

Refreshing Typologies Based on Family Firms' Goals: The Perspective of “First-Generation Enterprises”

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Abstract

Purpose: The study aims to build a typology of family businesses with relatively short experience in the free-market economy. The typology is based on the goal preferences of the family businesses.

Methodology: The research is based on empirical data from Polish medium-sized and large enterprises, collected in 2014. Using cluster analysis and variance analysis, we identified four types of family enterprises based on their goal perceptions and tested the differences among them.

Results: The article distinguishes and characterizes four types of family enterprises: “business first, family second,” “only business,” “immature,” and “family first, business second.”

Originality/value: The proposed typology is similar to that presented in the subject literature. Nevertheless, our contribution resides in the discovery that even if family and business goals are integrated in the enterprise, one of the systems will be dominant. Moreover, enterprises that only prioritize family goals were absent in the explored data set.

Keywords: family business, family business goals, family business typology.

JEL: D22, L21, L22

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Introduction

A family business is an entity in which three systems overlap: family, ownership, and business (Ward, 1987). This interaction leads to incessant clashes between actors who represent the interests of those systems. This is known as one of the most recognizable issues for a family business. Each enterprise has its own goal hierarchy, in which the objectives of one of the systems may be more important than others.

We conducted our research in Poland, a country in which family businesses reactivated not later than 30 years ago. We assumed that this cultural and political context may have resulted in the existence of a new specific typology that differs from those already described in the literature. The specific situation gives us an opportunity to explore First-Generation Enterprises (FGEs), still disoriented with new issues such as succession or inter-generational value transfer.

FGEs are family businesses with the strong influence of the founder(s) over family processes, with or without the presence of second generation family representatives. It means that these are businesses before succession or in the process of succession.

The aim of our research is to build a typology of FGEs based on their goal preferences and indicate significant differences between the identified types. In Polish literature, there is very little evidence related to the goals of family firms and no in-depth research dedicated to this issue. Hence, we hope this paper will contribute to the understanding FGEs' diversity that might derive from their goals perception.

The paper is organized in the following manner. First, we present the theoretical background of family businesses and their goals to move to the main hypothesis. Next, we present the methods of our qualitative research. Finally, we present the results: the types of identified FGEs and their characteristics.

Theoretical framework

The goal of this work is to present a new typology of family businesses under the founder's influence, we decided to discuss four aspects important for this phenomenon. The first one is the essence of family businesses. Defining a family business is very challenging and sometimes misleading, however there are some fundamental features, which are widely accepted among family business researchers. This is why we should clearly state the definition. The second important issue is the specificity of family business goals

connected with their uniqueness. The third aspect is the stage of family businesses development and their perception of specific goals. Moreover, we will present existing family business typologies, which base on goals perception, similarly to our approach.

The Essence of a Family Business and Its Goals

Family enterprises are a large and very diverse group. Previous research does not offer a single universal, widely accepted definition of a family business. Categorization is entirely subjective (owners perceive their entity as a family business; Sten, 2006, p. 16), declarative (firms driven by family values; Aronoff and Ward, 2001, p. 12), or descriptive (firms in which the family has a decisive influence; Wimmer et al., 2005, p. 6). Other definitions incorporate quantitative measures by including family shares in capital, management, and supervisory boards (Zellweger et al., 2006, p. 5). Some authors state that family businesses should fulfil both quantitative and subjective criteria. That is, at least two family members have financial control in an enterprise and there is a sense of responsibility for the enterprise, a long-term orientation, and a search for transfer to the next generation (Ward and Aronoff, 1990, p. 32). Other researchers claim that family businesses include at least two generations, while transgenerational relationships are reflected in their strategies, goals, and family interests (Donnelley, 1964, p. 94). According to this approach, a family enterprise begins with the transfer of its ownership and management to the next generation (Ward, 1987, p. 252), or this transfer is at least under preparation (Churchill and Hatten, 1987, p. 52). In Poland, many authors also present their own definitions or at least try to adjust foreign definitions to the Polish context. Więcek-Janka (2013) identifies two types of Polish family firms' definitions. The first is connected with values and relations and is represented by K. Orzechowski (2011), A. Lewandowska (2015), and Więcek-Janka (2013) herself. The second is connected with the proportion of engagement in ownership, management, and control. This definition is presented by W. Popczyk, A. Winnicka-Popczyk and J. Jeżak (2004), K. Safin and Ł. Sułkowski (2005), A. Surdej and K. Wach (2010), and T. Budziak (2012). Nevertheless, these two streams are similar to the approach presented abroad. Still, Polish definitions emphasize less succession planning or its necessity.

