Trust Issue in Family Businesses and Its Relationships with Institutionalization

Evren AYRANCI
Business Administration (In English) Department, Faculty of Economics and Administrative Sciences, Istanbul AREL University, Turkoba Mahallesi Erguvan Sokak No: 26/K 34537, Tepekent – Buyukcekmece Istanbul TURKEY
Email: evrenayranci@gmail.com

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Abstract
Though family businesses dominate business environment globally, there is a lack of research about these businesses. A literature review yields that trust among family members is such an issue. With the aim of contributing in this sense, this study considers intra-family trust within family businesses. Literature unveils that another faint area of research pertains to family business institutionalization. A general view is that institutionalization of family businesses means professionalization not only in business operations and management, but also in organizational culture passed through family members' generations. The lack of in-depth studies related to pillars and nature of this institutionalization however, is an issue, which is worth considering. Therefore, this study also aims to make a contribution by finding out facts about family business institutionalization. Beyond these, the ultimate gap to be filled in is how an informal issue such as intra-family trust can be related with a more formal issue, professionalization or namely family business institutionalization. With this specific gap in mind, this study uniquely tries to unearth how intra-family trust and family business institutionalization are related. For these purposes, a pilot study and a detailed research are performed on family businesses in organized industrial zones in Istanbul, Turkey.

Keywords: Intra-family trust, institutionalization, family businesses, organized industrial zones, Turkey

1. Introduction

Business environment is a vast source of research for many purposes. While some purposes are related to practical concerns such as business growth and profitability, some purposes pertain to scientific contribution. Either way, a problem persists: these purposes may easily slide from answering to real world business issues.

This problem is more obvious for family businesses. Despite their global prevalence (Bird et al. 2002), family businesses do not get much scientific attention and only recently have some initiatives been shown to professionalize the field of family business research (Ayranci 2010). This field also needs to be studied more in terms of new and various business issues because the literature points out that most studies emphasize same specific issues such as institutionalization, succession, agency theory, succession planning, strategic management and planning (Bird et al. 2002; Ayranci 2009, 2010). Despite these hardcore business issues, very few related studies prefer to focus on softcore issues such as trust (Sundaramurthy 2008), altruism (Karra et al. 2006), and love and unity (Lane et al. 2006). Even some fewer studies (e.g. Kiran 2007; Sundaramurthy 2008) question potentiality of relationships among some of these hard and softcore issues. This study aims to question the same potentiality when trust among family members in business context and family business institutionalization are considered.

1.1 A Brief Definition of Family Businesses

Family businesses have a very long history (Bird et al. 2002) and dominate business context globally. This domination is more evident with the fact that family businesses account for almost two-thirds of all businesses and generate about 70% of GDP globally (Family Firm Institute 2015).

Besides this domination, family businesses are defined or identified very easily - via the family itself. Definitions are based on family ownership and management, and these definitions may only vary according to the family's degree of ownership or management. While family's majority in ownership and management is generally enough to identify a family business (e.g. Ayranci 2010), some scholars prefer more details such as family's ownership of 60% or more of standing shares (Donckels and Fröhlich 1991), majority in voting rights irrelevant of share ownership (Ward and Dolan 1998), and business's chief executive to be a family member (McConaughy et al. 2001). Though this approach is simple and acute to identify family businesses, some scholars posit that the approach is not sufficient for longitudinal studies (Ayranci 2009), thus continuity of family ownership or management (e.g. Lee et al. 2003; Sharma et al. 2003) is noted for identification.

Identification of family businesses becomes more complex when there is an intention to intra-classify these businesses. The most commonly used approach is to identify which generation of the family owns or manages the business. Generally, the youngest family businesses are first-generation businesses, which are started and still managed by the same family member (Karpuzoglu 2000). When this family member willingly or sometimes unwillingly step out, a succession to subsequent generations is intended. This succession is usually managed by a plan (Daspit et al. 2016) and regardless of the generation, handling of the business by any subsequent generation renders the business to be a second-generation family business (Ayranci 2014). This handling, however, may or may not be in effect formally. In other words, the subsequent generation may refrain from actively exerting management or leadership and thus force the founder to run the business (Barach and Ganitsky 1995) or the founder may still be willing to direct the business via controlling the subsequent generation on duty (Handler 1990).

