A typology of family firms in Central and Eastern Europe: An investigation of ownership and performance

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A typology of family firms in Central and Eastern Europe: An investigation of ownership and performance

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Agenda

1. Introduction

2. Why CEE

3.Research question

4. Selection criteria

5. Clustering

6. Results

7. Conclusions

Introduction [1]

- The literature highlights the important role of family businesses in many economies (Gomez-Mejia et al., 2007; Memili et al., 2015; Schulze et al., 2010). Moreover, they constitute a special subject of research due to their specific characteristics (Arregle et al., 2017; Chua et al., 1999; Miller et al., 2007).

- A review of the literature reveals that the field has evolved from an earlier proclivity of comparing family versus non-family firms by emphasizing the commonalities, towards an acceptance that homogeneity among family firms does not exist (Chua et al., 2012).

- In recent years, the academic community has increasingly moved from viewing family firms as homogeneous entities to considering them as heterogeneous (e.g., Dekker et al., 2012; Westhead and Howorth, 2007).

Introduction [2]

- Responding to a recognition that family firms need to be compared with each other (Massis et al., 2014), important contributions have been made over the last twenty years to establish categories or typologies of family business (e.g., Astrachan et al., 2002; Dyer, 2006; Shankerand and Astrachan, 1996; Westhead and Howorth, 2007). Researchers grouped entities depending on the main criterion of analysis.

- Litz (1995) – typology distinguishing 9 different types of family entities depending on the method of management and ownership structure.

- Shanker & Astrachan (1996) typology based on family involvement in the enterprise, three groups of family entities were distinguished (low direct family involvement; moderate family involvement and high family involvement).

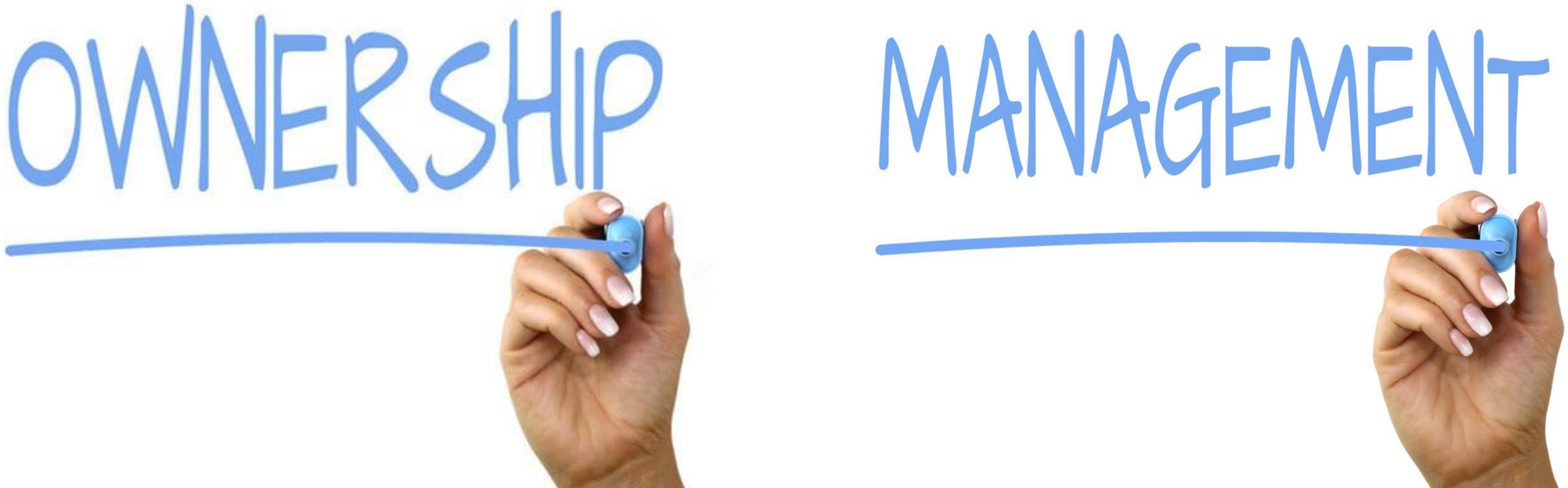
- Westhead & Cowling (1998) typology based on the family's activity in management and ownership and perceiving itself as a family entity, 7 types of family enterprises were distinguished.