Regardless of the issues with definitions, researchers are rather clear in their views about the essence of a family business. In the most popular model, it is described as an entity that includes three subsystems: business, family, and ownership (Gersik et al., 1997). These subsystems operate according to different rules of rationality that are not necessarily mutually exclusive, but that can lead to specific conflicts of interest (Simon 2012, p. 21). A family is a subsystem based on biological and emotional grounds that determine its functions and goals. These goals may have both an economic character,

which means creating workplaces for family members, generating income for a family and enterprise development (Habbershon and Astrachan, 1997, p. 40; Kailer and Weiß, 2005, p. 9; Klein, 2010, p. 60), but these goals also show an emotional character, such as the maintenance of the company's independence, education for the next generation, succession, realization of the family's value system, family prestige.

Family Business Goals

What is vital in the approach to identifying family business goals is its self-perception (Westhead, Cowling and Howorth, 2001, p. 370). Family identification with the business causes long-term survival and stability, fundamental for meeting emotional and material family needs and becoming its imperative goals (Westhead and Cowling, 1995; McCann et al., 2001, p. 56; Mandl, 2008, p. 14; Bednarz et al., 2017, p. 129). This requires undertaking long-term decisions, not short-term objectives (Bertrand and Schoar, 2006, p. 75; Wimmer et al., 2005, p. 121). In fact, the priority of long-term survival can contradict long-term growth of the company's value objective (Anderson and Reeb, 2003, p. 1305). The manifestation of a long-term existence strategy is a succession (Kalss and Probst, 2013, p. 697). Ensuring long-term survival involves the maintenance of a business' independence from third parties, because the family needs to preserve its decisive influence (Chrisman et al., 2003, p. 470). Nevertheless, the high valuation of this goal can lead to situations in which an enterprise agrees to suffer financial losses and risk its survival (Gómez-Mejía et al., 2007, p. 106). In contrast, there are also family businesses in which the phenomenon of amoral familism may occur. This means that the family maximizes the short-run advantage over long-term perspective (Dyer, 2006; Verbeke and Kano, 2012).

The second family enterprise subsystem is an organizational entity that operates according to economic rationality. Typical business goals of this subsystem are short-term profit maximization, company's development, and its value growth (Chrisman et al., 2003, p. 468). The third subsystem (ownership) embraces the owners of an enterprise. The bigger the share of non-family owners (and managers), the weaker the family impact will be on the enterprise, which results in more rational operations (Hiebl, 2012, p. 62). Simultaneously, there may accrue agency problems and conflicts among stakeholders, whose goals can differ (Hepperle, 2011, p. 19). This can be another reason why families strive to maintain independence from third parties.

These three subsystems coexist, each with their own priorities and goals, which leads to problems with hierarchy. Research indicates there are no universal goals structure in family enterprises. Many factors affect their shape. Family businesses permanently

face the challenge of the coexistence of contradictory pursuits of family and business rationality (Simon, 2012, p. 32). Hence, family business effectiveness requires achieving family goals but without any violation of rational business rules (Märk, Kraus and Peters, 2010). Simultaneously, a family's efforts to ensure the long-term survival of their business can be more important than the long-term growth of the company's value (Anderson, Mansi and Reeb, 2003, p. 263).

Goals of Family Businesses: First-Generation Enterprises

The importance of specific family business goals may also change across business entities. Some enterprises are more concerned about family goals, whereas succession leads to focusing on economic objectives (Jaskiewicz and Klein, 2007). Preferences toward family goals when the first generation is in power were also described by Gomez-Mejia (2007) and Tagiuri and Davis (1992). Research reveals that in family businesses with power transferred at least partly to the second generation, economic goals begin to gain significance (Chua et al., 2003). This phenomenon is explained by the agency theory: with the second generation, more passive family members occur and their expectations towards the family firm are more business-oriented (Athanasidou et al., 2002; Westhead 2003; Gomez-Mejia, 2007).

