Sustainable Management in Long-lived Family Businesses
Boyd, Britta

Published in:
International Journal of Entrepreneurship and Small Business

Publication date:
2010

Document version
Publisher's PDF, also known as Version of record

Citation for published version (APA):

General rights
Copyright and moral rights for the publications made accessible in the public portal are retained by the authors and/or other copyright owners and it is a condition of accessing publications that users recognise and abide by the legal requirements associated with these rights.

• Users may download and print one copy of any publication from the public portal for the purpose of private study or research.
• You may not further distribute the material or use it for any profit-making activity or commercial gain
• You may freely distribute the URL identifying the publication in the public portal

Take down policy
If you believe that this document breaches copyright please contact us providing details, and we will remove access to the work immediately and investigate your claim.

Download date: 25. okt., 2017
Sustainable Management in Long-lived Family Businesses -

A Resource-based Analysis of Northern German Builder’s Providers

Abstract:
Since the UNCED (United Nations Conference on Environment and Development) in Rio de Janeiro 1992, sustainable development is a socio-political goal all over the world and it becomes even more relevant with regard to the recent discussion on climate change and the financial crisis. According to family business research sustainability here defined as social, economic and ecologic long-term orientation, seems to overlap partly with the resources of long-lived family businesses. This case study research concentrates on the sustainable management of family owned builder’s providers, which are at least in the fourth generation. The resource-based analysis shows how these long-lived family businesses use their sustainable resources and capabilities to stay competitive. As a result, the sustainable management concept for family businesses will be presented.

Keywords:

INTRODUCTION
Sustainable development as a common socio-political goal is also directed towards companies (Freimann, 2004; Radermacher, 2004). More and more firms try to act according to sustainability and publish their social, economic and ecologic long-term orientation in sustainability reports (Belch, 2004; Global Reporting Initiative, 2005; Memo AG, 2004). Family businesses concentrate on long-term strategies instead of short-term success to secure the business for the family. A slow and organic growth could be identified as a success factor in long-lived family businesses (Wimmer/Groth/Simon, 2004). According to research, family
businesses are also aware of their social and ecological responsibilities (Habbershon/Williams, 1999). Therefore, this study of sustainable management of family businesses focusses on the following research questions:

1. What special features can be shown in long-lived family businesses?
2. Are long-lived family businesses managed according to sustainability?
3. What lessons can other companies learn from long-lived family businesses?

To answer these questions a resource-based analysis is carried out with family owned builder’s providers in at least the fourth generation. After introducing the terms management in family businesses and sustainable development, the theoretical background of the resource analysis is presented. The research on resources of family businesses leads to the hypotheses and research model. The main part then deals with the case study analysis itself leading to the results in which the sustainable management concept for family businesses is presented. This includes strategic implications for the practice followed by concluding remarks for further research.

**Management of Family Businesses**

Management can be defined as a complex of tasks which have to be fulfilled to control a system. Business management includes planning, organizing and controlling the system of all business functions (Steinmann/Schreyögg, 1997). According to Carlock and Ward (2001) family business management is characterized by the so-called parallel planning process, where family and business management cooperate as a team and create an overlap between the family commitment, the external environment and the internal capabilities (see figure 1).

The overlap area represents the strategic options for family business management and shows the limited choice of family business strategies (Carlock/Ward, 2001). From the second generation onwards, family management then shows a propensity to stewardship following a more intrinsic motivation (Craig/Green/Moores, 2003). In addition, visionary leadership and continuity are seen as a phenomenon in strategic management in family businesses (Hall/Melin, 2003) and represent an important issue in the sustainable management discussion. The major differences between the
management goals in family and non-family businesses are according to Hahn (1999) the future financial security of the family and family succession. In family businesses, the business culture and values build the framework for a strategic management concept. Passing on these values appears to be the most important activity in family businesses (Steier/Reay, 2002). Because of the focus on cultures and values, this framework is used as a fundament to develop a sustainable management concept for family businesses.

Sustainable Development

In resource theory, the meaning of sustainability refers to long-lasting or durable competitive advantages (Aaker, 1992; Nolte, 1999; Freiling, 2001). This wide definition does not cover the ecologic aspects of sustainability. The Brundland Commission (World Commission on Environment and Development, 1987) defines sustainable development as “development that meets the needs of the present without compromising the ability of future generations to meet their own needs”. This assumption is regarded here as a basis for sustainable management, specified by Löbel et al. (2001) with a way to satisfy today’s economic, ecologic and social needs that also enable future generations to satisfy their needs. This definition leads to the dimensions of economic, ecologic, social and long-term orientation in sustainable management, which will be used to determine indicators for this case study research. The relevance of sustainable management can be stated by increasing national and international research as well as by more and more companies presenting sustainability reports (Loew, 2005).

