

## FAMILY AND MICROENTERPRISE

### (BUSINESS FAMILY R FAMILY BUSINESS – RESULTS OF RESEARCH)

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**Abstract:** The study provides the methodology of family impact on the family microenterprises activities. There have adapted and expanded a Q. Fleming test. It was examined 174 companies. In the study has been taken 5 hypotheses and verified of  $\chi^2$  test, and the V-Cramer factor. The results were used to formulate recommendations

#### **1. Family matters and microenterprise matters Advantages and disadvantages.**

In Poland there are approximately 2,5 million microenterprises hiring 3,5 million workers which is around 97% of small and medium enterprises (Spektrum 3/2007). Every year about 200 thousand microenterprises are created and the same amount closes down. These are mainly family enterprises offering employment to themselves and others in family. In their operation they face many barriers, not only institutional, such as: complicated opening and accounting procedures, low availability of investment loans, unfavorable conditions of cooperation with other companies, but also problems connected with management and family relationships. An important condition of company's development is it's character connected with a company's owner. A classification of micro-entrepreneurs in regard to roles realized in a company is presented in table 1.

Table 1. Classification of microentrepreneurs

<b>Role</b>	<b>Perspective of development</b>	<b>Owner's characteristic</b>	<b>share</b>
craftsman	operative	Focuses on compensation for his physical labor	30%
Classic entrepreneur	tactical	Focuses on maximizing profits	50%
manager	strategic	Aiming at improvement of company's management in longer perspective	15%
expert	Completing a vision	Runs own business in a free profession	5%

Source: Elaboration based on: Sułkowski 2006.

A development of family microenterprise is connected with providing family members with adequate career paths. Microenterprises which have vision and realize a defined strategy take into consideration in one way or the other, the family members' career paths. Optimal management, including recruitment, motivating, administration and workers development should aim at reaching balance between company's and family's goals. Such balance guarantees constant development and market success. However, in family business reality this balance is often dented (Bilewicz-Bandurska, Bednarek, 2005). Fulfilling family needs and family bonds take over the necessary professionalism, adequate workers' qualifications, the amount of time devoted to the company, etc. This specific balance keeping has both positive and negative consequences (Drzewiecki M., Wojtas H 2006; Kiedziuch M. 2006; Sułkowski Ł 2006; Więcek-Janka 2007). Table 2 presents a list of advantages and disadvantages of family microenterprises, elaborated based on literature research and interviews with microenterprises owners.

Table 2. Advantages and disadvantages of family microenterprises.

<b>Advantages of family microenterprises.</b>	<b>Disadvantages of family microenterprises.</b>
<ul style="list-style-type: none"> <li>▪ Cooperation with family gives internal comfort and a feeling of being surrounded by trustworthy people</li> <li>▪ Family members are aware of working for</li> </ul>	<ul style="list-style-type: none"> <li>▪ Personnel movements;</li> <li>▪ Criteria of recruitment and promotion are unprofessional, not based on competencies</li> </ul>

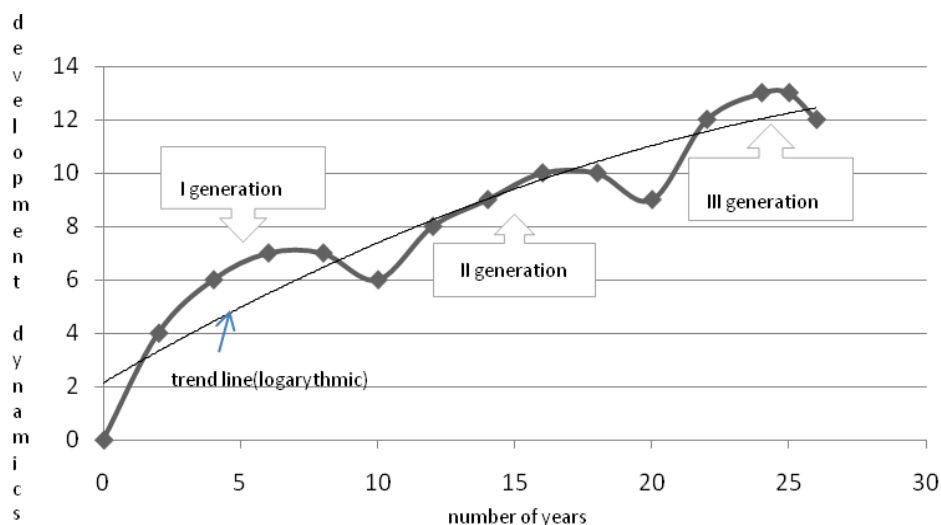
<p>themselves</p> <ul style="list-style-type: none"> <li>▪ Using a tacit knowledge, unavailable for "strangers" (personal know-how)</li> <li>▪ No problems with motivation;</li> <li>▪ Decisions are made very fast;</li> <li>▪ Professional relationships with superiors are informal</li> <li>▪ Often democratic character of management</li> <li>▪ guaranteed succession.</li> </ul>	<p>and skills;</p> <ul style="list-style-type: none"> <li>▪ Inefficient workers are tolerated;</li> <li>▪ Problems are solved with a care for family and loss of professionalism.</li> <li>▪ Workers assessment is very strict;</li> <li>▪ Connecting professional and private live may lead to serious crisis.</li> <li>▪ Family conflicts may be transferred to company with loss to its professionalism;</li> <li>▪ Conflict in a company may influence family relationships;</li> <li>▪ A succession may be a problem (if a manager does not have a scenario for his leave);</li> <li>▪ Not seeing the advantages of family enterprise.</li> <li>▪ Difficulties with overcoming the synergy effect of disadvantages of this type of companies.</li> </ul>
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Source: Personal elaboration