According to this approach, each succession between the former and later generations adds to generation count of the business and generation counts can be used for distinction among family businesses. Nevertheless, there may still be ambiguities. For example, if there are multiple families as owners or managers, a generation-based distinction depending solely on one family loses its precision. Likewise, a difference of generation in management and in ownership renders generation-based approach useless.

To overcome these mentioned ambiguities, some classifications depend on active family member's identity. Shortly, a sole proprietorship family business is controlled (owned and managed) by a single family member (Ayranci and Semercioz 2010); sibling partnerships are run by siblings within the same family (Leach and Bogod 1999); and complex family businesses are run by multiple family members in various ownership and management positions (Leach and Bogod 1999). This approach has the same drawback as the previous one: presence of multiple families and thus their members makes it impossible to use this identity approach.

1.2 Institutionalization of family businesses and trust

Institutionalization has been a scientific research subject since the early 1900s and its organizational roots can be traced back to Selznick (1949). These roots have later been criticized and many other institutionalization perspectives have flourished. Currently, institutionalization is a branch itself with multiple and sometimes contradicting paradigms.

As told earlier, family businesses have not been mined enough in scientific terms and this holds true when institutionalization is in question. Family business institutionalization is generally considered from two perspectives. While one perspective emphasizes professionalism of management accompanied by rules and procedures, which is person-independent (Ayranci 2010); other perspective focuses on family side – namely familiness, which is briefly considered as the combination of family norms, values, beliefs and relationships (Gersick et al. 1997) – and its effects on the business system.

An interesting point is that the perspective noting professionalism of management (formal perspective) is different for family firms when compared to non-family firms. Family can not be separated from its family business and that's why even the formal perspective of institutionalization contains some familiness. Scientific proof shows that some family members may show resistance to non-family professional managers (Mullins and Schoar 2016), there may be conflicts among generations to form rules or procedures that treat family members and non-family business members the same (Pindado and Requejo 2015), and non-family professional managers may face dilemmas regarding business needs and family claims (Neubauer and Lank 2016).

As this study considers Turkish family business context, this context should be emphasized. Turkish studies indeed show a great inclination towards formal perspective of institutionalization. While very few studies (e.g. Karpuzoglu 2000) consider first-generation Turkish family businesses to be institutionalized on the fact that they carry founder's characteristics and thus become uniquely systematic, more studies (e.g. Gunver 2006) claim that systematic rules and procedures may be the result of professional non-family members' existence. These studies call for a need to professionalize and this need emerges when family and business values start to conflict (Ayranci 2009) or when founder loses its effectiveness on the business (Le Breton-Miller and Miller 2013). A striking point exists at this stage: professionalization of family members in Turkey is not effective for institutionalization because intra-family relationships can easily penetrate through family members' professional approach

(Alayoglu 2003). This is the main reason for the preference of professional non-family managers, albeit familiness can still be effective to manipulate these managers (Gunver 2006). These prove that family can not be separately considered when family business institutionalization is in question in Turkey.

Though familiness is implied to hinder formal perspective of institutionalization in Turkish family businesses, it may also become vital for business survival. Many developing countries lack professional rules and regulations and may face economic or even political instabilities (Lin and Si 2010) and thus operating costs may greatly fluctuate (Steier 2009). Familiness, in the form of intra-family aid, trust, use of relationships and networking, may be used for business survival (Mbebeb 2008). As Turkey is a developing country, this may also be valid for Turkish family businesses. Although this claim is made in some Turkish studies (e.g. Caglak 2016), they have yet to be tested empirically.