RESOURCE ANALYSIS

Resources are defined as material and immaterial assets, but also complex individual and organisational competences of a firm. Especially immaterial or intangible resources lead to long-term competitive advantages (Hungenberg, 2000). The resource-based view forms the fundament of this research to find specific resources in long-lived family businesses.
The resource-based view

In 1959, Penrose published her first edition of “The theory of the growth of the firm”. She describes firms as collections of resources, where internal and inherited resources are most important (Penrose, 1995). Barney further developed this origin of the resource-based view. Only resources, he stated which are valuable, rare, imperfectly imitable and not substitutable lead to competitive advantages (Barney, 1991). Grant then formulated a resource-based approach to strategy analysis in a five-stage procedure. The first steps of this practical framework are to identify the firm’s resources and capabilities, then appraise them to competitive advantages and select a strategy. In the last step, resource gaps are identified to upgrade the firm’s resource base (Grant, 1991).

The openness and dynamics of the resource-based view can be seen as a chance to combine economic and socio-political argumentation. The internal and external view in this approach also accounts for the choice within this research (Freiling, 2001 and 2004).

Resources of family businesses

The resource-based view as the currently most discussed concept in strategic management was only discovered in family business research a few years ago. Habbershon and Williams (1999) were first to analyse specific strategic advantages of family businesses with the resource-based approach. Especially ideosyncratic knowledge passed on from generation to generation was assessed as an advantage for family management (Lee/Lim/Lim, 2003). The specific bundle of resources that is distinctive to family involvement was defined as “familyness” of a firm by a few researchers (Habbershon/Williams, 1999; Tokarczyk et al., 2007; Mühlebach, 2004). As a basis for this research, the familyness resources such as continuity have to be specified for the sustainability dimensions and can then be applied for a group of companies.

In family business research, a few resources with sustainable content were identified. Regarding material resources for example a high equity ratio or family owned building and sites were
mentioned. As immaterial resources patents, image, long-term relations, flexibility and culture could be specified (Simon, 1997; Habbershon/Williams, 1999; Klein, 2004).

**Hypotheses and research model**

Family influence has become a fundamental value for interaction and sustainable development, formulated in the Local Agenda 21 at the UNCED. Long-term strategies, stability and harmony in the family business can set a good example for all businesses (Degtiar, 2001; BDI, 2004). In accordance to family business research and the defined dimensions of sustainable management, the following hypotheses are formulated:

H1: When family businesses act according to sustainability, they will most likely survive until the fourth generation or longer.

H1a: When family businesses are economically oriented, they will most likely survive until the fourth generation or longer.

H1b: When family businesses are ecologically oriented, they will most likely survive until the fourth generation or longer.

H1c: When family businesses are socially oriented, they will most likely survive until the fourth generation or longer.

H1d: When family businesses are long-term oriented, they will most likely survive until the fourth generation or longer.

The research model (see figure 2) will therefore be used as a basis for this case study research of sustainable family business management.

**CASE STUDY ANALYSIS**

Complex social phenomenons can be characterized only by qualitative research methods such as case studies, because strictly quantitative research would not explain the motives and details to analyse, for example, sustainable family business management. Bonoma defines a case study as a “description of a management situation” (1985). To generalize the described case studies, the
development of a theoretical framework and the testing of quality criteria are important. In the selected multiple-case study design, at least four cases have to be carefully selected to be able to generate theory and predict similar results. The number of cases can increase during the research, but it is recommended to stop when the contribution of one case becomes marginal. (Eisenhardt, 1989; Yin, 1994; Royer, 2000; Kenyon-Rouvinez, 2001)

**Indicators of sustainable management**

The United Nations Commission on Sustainable Development (CSD) was established in 1992 to ensure an effective follow-up of the Local Agenda 21 targets after the UNCED. The Global Reporting Initiative (GRI, 2005) started to develop globally applicable Sustainability Reporting Guidelines in 1997. The indicators of the GRI guidelines have to be adapted for different countries or industries. These guidelines as well as sustainability reports of different companies were helpful to specify the following indicators of sustainable management for builder’s providers:

- **Economic indicators:** patents, cooperation, turnover, equity ratio, use of profits, investments, number of employees.
- **Ecologic indicators:** waste disposal, rental machines, renewable energy use, ecologic performance of products and company, product origin.
- **Social indicators:** regional ties, employee structure, working conditions, qualification, customer and employee relationships, family meetings.
- **Long-term indicators:** companies’ vision and philosophy, strategic goals, succession.