However, other researchers claim that there are enterprises more market – and business-oriented, so only the achievement of stabilization can channel their goals to family issues (Gersik et al., 1997; Molly et al., 2007; Achleitner et al., 2010, p. 241). This attitude is similar to Zellweger and Astrachan's (2008) observation that the importance of family goals begins to grow with the extension of the period of family ownership. The researchers state that the importance of emotional values increases over time, because family members develop a stronger personal relationship with family heritage.

At this point, we should highlight that the latter attitude is more likely to be true among family businesses which have a relatively short free-market experience. Because of the short period of time in which that type of family businesses developed, they have not yet established a good pattern of succession (Lewandowska and Lipiec, 2015) nor one of cultivating and transferring family values; for example, by introducing them in family protocols (see Kołodkiewicz, 2015). We may assume that – among Polish family firms with short free-market experience (Marjański and Sułkowski, 2019) – there is little awareness of potential benefits, which derives from familiness, and hence business goals may be more important. This phenomenon is also visible in the research conducted by Zajkowski (2018, p. 225–229), which reveals that family goals become more significant when the second generation becomes engaged in ownership or management in the family business.

Types of Family Businesses

However, it is also worth noting that family businesses should not be treated as a single homogenous group. Their heterogeneity derives from several issues: age, size, the market in which they operate, the level of innovation, the level of internationalization, and the stage of business development (Safin and Kołodkiewicz, 2019). According to Gimeno, Baulenas and Coma-Cros (2010), family businesses may differ in the most fundamental element, which is their business and family complexity.

Family business goals provide a basis for their typology (Simon, 2011). Carlock and Ward (2001) identify three types of family firms: “company first” prioritizes company’s objectives, “family first” prefers family goals, and “family enterprise first” seeks to strike a balance between family and business goals.

Poza (2007) proposes a separation of ownership and management goals. He defines three types of family enterprises: “family first” has an enterprise operate to achieve family goals, “management first” expresses business goals as financial indicators such as profitability and market share, and “ownership first” prioritizes long-term maintenance of ownership.

Basco and Perez Rodriguez (2009) confirm the existence of family enterprises, in which family and business goals are integrated, and those in which business goals are the most important (“business first”). Moreover, these researchers identify “immature” family enterprises, characterized by the low level of maturity in their management and governance decisions.

Relevant studies have not been undertaken among enterprises with specific short free-market experience, which we call First-Generation Enterprises (FGEs). Verifying the existence of a similar typology among them seems to be justified due of the lower level of family entrepreneurship development and the lack of knowledge about its uniqueness.

On the basis of the research about the essence of family businesses and their goals, we prepared the following research hypothesis:

H1: Among family businesses that are First-Generation Enterprises, we can indicate different subgroups whose diversity stems from their goals perception.

In our research, we consider FGEs as businesses that do not have enough experience (less than 30 years) in operating on the free market. We could probably introduce a criterion of the exact age of the company, but we think that – in this case – the historical context seems to be more interesting. Even if the company was operating before 1989, it functioned in a totally different business environment and had to soon adjust to free market challenges such as competition or globalization. Even if the 30 years seems to be a long period of time, it is an interval in family businesses during which totally new challenges arise: transferring business to the next generations.

Polish history gives us the opportunity to treat all family businesses as a group of “beginners,” who represent the main features of first generation family firms; they seek good succession patterns and good practices in transferring family business value. Examining Polish family businesses brings a new perspective to the research about unique goals of family firms.

Data and Sample Description

The empirical data used in this paper were collected in 2014 within the scope of the Polish National Science Centre Project No. 2012/07/B/HS4/00455 entitled “Corporate governance, ownership structure, and other financial issues of family enterprises in Poland and Austria – a comparative analysis.” The Computer Assisted Telephone Interview (CATI) technique was used to collect the data. The respondents of the survey were owners, CEOs and CFOs of Polish medium-sized and large enterprises (with more than 49 employees). In the case of larger firms, the goal setting process is more complex and involves more actors. From this point of view, discussion about family business goals seems to be more comprehensive.