Advantages of family microenterprises skillfully correlated with environment abilities create an opportunity for development (Lipiec 2006). Disadvantages on the other hand, in unfavorable conditions transform into serious threats leading towards company's bankruptcy (only 30% of family enterprises are managed by family's second generation, and only 3% by third generation). Family microenterprises have specific life cycle on the market connected with family life cycle. A major difference compared to other market organisms is succession, which means taking the company over by next generations (Hugon 2008). In multigenerational cycle (compare fig. 1 similar structure of stages may be outlined, however every "first" stage is realized based on knowledge and experience of company's previous managements (generations). First, second and further generations fulfill the ideas of family enterprise development in the following stages:

- Entrepreneurship stage is a period when a founder (owner) is supported by other family members. His task is to create and implement innovative ideas of business realization.
- Cooperation stage, in which certain rules of cooperation are introduced in centralized manner.
- Control crisis is a stage when it becomes impossible to centrally coordinate many decisions which (often) leads to conflicts and company's disintegration.
- Formalization stage includes processes dominated by formalized communication embedded by procedures. Such actions are to facilitate control over enterprise.
- Authority crisis and succession stage. This stage includes work efficiency decline, leading to passing the authority to next generation.

Fig. 1. An example of family microenterprise life cycle (founded in 1976).



Source: Personal elaboration

After last stage of first generation cycle comes next stage of entrepreneurship realized by second generation of owners (Więcek-Janka 2008; Więcek-Janka2007; Hugon 2008). An example of family microenterprise life cycle is illustrated on figure 1.

## 2. Research methodology

Author's goal is to perform adaptation (and verify usefulness) of Q Fleming test to measure the influence of family on enterprise, to Polish conditions. Original test includes 35 questions put on scale of stabilization and destabilization of family business functioning. The author (by means of expert consultations) enriched the inventory with four questions regarding the style of management, three questions regarding the structure of employment, and one question about level of succession and using owner's competencies. Verification of usefulness of new-prepared tool (FBF - Family Business Family<sup>1</sup>) was done according to research procedure (compare the content of table 2 and 3).

Table 2. Elements of research methodology

<b>Research problem</b>	<b>Identification of indicators influencing the development of family microenterprise.</b>
<b>Place</b>	Wielkopolska
<b>Time</b>	November- December 2008
<b>Sample selection</b>	Selection of typical units
<b>sample size</b>	174 family microenterprises.
<b>Research method</b>	FBF questionnaire
<b>assumption</b>	Development will be measure by company's age and employment dynamics.

Source: Personal elaboration

Finding solution to research problem connected with identification of indicators influencing the development of family microenterprises imposed the necessity to find relationships between defined variables. Five research hypotheses were set. They are presented in table 3.