The research concentrates on the profound investigation and evaluation of these selected indicators according to the following design.

**Research design**

After formulating the research question and the hypotheses, the case selection is the next step in the research design. The building industry was selected because of the interviewer’s work experiences and because the first main focus for sustainable development in Germany was
selected to be “Building and Living”. This focus reflects the basic needs and can be seen as an example for other areas (Deutscher Bundestag, 1997).

Builder’s providers that are at least in the fourth generation were selected to analyse the sustainable management of long-lived and therefore successful family businesses. Four firms north of Hamburg were sufficient for this analysis. To protect the anonymity of the companies only summarized data will be published in this article. These four typical family owned builder’s providers between the fourth and the seventh generation are situated between Flensburg and Kiel with about 50 to 120 employees and at least two local establishments.

According to Yin (1994) three principles of data collection for case studies have to be considered:

1. Multiple sources of evidence: This principle to combine different sources, known as triangulation increases the validity of the case study analysis. The sources used here are secondary data, observations, structured interviews of owners and ecological experts.

2. Case study database: For each case, all important information has to be documented and structured. The created database has to be analysed first within the case and then compared across the cases. In this hypothesis-testing research, tables are used to summarize and tabulate the evidences (Eisenhardt, 1989).

3. Chain of evidence: This principle allows external observers to follow the conclusions and increases the reliability of the analysis. The sustainability dimensions are evaluated in ratings similar to school marks from 1 to 6 by the owner, the ecological expert and in summary by the researcher. The summarized assessment also includes the observation and secondary data.

**Case study results**

For each case, the cooperative groups, history, succession and both interviews were documented and assessed including all data. The assessments of all cases are summarized in table 1.
The figures result from a detailed evaluation of each dimension by the researcher based on the evaluation of the owner and the ecological expert for every case, documented in brackets. According to the mentioned principles of data collection (Yin, 1994) also observations in the shops and offices as well as available secondary data like brochures and documentations were included in the researchers overall evaluation. In most cases, the researcher came to the same conclusion or better, because of positive observation and secondary data or a presumed pessimistic view of the owners. In case 1 the owner evaluated the ecologic dimension as low with a value of 5, because of annoying regulations and high prices for ecological products the customer did not want to pay for. The summarized result therefore regarded the assessment of the ecological expert as more realistic. In case 3, the owner also answered as an ecological expert, where this lack of trust in the employees lead to a worse result in the summarized assessment. In case 4 no answer was given by the owner, but friendly and helpful employees as well as regional ties and good conflict management proved a good social orientation of this company. The extensive reasoning for each assessment according to the above-mentioned principles considers all data, but here only the summarized case study results can be shown.

For testing the hypotheses, the mean values of each dimension were calculated. With good to very good results (up to a value of 2.5) like in all dimensions, the hypotheses H1a to H1d could be confirmed. Therefore, the hypothesis H1 that sustainable management leads to longevity in the tested cases was also proved to be true.

The four cases were classified by ordinal ratings to be able to compare the companies. The two best-marked cases have three locations each in northern Germany. This gives each partner of a siblings-partnership or cousin-consortium enough space for own decisions. In addition, the numbers of cooperation with international orientation can be seen as a reason for the high rating. In case 2 the financial basis was interpreted as a problem, because of a failed cooperation and high investments. The owner of the business in case 3 stated that the location was not important.
for him, which led to a medium value in the social orientation. Besides these few differences, the resources and capabilities could be specified in a summarizing data analysis shown in figure 3. According to the resource-based analysis, these resources and capabilities can be seen as a competitive advantage, because they were found to be valuable, rare, imperfectly imitable and not in all substitutable. The above-mentioned resources and capabilities give an answer to the first research question concerning the special features of long-lived family businesses. The second research question whether long-lived family businesses are managed according to sustainability was approved in hypothesis 1. The strategy selection referring to the third research question regarding what other family businesses can learn will be discussed in the following strategy part.

**Strategy implications for practice**

As explained in figure 1 the strategic options of managing a family business are limited through the family commitment, the external environment and the internal capabilities. For the parallel planning process high competences of the management are required (Carlock/Ward, 2001). In the four analysed cases many of these competences were found. As in the strategic management concept of Hahn (1999) the owners considered the business and family culture as well as long-term business goals to be most important in strategic management.