The final sample included 785 fully completed questionnaires. For this study, we extracted only the data on family businesses. To select family firms from the sample, we adopted the substantial family influence coefficient (SFI; Klein 2000). If the coefficient exceeds the value of 1, the entity was classified as a family firm. After the exclusion of non-typical, incorrect, or missing data, we selected a group of 230 family businesses for further analyses.

Descriptive analysis of the sample reveals that 86.5% were established after 1989; that is, after the introduction of the law that finally allowed private business operations in Poland. The average age of the examined companies was 19 years, while most of them (78.2%) have operated for longer than 10 years.

Most of the surveyed enterprises (76%) remained in the hands of the first generation, in 17% the owners belonged to the first and second generation, while in 6% only to the second. These enterprises were registered as private limited companies (60.9%), limited partnerships (25.7%), joint-stock companies (9.1%), or sole proprietorships (8%). Most companies (97%) employed from 50 to 249 people; that is, medium-sized enterprises, according to the EU classification. The average number of employees was 122.

Methods Used

In the research questionnaire, we asked respondents about the importance of the 12 specific goals. For the evaluation of their importance, a five-point Likert scale was applied. We tested our scale with Cronbach's alpha test (>0.7). Table 1 shows the goals and their average results.

Table 1. An average perception of goals' importance in family businesses

Factor		Mean	SD
Importance of Goals			
G1	Long-term growth of the company's value	4.18	0.87
G2	Short-term maximization of profits	3.21	1.19
G3	Maintaining of the company's independence	4.37	0.97
G4	Maintaining of the high pace of the company's growth	4.16	0.78
G5	Long-term survival	4.76	0.53
G6	Minimizing economic risk	4.21	0.82
G7	Maintaining or creating new workplaces	3.83	0.97
G8	Creating wealth or ensuring a high living standard for the main entrepreneur or his or her family	3.81	1.04
G9	Employment of family members in the company	2.72	1.19
G10	Transferring the company to the next generation	3.79	1.16
G11	Dissemination of the value system of the main entrepreneur and his or her family or maintaining family traditions	3.58	1.10
G12	Tight long-term relationships with business partners	3.69	1.05

Source: own elaboration.

We conducted a two-step analysis. In the first phase, we applied K-mean clustering analysis, where K was a number determined a priori. Based on the literature, we assumed that we would isolate four groups of family enterprises, characterized by different perceptions of business goals. In the second phase, we checked for significant differences between the identified groups. To investigate diversities among isolated groups, we implemented variance analysis (ANOVA) and simultaneously checked whether the assumption of variance homogeneity was violated. We then conducted post-hoc tests: Hochberg test and Games-Howell test for those variables for which the assumption of homogeneity was violated. These tests can be applied when sample sizes are unequal.

Results and Discussion

Identified Goals Hierarchy

Cluster analysis confirmed the first hypothesis, which means that we identified four types of family enterprises: “business first, family second,” “only business,” “immature,” and “family first, business second.”

Post-hoc tests identified specific differences between family business types. We present our statistical results in Table 2 along with characteristics of identified family business types, which we treat as an answer to our second research question.

Table 2. Differences in perception of the importance of goals among identified family business types

Criterion	Groups of Enterprises		Difference of Means	Criterion	Groups of Enterprises		Difference of Means
Long-term growth of the company's value	A	B	.582*	Maintaining or creating new workplaces	A	B	0.413
		C	.872*			C	1.079*
		D	-0.003			D	0.019
	B	A	-.582*		B	A	-0.413
		C	0.290			C	.667*
		D	-.585*			D	-0.393
	C	A	-.872*		C	A	-1.079*
		B	-0.290			B	-.667*
		D	-.875*			D	-1.060*