Trust among family members is a component of familiness and very few studies (e.g. Ogidi 2014) scrutinize this component. Moreover, a literature review points out that trust is one of the major components that has a role at every stage of family businessing. When the family business is being started up; family ties and cooperation, which stem from intra-family trust, are enormously needed (Carney 2005). This trust is not limited to the founding stage; it can also be used for later business decisions as it enables a foresight about how family members will act regarding business issues (Utami et al. 2017). At its newly formed stage, family business may only involve family members and again intra-family trust can prove useful for cooperation and effective communication among family members for the sake of the business (Breton-Miller and Miller, 2015).

This essential trust suffers from erosion when the business starts to expand. This erosion is especially witnessed when the addition of non-family business members increases inter-personal relationship complexity (Steier 2009), the need for advanced business skills renders some family members useless for business operations (Cabrera-Suárez et al. 2001), and some family members prefer different business areas (Ayranci 2009). This advanced skill requirement is more noteworthy according to the literature because it necessitates a shift from intra-family trust to trust for professional competence (Ward 2004). Moreover, this requirement could become so powerful that the succession or promotion may entirely depend on competence rather than being a family member (Barach and Ganitsky 1995).

As a summary at this point, there is evidence that family business institutionalization may partly or completely bypass intra-family trust. Institutionalization needs a supra business system that involve and coordinate many subsystems while all these systems require objective rules and procedures for all business members regardless of being a family member (Sydow 1998). This objectivity can easily collide with familiness, especially with family's emotional bindings such as trust, thus it becomes very hard to enforce objectivity in family businesses. While the literature asserts this reality, it also suggests some solutions such as family-specific professionalization criteria (Ward 2004) or a total formal family business constitution (Ayranci 2010).

2. Research Methodology

The above discussion pinpoints that family can not be separated from the family business and the issue of institutionalization in terms of professionalization might change how each family member can be related with business issues, thus it affects nature and extent of trust among family members. This consideration leads the author to propose a research model presented in Figure 1.

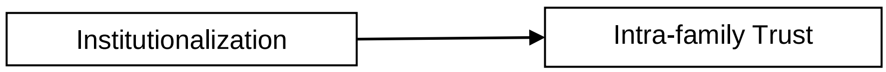

Figure 1. Research Model Proposed

The participants are family business managers who are also family members. As a family business database does not exist for Turkey, the population is first assumed to be all businesses in organized industrial zones (OIZs) in İstanbul. In order to identify family businesses within this population, a family business definition is formed. This definition depends on both ownership and management; thus a business is considered to be a family business when a family owns the majority of shares **or** has the majority in management.

Data are obtained via questionnaires and this definition is written at the top of the first page. Each business manager is asked to identify his/her business according to the definition provided. If the business is identified to be a family business, then the manager is asked to indicate whether he/she is a member of the controlling family. Data collected from family business managers who are simultaneously family members are taken into account.

While the first part of the questionnaires contains items about institutionalization, the second part deals with intra-family trust. The author facilitates from Ayranci's (2010) instrument to assess institutionalization as it is a customized and validated instrument, suitable for Turkish family businesses. For intra-family trust, the author can not find a direct instrument when family business context is also considered, thus the author uses a combination of two different approaches. Family social capital instrument, developed by Cabrera-Suárez et al. (2014) is taken into account and is combined with Biddulph's (1999) family trust scale. Questionnaires are applied by a consulting firm and the list of participants is obtained thereafter. The author checks with the participants in the list to see whether the questionnaires are applied appropriately.

The research process involves a pilot study and a primary research thereafter. While the pilot study aims to identify statistical structures of the collected data; the primary research intends to evaluate the model proposed in Figure 1 in order to arrive at some conclusions.

To determine sample size, all businesses registered in each OIZ of İstanbul are checked. While İstanbul has eight OIZs (OSBUK 2017), the number of registered businesses in each OIZ is presented in Table 1. The total sum is 29625.