The philosophy of the family business was confirmed to be a sustainable, future oriented and flexible thinking. One owner for example cited his father who said: “The head is round, so you can think in all directions”. This includes tradition as well as courage for changes and a sense of community with all stakeholders. Because of the long existence of the firm, the stakeholders trust the family business and are loyal in their attitude towards the company. This attitude can be supported by family businesses when the senior owner is still working in the company or at least show his or her interest. To worth ship the older generation has a positive impact on the relationship between employees.
Another important aspect in family business culture can be specified by regional bonds. A regional orientation supporting local institutions goes along with the social responsibility of the family business towards the region in which the company is situated.

Figure 4 shows the sustainable management concept for family businesses, which was adapted from the concept of Hahn.

The most important **long-term business goals** are future financial security of the family and family succession. All owners were looking for a higher equity ratio and stability rather than extensive growth. On a long-term basis, the competition with the DIY sector would be difficult and they should concentrate on their competences and niches. In this context, the cooperative groups and communication with all business partners even on an international basis could be a long-term strategy.

Another goal was a moderate and sound growth. Hisrich and Peters (2002) expressed this with the following sentence: „Entrepreneurs found a way to manage growth rather than allow the growth to manage them”. As practical implication it is especially important not to follow an extensive growth policy but rather think twice before investing and in this way look for stability.

Within the investigated firms the number of businesses often corresponded with the number of responsible family managers, so they follow the same moderate growth strategy.

The **area strategies** depend upon the long-term business goals as well as the business and family culture. The **ecological strategy** is related to a new thinking according to the value chain as means to reduce the risk. The owners of the family businesses were very concerned about the supply of their products and took responsibility for all waste according to industrial regulations and more. A few family business owners regarded the regulations for certification as critical. This shows concern about ecological thinking on management level. Some companies use renewable energy like solar or wind energy in their business. The other family businesses could at least recommend other companies regarding renewable energies. This strategy should be enhanced, because providing solutions to use renewable energies will become more important
for companies with regard to the recent debate on climate change (Haigh/Griffiths, 2007; Porter/Reinhardt, 2007).

The product range in the case studies emphasized high quality, regional supply and certification. New product developments are communicated quickly through the cooperative groups, so that the product range can be ecologically optimized. At the same time, the employees have to be qualified to give skilled advice according to new ecological developments.

The industrial association of builder’s providers thinks of ecological building and renovation as a good chance in competition. This can be used as practical implication in strategic planning regarding the product range, cooperation or building up competences.

The social strategy of open and regular communication with employees, customers and family members makes it easier to solve conflicts (Neubauer/Lank, 1998). The employees are paid well, take responsibility and therefore stay longer in the family businesses. This also leads to good relations with customers and suppliers and a good working climate. A high competence to cooperate, combined with flexible strategic planning can be seen as a positive long-term and social strategy.

Practical implications regarding succession were similarly expressed by the interview partners. Succession plans should be communicated at an early stage and can be seen as opportunity to change (Klein, 2003). The successor should be aware of long working hours and the risk involved in owning a business. They should be able to fully understand the financial figures like balance sheets combined with according competences and be motivated to respect the company values. The employees then identify themselves with the family and business culture resulting in trustworthy collaboration and security for both sides.

Following social and ecological strategies, the limitations of economic strategies cannot be ignored. The owners of the investigated businesses confirmed this, especially looking at sponsoring or flexible working hours. In other areas the strategies can enhance themselves for example with a new ecological product range or highly motivated employees. Financial
independence was stated to be the most important goal, which was achieved with a high equity ratio, social networks and a number of cooperation. The family businesses followed a conservative financial policy and a sensible payment system for the management. Findings of previous research state that family firms are more risk averse because of the priority to continue the family business (Uhlaner/Meijaard, 2004; Wimmer/Groth/Simon, 2004). With regard to the recent financial crisis including the debate on management earnings, the investigated family businesses can set a good example with their sensible payment system.

The three area strategies are all equally important. The traditional mental model, that economic policies are preferred to society and ecology is no longer relevant. In the new model, the three dimensions are not in a trade-off, but in an integrated situation (Willard, 2002). Therefore the parallel planning process shown in figure 4 does not only apply for the family and business strategies but also for the area strategies.