Short-term maximization of profit	D	A	0.003	Creating wealth or ensuring a high living standard for the main entrepreneur or his or her family	D	A	-0.019
		B	.585*			B	0.393
		C	.875*			C	1.060*
	A	B	0.217		A	B	1.45503*
		C	-1.088*			C	0.32262
		D	-1.053*			D	0.02762
	B	A	-0.217		B	A	-1.45503*
		C	-1.305*			C	-1.13241*
		D	-1.270*			D	-1.42741*
C	A	1.088*	C	A	-0.32262		
	B	1.305*		B	1.13241*		
	D	0.035		D	-0.29500		
D	A	1.053*	D	A	-0.02762		
	B	1.270*		B	1.42741*		
	C	-0.035		C	0.29500		
Maintaining the company's independence	A	B	-0.249	Employment of family members in the company	A	B	0.29101
		C	0.595			C	-0.44325
		D	-.410*			D	-1.48825*
	B	A	0.249		B	A	-0.29101
		C	.844*			C	-.73426*
		D	-0.161			D	-1.77926*
	C	A	-0.595		C	A	0.44325
		B	-.844*			B	.73426*
		D	-1.005*			D	-1.04500*
D	A	.410*	D	A	1.48825*		
	B	0.161		B	1.77926*		
	C	1.005*		C	1.04500*		
Maintaining a high pace of the company's growth	A	B	0.291	Transferring the company to the next generation	A	B	1.84656*
		C	.865*			C	.65952*
		D	0.055			D	-.71048*
	B	A	-0.291		B	A	-1.84656*
		C	.574*			C	-1.18704*
		D	-0.236			D	-2.55704*

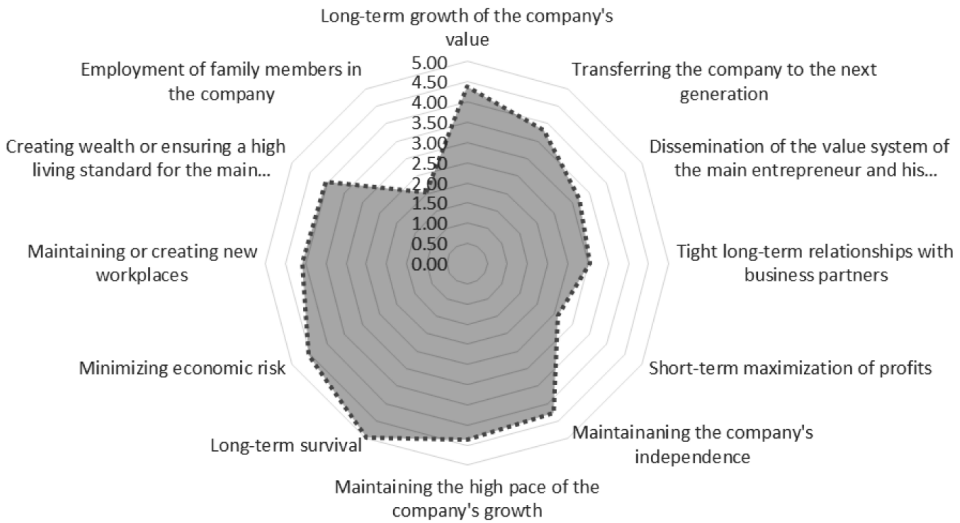
	C	A	-.865*	Dissemination of the value system of the main entrepreneur and his or her family or maintaining family traditions	C	A	-.65952*		
		B	-.574*			B	1.18704*		
		D	-.810*			D	-1.37000*		
	D	A	-0.055		A	.71048*			
		B	0.236		B	2.55704*			
		C	.810*		C	1.37000*			
	Long-term survival	A	B		0.169	Dissemination of the value system of the main entrepreneur and his or her family or maintaining family traditions	A	B	.59259*
			C		.709*			C	.44722*
			D		.184*			D	-1.15778*
B		A	-0.169	B	A		-.59259*		
		C	.540*		C		-0.14537		
		D	0.015		D		-1.75037*		
C		A	-.709*	C	A		-.44722*		
		B	-.540*		B		0.14537		
		D	-.525*		D		-1.60500*		
D		A	-.184*	D	A		1.15778*		
		B	-0.015		B		1.75037*		
		C	.525*		C		1.60500*		
Minimizing economic risk	A	B	0.339	Tight long-term relationships with business partners	A	B	-.746*		
		C	1.174*			C	-0.093		
		D	0.154			D	-1.278*		
	B	A	-0.339		B	A	.746*		
		C	.835*			C	.653*		
		D	-0.185			D	-.532*		
	C	A	-1.174*		C	A	0.093		
		B	-.835*			B	-.653*		
		D	-1.020*			D	-1.185*		
	D	A	-0.154		D	A	1.278*		
		B	0.185			B	.532*		
		C	1.020*			C	1.185*		