Table 1. Number of Registered Businesses in Each OIZ of İstanbul

Name of the OIZ	Number of Registered Businesses	Pilot Study Questionnaire Number	Primary Research Questionnaire Number
İstanbul İkitelli	27414[a]	176	352
İstanbul Anatolia	151[b]	1	2
İstanbul Leather	702[c]	4	9
Unity	105[d]	1	2
İstanbul Tuzla Chemistry Industry	163[e]	1	2
İstanbul Dudullu	178[f]	1	2
İstanbul Tuzla	99[g]	1	1
İstanbul Beylikdüzü	813[h]	5	10
TOTAL	**29625**	**190**	**380**

Sources: [a] IOSB (2016), [b] İstanbul Anadolu Yakası OSB (2015), [c] Deri OSB (2016), [d] BOSB (2015), [e] KOSB (2016), [f] IDOSB (2015), [g] ITOSB (2015), [h] IBOSB (2015).

Table 1 also denotes that quota sampling method is used in order to represent each OIZ's businesses proportionally. At this point, there is also an ambiguity to be overarched. Number of family businesses within these figures is unknown. As a solution, the author assumes all of these businesses to be family businesses initially, therefore the questionnaires are applied accordingly. As explained earlier, there is the definition of family businesses written on the questionnaire and it is used to eliminate non-family businesses from the data collected.

The sample size for the primary research is calculated to be 380 via a 5% margin of error and a 95% confidence level (Raosoft 2004). For the pilot study, half of this sample size is used as shown in Table 1. The participants in the pilot study are also eliminated from the primary research to avoid double counting in terms of data collected.

3 Findings

3.1 Findings of the Pilot Study

Out of 190 participants, 179 acknowledge that their business is a family business and that they are family members. Table 2 reveals the statistical structure of family business institutionalization. The structure is obtained by an explanatory factor analysis with a principle components analysis, varimax rotation and the exclusion of items with a factor loading smaller than |0,5|. Table 2 also includes reliability analysis results.

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Table 2. Explanatory Factor and Reliability Analyses Results of Family Business Institutionalization

	Managerial Component	Financial Component	Succession Component
Suitability for explanatory factor analysis	**KMO Value: 0,875 Bartlett's test value is statistically significant.**		
Variance Explained (%)	**31,228**	**22,376**	**21,811**
Cronbach's Alpha	**0,889**	**0,903**	**0,823**
Family business managers should always think for the sake of the business rather than the wealth of family. (M3)	**0,932**		
Meetings between managers and family members should focus on business growth and direction. (M1)	**0,906**		
There should be written procedures to overcome managerial conflicts. (M4)	**0,873**		
Family businesses should have action plans ready if current family or non-family member manager leaves. **(M2)**	0,829		
Family member managers should always think about business issues objectively. **(M6)**	0,781		
Family businesses should have professional boards such as a board of directors. **(M5)**	0,621		
Financial issues should be planned professionally. **(F3)**		0,928	
Assets and wealth of the business should be managed by professional experts. **(F4)**		0,917	
There should be written rules and processes to manage business funds. **(F1)**		0,914	
A specific process should be used to determine the next manager(s) regardless of being a family or a non-family member. **(S3)**			0,906
Family businesses should have detailed succession plans. **(S2)**			0,881
Senior managers should coach young family members. **(S1)**			0,813

There should be plans to enhance expertise and management capabilities of young family members. **(S4)**			0,556
Extraction Method: PCA. **Rotation Method: Varimax with Kaiser Normalization.**			
Rotation converged in 4 iterations.			

Table 2 points out that institutionalization stands on three main pillars, which aggregately explain 75,415% of the total variance. Out of these three pillars, the managerial component insists on emphasizing business in terms of management, overcoming potential problems such as managerial conflicts and sudden departures, keeping objectivity, and facilitating from professional managerial structures such as the board of directors. The financial component also stresses professionalism for financial matters such as financial planning, and asset, wealth and fund management. The last pillar, succession component, similarly asserts the need for professionalism in terms of next manager selection, existence of detailed succession plans, capability enhancement for young family members, and coaching.