Table 3. Research hypotheses

<b>No</b>	<b>Content of correlation</b>	<b>Hypothesis 0</b>	<b>Alternative hypothesis</b>
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<sup>1</sup> Personal version of Ewa Więcek-Janka

1	FBF test result and eager style	FBF test result does not depend on eager style of management	FBF test result depends on eager style of management
2	FBF test result and friendly style	FBF test result does not depend on friendly style of management	FBF test result depends on friendly style of management
3	FBF test results and owner's competencies	FBF test results does not depend on owner's competencies	FBF test results depends on owner's competencies
4	FBF test results and company's age	FBF test results does not depend on company's age	FBF test results depends on company's age
5	Company's age and owner's competencies	Company's age does not depend on owner's competencies	Company's age depends on owner's competencies

The result of FBF test is treated by the author as a sum of points gained for answers stabilizing company's development (between 0 and 35 points, where 0 means no stabilization actions, and 35 is a developing company) Management style (Blake's) should be interpreted as a combination of owner's actions aimed toward fulfillment of company's and workers' goals and choice of one of the styles: isolated, friendly, eager, complex (compare fig. 5 – distribution of management styles in a sample). Owner's competencies are selected from a list: technical, social and conceptual competencies (compare fig. 4 – distribution of competencies in a research sample). To measure the relationship between the variables a V-Cramer test was chosen because of its universal character. Testing was done based on equation 1.

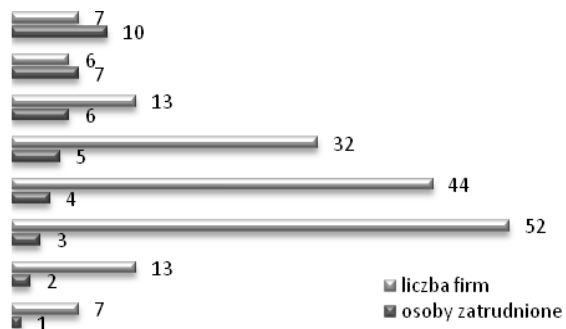
*Equation 1*

$$V = \sqrt{\frac{\chi^2}{n(k-1)}};$$

### **3. Conclusions**

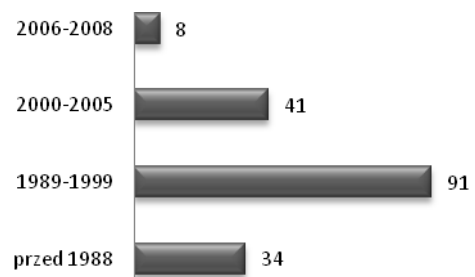
Specificity of family microenterprises creates a need of analyzing the research sample from a perspective of company's age and number of employees. This characteristic is presented on figure 2 and 3.

Fig. 2. Structure of employment in research sample (number of employees/number of microenterprises)



Source: Personal elaboration

Fig. 3. Age structure in a research sample (companies' founding year/number of microenterprises)



Source: Personal elaboration

In selected sample enterprises employ from 1 to 10 workers. Majority (128) companies hire from 3 to 5 workers which constitutes 72,5% of a sample. Over half of measured family microenterprises (52.3%) were created between 1989 and 1999. Sample also includes enterprises with much longer experience. 20% of them were founded before 1988 (the oldest, founded in 1908 has recently celebrated its "100th anniversary").

The use of V-Cramer coefficient allowed to define the strength of relation between the selected variable, although in first three hypotheses there was no reason to reject the hypotheses 0 in favor of alternative. According to the author this is a result of too diversified (types of businesses) sample. Research allowed to unambiguously prove the relation between family enterprise's age and owners competencies and between the results of FBF test and company's age. The results of calculations and the values of V-Cramer coefficient are presented in table 4.

Table 4. The results of statistical analysis and strength of relation between the variables

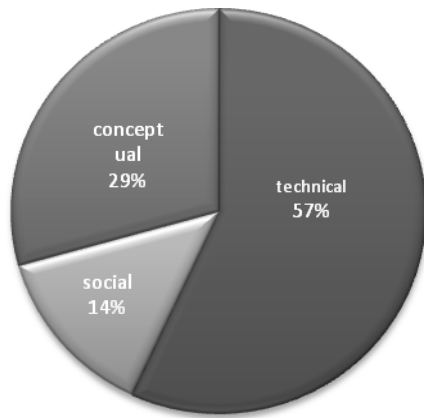
N o	Statistics				Strength of relation
	Statistics	Chi square	df	p	
1	Statistics	Statistics Question 36(2) x Class Stage 1(3) (Mikro_Stat)			V-Cramer  <b>0,74</b>
	Chi square Pearson's	4,40	df=2	p=,09994	
2	Statistics	Statistics Question 37(2) x Class			V-Cramer  <b>0,77</b>
	Chi square Pearson's	3,561994	df=2	p=,16848	
3	Statistics	Statistics Question 44(3) x Class Stage 1(3) (Mikro_Stat)			V-Cramer  <b>0,64</b>
	Chi square Pearson's	2,487075	df=4	p=,64695	
4	Statistics	Statistics Class year (5) x Class Stage 1(3) (Mikro_Stat)			V-Cramer  <b>0,83</b>
	Chi square Pearson's	20,71539	df=8	p=,00795	
5	Statistics	Statistics Question 44(3) x Class year (5) (Mikro_Stat)			V-Cramer  <b>0,65</b>
	Chi square Pearson's	12,27176	df=8	p=,13950	