A – business first, family second; B – only business; C – immature; D – family first, business second; * p<0.05

Source: own elaboration.

The first type, “business first, family second,” consists of enterprises that set business goals such as long-term survival, minimizing economic risk, long-term growth of the company’s value, and maintaining a high pace of the company’s growth. These companies are not interested in short-term maximization of profits. On this basis, we may assume that the first type makes decisions according to economic rationality. Among family goals, this type prioritizes creating wealth or ensuring a high living standard for the main entrepreneur or his or her family. This type is similar to Basco and Perez Rodriguez’s “family enterprise first,” in which family and business goals are integrated. However, our research shows that – despite the high importance of family goals – this type prioritizes economic goals. This identified cluster contains 27.4% of family enterprises from our data set.

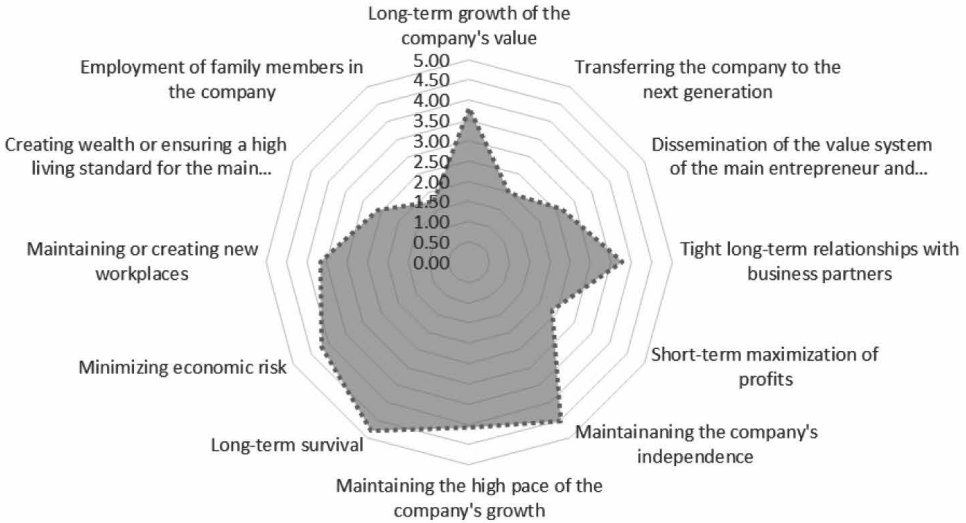
Figure 1. The importance of specific goals in “business first, family second” type



Source: own elaboration.