Introduction [3]

- Useful classification system of family firms should be established with a general purpose, oriented to the study of a specific topic within of the field, in order to make comparison among studies easier (Hernández-Linares et al., 2017).
- For accumulating knowledge it is important to find effective ways to classify family firms (Sharma and Nordqvist, 2008). Most of the extant classification systems appearing in the literature has been accepted or used only once by the scientific community (Astrachan et al., 2002). Optimal classification system seems to be more and more necessary, since some of inconsistencies found in the family firm research could be justified by its heterogeneity. In literature there is an incentive to undertake further research along these lines because developing and using categorizations allow for comparison and operationalization (Smith, 2002;Snyder et al., 2016).

Introduction [4]

- The existing classification systems are based on the main characteristics of the family firms. Many classification systems (Astrachan et al., 2002; Birleyet al., 1999; García-Castro and Sharma, 2011; Shanker and Astrachan, 1996; Uhlaner, 2005; Westhead and Cowling,1998) jointly included, at least, the three core conceptual elements that have maximum centrality in the definitional network (‘‘ownership’’, ‘‘management’’ and ‘‘continuity’’). Furthermore, in some papers ‘‘ownership’’ and ‘‘management’’ were the only two central core conceptual elements (Corbetta, 1995; Diéguez-Soto et al., 2015; Nordqvistet al., 2014; Westhead and Howorth, 2007).
- Scholars recommend future taxonomies establish a reduced number of categories (Hernández-Linares



Introduction [5]

- In this context, typologies of family businesses can be distinguished, reflecting the involvement of family members in business, which may affect the financial results of companies.

- Research has shown mixed results on the impact of family character on the financial performance of family businesses.

- The positive impact of family involvement (e.g. Allouche et al., 2008; Maury, 2006); negative affect (e.g. Lam and Lee 2012; Oswald et al., 2007); non-linear relationship (e.g. Basu et al., 2009; Poutziouris et al. 2015) and no impact on the financial results of entities (e.g. Demsetz and Villanoga 2001; Sciascia and Mazzola, 2008).

Introduction [6]

- Response to the growing interest of researchers in the factors that differentiate family businesses, which resulted in the need to include the international context in research on family businesses (Picone et al., 2021; Welter, 2011).

- Most of the research covers Western countries (Bornhausen, 2022), which is only a part of this research area.

Why CEE?

- A special group are family businesses from Central and Eastern Europe (CEE), which are characterized by certain common features and challenges. However, the region is economically, culturally and historically diverse.

- geographical location – „between two”,
- historical experiences – agrarian societies, till 1918 mostly not independent; after 1945 communist countries,
- levels of economic development,
- religion – catholic, ortodox, protestant, islam,
- culture – „homo soviecticus”, culture dimensions by Hofstede

Research questions

- RQ1: Do family businesses in CEE countries form a homogeneous unit, or can they be categorised into clusters?
- RQ2: What are the cluster-forming variables in the context of family involvement in business?
- RQ3: What types of family businesses are prevalent in CEE countries? Which type of family business is most dominant in CEE countries?
- RQ4: Which types of family firms lead to superior performance?
- RQ5: What are the most significant financial variables that differentiate between the various types of family businesses?

Selection criteria

- To conduct analyses we use the Orbis database from Bureau van Dijk (Moody's).
- We defined family business as those private firms in which a family owns an absolute majority (i.e., 50 percent) of shares (Acedo-Ramirez et al., 2017; Miller et al., 2013; Schepers et al., 2014).
- The requirement of a minimum of 10 employees was imposed to exclude the micro-organizations (Dekker et al., 2013; Naldi et al., 2007; Stanley et al., 2019).

- Data – 14 045 – unlisted companies

Clustering

The classification was based on three core variables:

- Family Ownership Share→ Indicates strategic control by the family
- Share of Family Managers→ Shows family involvement in daily operations
- Number of Employees→ Used as a proxy for firm size

Clustering Procedure

Method

- Two-step cluster analysis (IBM SPSS, log-likelihood distance)
- Validation:
  - ANOVA to confirm variable differences across clusters
  - K-means clustering to ensure robustness

Results [1]

Cluster name (in % of family SMEs)	Small, family dominated (42.75%)	Small, co-managed (22.46%)	Small, co-managed/co-owned (24.44%)	Medium-sized (10.35%)
Size	small (19.75 employees)	small (19.26 employees)	small (28.94 employees)	medium (75.99 employees)
Family ownership	dominant (99.13%)	dominant (98.70%)	medium (56.28%)	dominant (97.16%)
Family managers	dominant (99.47%)	medium (49.00%)	medium (56.88%)	high (74.47%)

Results [2]