The next step is to investigate intra-family trust and therefore, an explanatory factor analysis with a principle components analysis, varimax rotation and a suppression of factor loadings smaller than |0,5|, is run. The results, along with reliability analysis results, are given Table 3.

Table 3. Explanatory Factor and Reliability Analyses Results of Intra-Family Trust

	Intra-family Trust
Suitability for explanatory factor analysis	**KMO Value: 0,826** **Bartlett's test value is statistically significant.**
Variance Explained (%)	**61,760**
Cronbach's Alpha	**0,879**
We trust each other in our family. **(T1)**	0,802
We honestly discuss problems in our family. **(T5)**	0,791
We have positive and persistent emotional bonds in our family. **(T2)**	0,776
We foster the feeling of security and trust in our family. **(T4)**	0,755
We trust each other to cooperate in order to solve future challenges. **(T3)**	0,747
Extraction Method: PCA.	
1 component extracted.	

Table 3 clearly puts forward that intra-family trust is a unidimensional structure and that it includes the feeling of trust, shared emotional bonds, cooperation for problem solving and facing challenges, and enhancement of security and trust feelings within the family.

All these structures shown in Tables 2 and 3 necessitate a refinement of the questionnaires used and these refined questionnaires are used to collect data for the primary research thereafter.

3.2 Findings of the Primary research

The returned and approved questionnaires are initially inspected by the author superficially and all are found out to be valid. In order to test the model in Figure 1, the author determines to perform a bootstrapping regression analysis with the "enter" method and all extracted factors in Tables 2 and 3 are included in this regression.

The author first checks the overall validity of the model and as Table 4 reveals, there is no validity problem of this model albeit the overall effect is weak.

Table 4. Results of Model Summary and ANOVA

Model	R	R Squared	Adjusted R Squared	Std. Error of the Estimate	
1	0,516[a]	0,223	0,106	0,95562	
a. Predictors: (Constant), M1, M2, M3, M4, M5, M6, F1, F3, F4, S1, S2, S3, S4. (Check Table 2 for item abbreviations).					

ANOVA[b]						
Model		**Sum of Squares**	**df**	**Mean Square**	**F**	**Sig.**
1	**Regression**	43,768	45	0,905	1,812	0,008[c]
	Residual	153,211	312	0,614		
	Total	196,979	357			
b. Dependent Variable: Intra-Family Trust						
c. Predictors: (Constant), M1, M2, M3, M4, M5, M6, F1, F3, F4, S1, S2, S3, S4. (Check Table 2 for item abbreviations).						

As the model is valid but includes a weak overall effect, the author expects partial effects of institutionalization on intra-family trust. A further analysis is performed to see whether this expectation is true and the results in Table 5 indicate that there is indeed a partial effect as expected.

Table 5. Bootstrap for Coefficients[a]

Model		B	Bootstrap[b]				
			Bias	Std. Error	Sig. (2-tailed)	95% Confidence Interval	
						Lower	Upper
1	(Constant)	1,230	0,001	0,397	0,048	-0,061	2,213
	M1	0,098	-0,041	0,087	0,311	-0,082	0,377
	M3	-0,097	0,0111	0,129	0,496	-0,294	0,288
	Family businesses should have action plans ready if current family or non-family member manager leaves. **(M2)**	**-0,311**	**-0,051**	**0,125**	**0,046**	**-0,552**	**-0,003**
	There should be written procedures to overcome managerial conflicts. **(M4)**	**-0,093**	**0,007**	**0,156**	**0,039**	**-0,208**	**-0,008**
	M5	0,012	0,004	0,058	0,851	-0,010	0,154
	Family member managers should always think about business issues objectively. **(M6)**	**-0,078**	**0,001**	**0,074**	**0,041**	**-0,177**	**-0,051**
	F1	-0,069	-0,004	0,073	0,566	-0,202	0,133
	F3	0,077	0,005	0,068	0,334	-0,031	0,195
	F4	0,011	0,003	0,081	0,674	-0,115	0,177
	S1	-0,156	0,014	0,147	0,253	-0,377	0,085
	Family businesses should have detailed succession plans. **(S2)**	**-0,201**	**-0,003**	**0,065**	**0,009**	**-0,378**	**-0,031**
	A specific process should be used to determine the next manager(s) regardless of being a family or a non-family member. **(S3)**	**-0,253**	**0,003**	**0,088**	**0,006**	**-0,339**	**-0,058**
	S4	0,051	0,001	0,022	0,238	0,009	0,134

[a] Check Table 2 for item abbreviations.
[b] Unless otherwise noted, bootstrap results were based on 1000 bootstrap samples.