Overall, the sustainable management concept can only be a wide framework for family businesses. According to this paper and previous research, family and business culture as well as long-term goals are similar in most family businesses (Hahn, 1999; Wimmer/Groth/Simon, 2004), but the area strategies have to be adapted according to the resources and capabilities of each company or industry. The following conclusions can be drawn from the case study results for sustainable family business management.

CONCLUSIONS

In a dynamic environment with increasing globalization as well as ecological, technical and sociocultural developments, business management has to adapt constantly to these changes to stay competitive. The owner management is therefore responsible for maintaining the specific sustainable resources and capabilities of the company. New organizational structures might be necessary according to the sustainable management concept. In all four family businesses cases, a low hierarchy and a steady pursuit of their long-term goals and sustainable area strategies lead
to success and longevity as stated in previous research (Goto, 2006). Careful financial management, social and ecologic orientation according to the resources and capabilities in figure 3 show the main competitive strategies in sustainable management.

In Europe, sustainability reports are becoming more and more important (Loew, 2005). Even without any legal obligation, a lot of companies publish sustainability reports. Some national and international institutions try to find an acceptable indicator for sustainable management. To find appropriate indicators, more international and interdisciplinary research is needed in this field. Even though the case study results show, that these long-lived family businesses should not be afraid to publish sustainability reports, the results are limited to builder’s providers and can only contribute partly to a family business theory. Therefore, further research is needed to analyse if family businesses in other industries act in a similar sustainable manner. Also regarding the recent discussion on climate change and the financial crisis, further research will have to analyse future objectives and responsibilities of family businesses in this perspective.

Research towards the development of a theory of family firms is still rare and should combine organizational with family systems theory (Sharma, 2004; Zahra/Sharma, 2004) and stewardship theory investigating governance relationships (Craig/Green/Moores, 2003). Including the dynamics, structures and behaviour within a family, discussed in the psychological oriented family systems theory (Rothbaum et al., 2004; Schneewind, 1999) will help to understand the reciprocal relationships between family and business systems (Chrisman/Chua/Steier, 2003). Solving problems within the family system including organizational aspects will in this regard be a further step towards the ultimate aim to develop a theory of family firms.
REFERENCES


Table 1: Summary of case study results

<table>
<thead>
<tr>
<th>Dimensions</th>
<th>Case 1</th>
<th>Case 2</th>
<th>Case 3</th>
<th>Case 4</th>
<th>Total average</th>
</tr>
</thead>
<tbody>
<tr>
<td>long-term</td>
<td>1 (1/1.5)</td>
<td>2 (3/2)</td>
<td>2 (3/3)</td>
<td>1 (1/1)</td>
<td>1.5</td>
</tr>
<tr>
<td>economic</td>
<td>2 (3/3)</td>
<td>3 (3.5/3)</td>
<td>2 (3/3)</td>
<td>2 (2.5/2)</td>
<td>2.25</td>
</tr>
<tr>
<td>ecologic</td>
<td>3 (5/2.5)</td>
<td>2 (3/2.5)</td>
<td>2 (2.5/2.5)</td>
<td>2 (1.5/3)</td>
<td>2.25</td>
</tr>
<tr>
<td>social</td>
<td>2 (3/2.5)</td>
<td>2 (3/2)</td>
<td>3 (2,5/2,5)</td>
<td>2 (n.a./2)</td>
<td>2.25</td>
</tr>
<tr>
<td>Sustainability</td>
<td>II</td>
<td>III</td>
<td>III</td>
<td>I</td>
<td></td>
</tr>
</tbody>
</table>

Figure 1: Identifying Family Business Strategies


Figure 2: Research model
**Figure 3: Resources of sustainable family business management**

<table>
<thead>
<tr>
<th>Sustainability dimensions</th>
<th>1. Resources</th>
<th>2. Capabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic situation</td>
<td>high equity capital, family property</td>
<td>willingness to cooperate, trustworthiness</td>
</tr>
<tr>
<td>Ecological orientation</td>
<td>environmental responsibility, high product quality</td>
<td>skilled advice, example setting</td>
</tr>
<tr>
<td>Social orientation</td>
<td>good employee and customer relationships, good working climate</td>
<td>conflictability, qualification, regional closeness</td>
</tr>
<tr>
<td>Long-term orientation</td>
<td>cooperation, firm history</td>
<td>flexibility, communication</td>
</tr>
</tbody>
</table>

**Figure 4: Sustainable management concept for family businesses**

```
Business culture
  ↓
Long-term business goals
  ↓
Area strategies
  ↓
Ecological strategies Social strategies Economic strategies
  ↓
Family culture
```