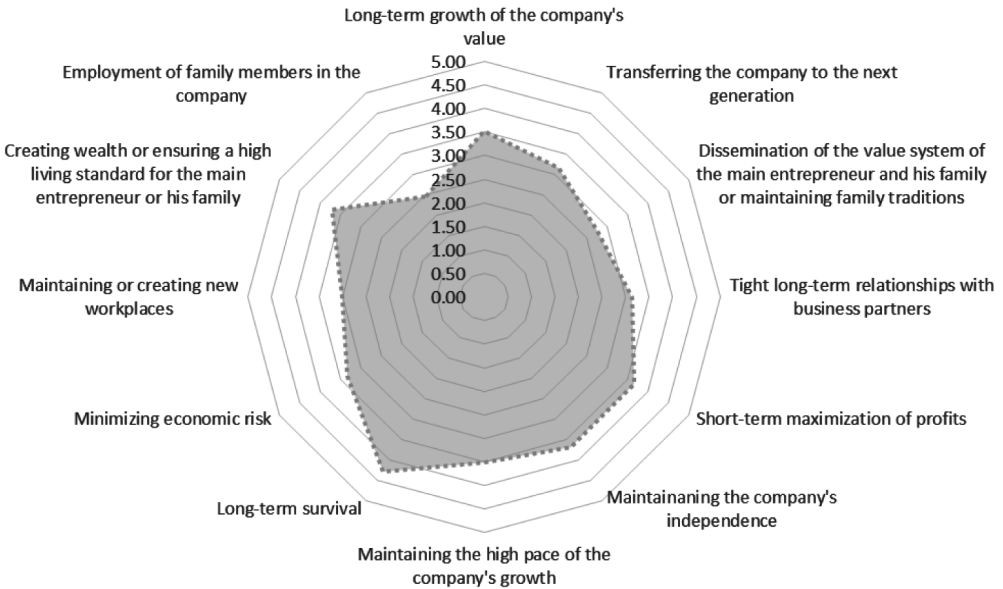
We labeled the second type “business only.” Apart from ensuring the long-term survival of the company, the most important goals for this type are maintaining company independence and minimizing economic risk. Enterprises belonging to this type are the least interested in family goals, whereas long-term business objectives are the most important. This cluster aligns with Carlock and Ward’s (2001) “business first” type. The number of firms in this cluster is relatively small, 11.7%.

Figure 2. The importance of specific goals in “business only” type



Source: own elaboration.

Figure 3. The importance of specific goals in the “immature” type



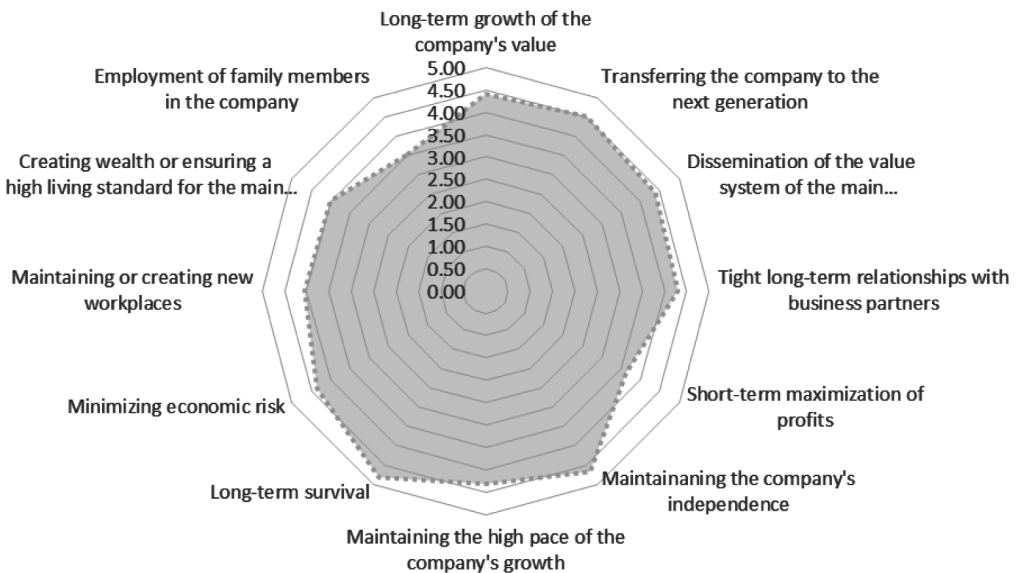
Source: own elaboration.

We labeled the third identified type of family enterprises “immature.” These enterprises also identify “long-term survival” as their ultimate objective. What is characteristic

of this cluster is that they very highly rate wealth creation for the owner and family members along with short-term profit maximization. They apply low value to long-term business goals and maintaining independence. On this basis, we can assume that these enterprises do not have a long-term business vision and strategy, and they do not have any motivation to develop them. This type aligns with Basco and Perez Rodriguez's (2009) "immature" type. Among the examined enterprises, 17.4% belong to this type.