Source: Personal elaboration with a use of STATISTICA 8.0 program

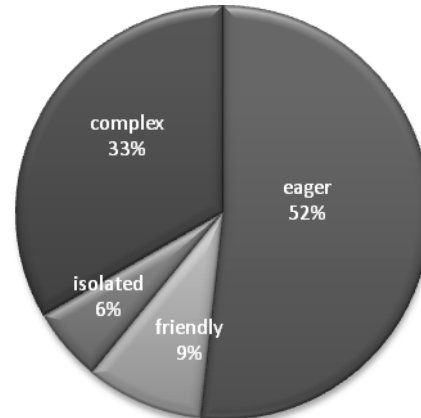
Strength of correlation between activities stabilizing company's development and its age is very high (0,83) – which may be interpreted as an ability of family enterprises to learn, to use the knowledge of family members and its efficient use for company's development (explicit and tacit knowledge does not “leave” with a worker – it stays in a “family”).

Fig. 4. 4 – distribution of owners' competencies in a research sample).

Fig. 5. Distribution of management styles in a research samples.



Source: Personal elaboration



Source: Personal elaboration

For the microenterprise to develop (develop the market) it has to introduce the actions stabilizing this development. The author divided those actions into four major groups considering the influence of a family:

1. Clear dividing of goals into: family goals and company's goals;
2. Fulfillment of company's vision and strategy;
3. Openness to innovations;
4. Responsible and just motivating.

#### 4. Summary

Managing the family microenterprise in strategic perspective requires not only managerial but also negotiation, training and psychological competencies and skills. Analysis of research materials supported by literature from that area has lead the author to the following conclusions:

- nepotism, favoring family members in recruitment, compensating and promoting found (in research) has demotivating and demoralizing influence on workers;

- Mixing the roles played in company and family may strenuously obstruct effective management;
- Certainty of employment and a feeling of security between family members hired in an enterprise may have positive influence (devoting private time to the good of family and future generations) but also negative (certainty that no one can drive the family member out of the company);
- Succession may be a source of stabilization and development (compare family enterprise life cycle on fig. 1) but also destabilization, and even fall of the enterprise (if one person does not emerge, capable of taking the responsibility for the company's development);
- Conflicts between workers from the family and the other resulting from the rules of distribution of work and duties;
- Conflict between company's and family's interests results in internal partitions and conflicts between workers;
- Unskillful conflict management (usually in favor of a family) lead to company's disorganization.

Functioning on a market in changing conditions, overcoming obstacles in fulfilling the goals touches every enterprise (Lipiec 2006). A difference between functioning of family and non-family enterprises lies in consequences for family members in case of company's failure. In family enterprises, providing for family members in several generation, a synergy effect of actions, efforts, sacrifices is used, resulting in greater engagement and loyalty to the company. Not only however can such behavior be optimally used. Often the best intentions of founders and successors of such companies striving to assure quick development do not yield expected results and even lead to company's bankruptcy. That is why using the experience of previous generations (owners), skillful management of tacit and explicit knowledge, efficient organization of work, motivating workers from and outside the family, gives an opportunity to

create a substantial competitive advantage. An example of a program blending the company's and family's interests is presented in table 5. The author of this article in her future research will focus on searching for "development indicators" in realized management functions in family microenterprise.

Table 5. A suggested program of eliminating the threats on the contact point between family and company in microenterprises

Program	Effects
Setting procedures regarding the promotion paths;	Feeling of development ability
Defining the scope of responsibility for every work post;	Clear and accepted rules of cooperation between family members and non-family workers
Catalogue existing standards for family members (sometimes smaller, sometimes bigger);	A feeling of fulfilling the normative related to the quality of work and responsibility for its results;
Catalogue existing standards for the rest of workers;	A feeling of co-responsibility for the fulfillment of company's goals and participation in its' success;
Obey the rules using positive and negative motivation ;	Feeling of justice between workers and family according to the rule "get what you paid for"
separate family and business matters;	Decrease of the results of conflicts on the contact point between family and company interests;
Seek for innovations in every aspect of company's activity;	Increasing the competitiveness on the market leading to company's development
Create a „good social climate” for the successors.	Creating a need of taking over and development of the company by next generations.

Source: Personal elaboration

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