve (understood as measurable consequences of undertaken economic activities). As a result, the differences in the size of the surveyed enterprises, their age, level of family

⁵ L. Songini, *The Professionalization of Family Firms: Theory and Practice*, [in:] P. Poutziouris, K. Smyrniotis, S. Klein (eds.), *Handbook of Research on Family Business*, Edward Elgar Publishing, Northampton 2006, pp. 269-297; J. Dekker, N. Lybaert, T. Steijvers, B. Depaire, *The Effect of Family Business Professionalization as a Multidimensional Construct on Firm Performance*, „Journal of Small Business Management” 2015, 53(2).

⁶ K. Madison, J.J. Daspit, K. Turner, F.W. Kellermanns, *Family Firm Human Resource Practices: Investigating the Effects of Professionalization and Bifurcation Bias on Performance*, „Journal of Business Research” 2018, 84, p. 327–336.

involvement in ownership and management, and the presence of the second generation were verified. The verification also covered differences in the structure of assets, the structure of financing sources, the level of liquidity and profitability. Finally, the analysis was supplemented by the identification of differences in the perception of selected economic effects by representatives of family enterprises in comparison to their business sector.

The research was conducted from May 2018 to December 2019. **The object of the study** were enterprises having their headquarters in Poland, identified as "family", i.e. independently recognizing themselves as a family enterprise (during the research they declared their "familiness") and meeting the criterion proposed by S. Klein (Substantial Family Influence).⁷ According to its logic, an enterprise is a 'family business' if the family is involved in ownership, supervisory bodies or management. An additional criterion for selecting business entities was the legal form in which the family enterprise was run. It was assumed that only entities operating in the form of commercial law companies will be objects of the research.

In order to verify research hypotheses, a method of correlation research⁸ was used which is based on observing the relationships between variables.⁹ The statistical inference was carried out on combined sets of information, including primary (survey) and secondary (financial data of the surveyed enterprises) data. The collection of primary data was carried out using the direct survey method. The questionnaire survey was directed to 7 863 entities, which were included in an independently created database of "potential" family enterprises. Secondary data was obtained using the documentation method.¹⁰ In this thesis, information from external enterprise documentation, including financial statements published in economic databases, was used. The final sample was 245 enterprises.

Quantitative analysis methods were used to analyse the results of conducted research, including: mean analysis, cluster analysis and analysis of variance.

Thanks to the use of taxonomic methods (cluster analysis), it was possible to identify four types of family enterprises (constituting relatively homogeneous groups in terms of professionalization): **maturely professionalized, professionalising in a "democratic" way, professionalising in an "authoritarian" way, and non-professional.** Each of these types was characterized by a different configuration and saturation of the analysed dimensions of professionalization, i.e. its different profiles.

Maturely professionalized enterprises were characterized primarily by the presence of corporate governance and family governance mechanisms. They employed the support of external managers to the greatest extent and formalized their processes of planning, controlling and managing with human resources. Enterprises **professionalising in a "democratic" way** represented a high level of decentralization of decision-making processes. Compared to other types, they relatively often used the competences of external managers and external advisors. They did not have formal supervisory boards and their family governance components were

⁷ S.B. Klein, *Family Businesses in Germany: Significance and Structure*, „Family Business Review” 2000, 13(3), pp. 157–181.

⁸ In correlation studies, unlike experimental and quasi-experimental studies, the researcher does not intervene, but only observes the relationships between variables.

⁹ A. Sagan, *Metodologia badań ekonomicznych*, Wydawnictwo Uniwersytetu Ekonomicznego w Krakowie, Kraków 2016, p. 112.

¹⁰ S. Stachak, *Podstawy metodologii nauk ekonomicznych*, Książka i Wiedza, Warszawa 2006, pp. 168–173.

present less frequently. In turn, for enterprises **professionalizing in an "authoritarian" way**, an immanent feature was highly centralized decision making. Although, this is not an professionalization feature, its other dimensions, i.e. the presence of family governance components, the strong emphasis on expanding its competences and business relationships as well as the use of external advisors, have suggested that professionalization is their direction of future business development. The last type, **non-professional** enterprises were characterized by the lowest level of professionalization in almost each of the analysed areas.

The author's typology has allowed to examine the way in which such multidimensional phenomenon as the professionalization of a family enterprise, differentiates their economic effects. The verification of hypotheses and the interpretation of the results allowed the formulation of conclusions that also have a practical implications.

Although, there were no significant differences in relative measures that describe the effects of the enterprise (profitability, liquidity, capital structure, asset structure), significant differences in the size of entities, profitability expressed in nominal values, achieved age and the presence of the second generation in ownership were identified. The obtained results suggest that the professionalization of a family enterprise is an indispensable attribute of its further growth and development. Despite the mitigation of the positive influence of the "familiness" effect, professionalization can also alleviate its negative effects (e.g. such as nepotism, paternalism, low diversity of knowledge and competences).

The introduction of business professionalization activities should therefore be recommended to family businesses at various stages of their functioning. However, it should be remembered that their financial and organizational potential have to be taken into account. The way the company professionalizes itself, and which activities it introduces, should constantly evolve. Only in this way is it possible to increase the scale of business and ensure its multi-generational survival.

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