We named the last, fourth type "family first, business second." Enterprises in this cluster give the highest rates to family goals such as succession, dissemination of the value system, and employment of family members. However, let us remember that maintaining the company's independence is still one of the priorities of this type. These companies are also exceptionally interested in long-term goals, such as the long-term growth of the company's value or ensuring a high pace of growth. Again, we agree here with Basco and Perez Rodriguez (2009) and Carlock and Ward (2001), who claim that in some family enterprises, family and business goals are integrated ("family enterprise first"). Nevertheless, in this case, unlike "business first, family second," we note higher preferences for family goals. In our data set, 43.5% of enterprises belong to this cluster.

Figure 4. The importance of specific goals in the "family first, business second" type of family enterprise



Source: own elaboration.

The typology we propose partially agrees with categorizations suggested by other authors. Table 3 below shows the differences. Similar to Basco and Perez Rodriguez (2009), we do not identify enterprises oriented only to family goals. However, we think that among “family enterprise first,” we can differentiate companies that are slightly more business – or family-oriented. We also confirm the existence of family companies oriented only towards business goals, but we also find “immature” family businesses. Our typology is more adjusted to the specificity of the first-generation family firms in Poland. The lack of firms oriented mainly towards family goals and the existence of only business-oriented firms is an observation that corresponds with the views presented by Gersik et al. (1997), Molly et al. (2007), Zellweger and Astrachan (2008), and Achleitner et al. (2010). On this basis, we can state that First-Generation Enterprises are more oriented towards business goals. This can also be a result of entrepreneurs’ limited knowledge about the positive business consequences of cultivating their family values. However, let us note that 43.5% of the examined enterprises can link family and business goals, with a small preference to family objectives, which should be treated as a good sign for family entrepreneurship development in the countries with short free-market history.

Table 3. Differences between presented typologies

	Types of Enterprises				
Carlock, Ward (2001)	X	Business first	Family enterprise approach		Family first
Basco, Perez Rodriguez (2009)	Immature	Business first	Family enterprise first		X
Typology based on own research	Immature	Only business	Business first, family second	Family first, business second	X

Source: own elaboration.

Research Implications for Practice and Its Limitations

Family businesses play a significant role in global economy. Apart from participating in GDP creation, they also set positive entrepreneurial models and attitudes. Our paper demonstrates that these organizations are very diverse, while not all of them are aware of their familiness and are interested in linking family and business goals. Dissemination of knowledge about specific family business goals is very important for entrepreneurs, as they can react beforehand and prepare their businesses for possible conflicts, or just take advantage of their uniqueness. It is especially important among First-Gener-

ration Enterprises, in which the challenge of transferring power to the next generation remains an open question. Nevertheless, the internal awareness of family and businesses objectives and relations between them is crucial for the success of the succession process. Moreover, it gives family business stakeholders specific hints. Employees, clients, and competitors may be more aware of the family firm pursuits and use this knowledge in building relations with its representatives. Moreover, our research opens a great field for researchers, and it sheds new light on family businesses that operate in post-communist countries.

This research has some limitations. Respondents who partook in the survey were CEOs, CFOs, and owners of family businesses. Further research should check if there are any differences in their perception of family goals, as their expectations towards family business may slightly differ. Another limitation is that our sample only holds medium-sized and large enterprises, because we decided to examine only firms with a more complex organizational structure. Further research should expand this sample.

Conclusions

In our research conducted among Polish enterprises, we identified four family enterprise types based on their perceptions of goals. Our typology is similar to that presented in the literature. Nevertheless, our contribution is the discovery that – among First-Generation Enterprises with short free market experience – even if family and business goals are integrated in the enterprise, one of the systems will be dominant. Moreover, our data set does not identify enterprises that prioritize only family goals. These outcomes could be a result of the short history of Polish family entrepreneurship. However, we recognize that there are enterprises which – despite meeting conservative family business classification requirements (based on the SFI) – assign more importance to business goals, leaving family objectives far behind. This typology is more adjusted to enterprises that did not have the opportunity to operate on the free market for more than 30 years, and the majority of which are still controlled by the first generation. We may conclude that such enterprises still concentrate more on strengthening their business positions. Only with their businesses solidly grounded in the market do entrepreneurs feel that they can focus on creating long-term wealth for their family.

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