Model	Cluster name	Family ownership (%)	Family managers (%)	Employee number	Number of cases
3-clusters	1. small, family-dominated	95.8%	97.8%	21.03	7,241
	2. small, co-owned/co-managed	81.7%	45.5%	21.80	5,446
	3. medium-sized	85.9%	70.0%	85.10	1,355
4-clusters	1. small, family-dominated	95.7%	97.8%	17.64	6,387
	2. small, co-owned/co-managed	81.7%	45.6%	21.13	5,338
	3. medium, family-dominated	94.7%	95.6%	58.30	1,484
	4. medium-sized, co-owned/co-managed	79.7%	49.3%	89.26	833
5-clusters	1. small, family-dominated	99.6%	97.7%	17.98	5,916
	2. small, co-owned	56.0%	86.6%	21.86	1,062
	3. small, co-managed	84.0%	44.0%	21.09	4,948
	4. medium, family-dominated	97.0%	95.6%	62.57	1,327
	5. medium-sized, co-owned/co-managed	78.4%	46.4%	87.93	789

Results [3]

RQ1: FBs from CEE do not form a homogeneous unit and can be categorised into four clusters.

RQ2: The variables of family ownership and the proportion of family managers are suitable for forming clusters, regardless of the clustering method employed.

RQ3: The clusters formed in the two analyses differ only slightly. Four distinct clusters of family businesses (FBs) appear consistently across both methods: 1. Small, total family dominance 2. Small, co-manager 3. Small, co-managed/co-owned 4. Medium-sized, co-owned. Most common FB type: Small, family-dominated. Strong family control is central in CEE.

RQ4: Regarding profitability, there is no significant difference between clusters in ROE (net income). However, regarding ROA (P/L before tax), only the small family-dominated and medium-sized FBs exhibit significantly different returns ($p=0.009$). The profit margins are also equal. This means that the clusters alone cannot determine the superior performance of family SMEs.

Results [4]

RQ5: Firm size proxies — total assets and turnover — are the most significant financial variables distinguishing between clusters ($p < 0.001$ for all pairs, except turnover between family-dominated and co-managed/co-owned: $p = 0.136$). Liquidity measures (e.g. current and quick ratios) also vary: Medium-sized FBs show the lowest short-term liquidity compared to other clusters ($p < 0.001$, except vs. co-managed/co-owned: $p = 0.027$). Family-dominated firms have significantly higher current ratios than co-managed ones ($p < 0.001$). Solvency (asset-based): Co-managed/co-owned FBs are less solvent than: 1. Family-dominated firms ($p = 0.002$), 2. Small co-managed firms ($p = 0.006$). We can conclude that financial indicators are not strong cluster-forming variables.

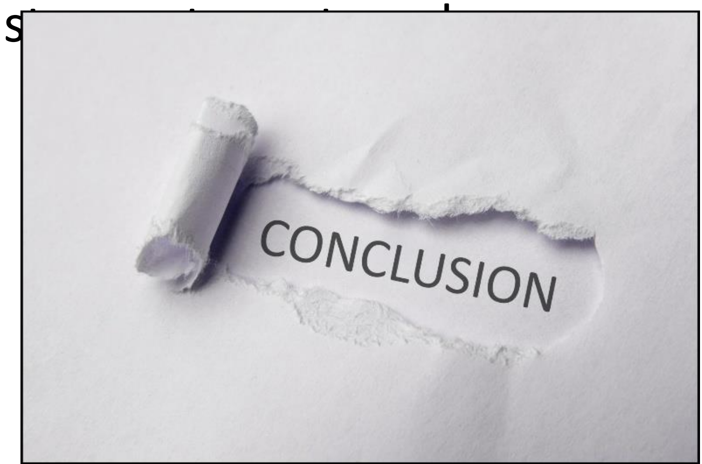
Conclusions

High level of family involvement in ownership within CEE FBs, averaging 89.35%, which stands out compared to global benchmarks. For instance, in a dataset encompassing 105 countries, the global average family ownership is 72.35% (Feito-Ruiz & Menéndez-Requejo, 2022).

CEE FBs thus demonstrate significantly stronger family ownership commitment than their counterparts in regions such as the USA (49.14%), the UK (41.22%), Italy (73.33%), and Spain (73.85%) (Feito-Ruiz & Menéndez-Requejo, 2022).

No Clear Link Between Family Ownership and Financial Performance. Supports López-Delgado & Diéguez-Soto (2015): High family ownership does not guarantee higher ROE/ROA.

Contrasts with Fang et al. (2016): They found that growing FBs become more professionalised. In CEE: Even medium-sized FBs remain family-managed→ Suggests cultural or institutional resis
managers



Thank you for your attention

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