It is important to remember that the participants are family members, who are also managers of their family businesses. According to Tables 4 and 5, these participants reveal that their family business institutionalization has a weak overall effect on their family members' trust towards each other. When details are scrutinized, it becomes clear that the financial component of institutionalization has no relationships with intra-family trust. The two remaining components also fail to affect this trust completely.

Managerial component's three items (M2, M4 and M6) can affect the trust negatively and weakly. More specifically, the participants consider that binding management changes to pre-determined action plans, using written procedures to overcome managerial conflicts, and stressing family member managers' objectivity can hurt intra-family trust.

Succession component can also affect this trust partially via two items (S2 and S3), again weakly and negatively. In other words, having a readily made succession plan and facilitating from a specific process for management changes without prioritizing the candidates to be family members primarily, are all lessening intra-family trust.

4 Results, Discussion and Suggestions

As explained earlier, family business institutionalization is bi-folded. While one paradigm stresses professionalism and insists on formal rules and procedures, the other emphasizes a softcore issue – familiness – and scrutinizes its role in forming the family businesses' own characteristics. Familiness, itself, is an interesting subject that needs much further studies but currently, an important part of it is the trust among family members. The author checks the effects of professionalism paradigm of institutionalization on this mentioned trust. An important point is that this checking has not been performed by means of an integrative model in the literature before. A general result is that formalization in terms of written rules, procedures and plans, and keeping managerial objectivity is expected to shatter intra-family trust. In other terms, the participants consider that their families intend to keep the business in their hands without being limited to objective formality.

Some implications may be possible regarding the findings about managerial component's items. According to the participants, family members may think that change of management is a very delicate matter and thus it needs to be discussed within the family. Depending on this thought, the existence of a pre-determined action plan, which also means weakening family members' decisional power to choose what to do immediately when the current manager leaves, could prevent family members from favoring such a plan.

As family businesses involve some family sovereignty, the participants may consider that managerial conflict resolution should be left to able and trustable family members, not to pre-written procedures. This may be the reason that they are expected to reject these procedures.

Managerial objectivity of family member managers is not also considered to be favored when intra-family trust is on stage. As the participants are simultaneously family members and managers, they may conclude that their decisions should also somehow favor their families. They may consider that this is expected by their families and if not exerted, family members' trust towards themselves could be weakened.

There may also be some implications existing when succession is taken into consideration. Using succession plans is expected to melt intra-family trust according to the participants. Succession is a vital issue for the business and there may be multiple family members, who perceive themselves to be possible candidates. In this case, the existence of an already established succession plan means that many of these candidates could lose their potentiality and this may bring up feelings of envy, hatred, or disappointment. The expected result is the loss of trust among family members. A very similar implication is possible when procedures for selecting the next manager(s) are suggested. What may differ is that, this time family member candidates could have negative feelings towards possible non-family member managers as a result of losing their potentiality. Consequently, while pre-established procedures to select the next manager(s) could hurt intra-family trust; enabling these procedures to select non-family members could also erode family members' trust towards these people.

This is a preliminary study. The proposed model has not been investigated before and thus it may be used for different family business contexts in the future. The model could also be enhanced in many ways. Though it currently considers direct effects of institutionalization on intra-family trust, future models could also facilitate from indirect effects. It should be noted that the pillars of institutionalization and the trust component may be affected by many other factors such as business culture, regulations, and economic fluctuations. Future models could also account for these factors. These may also be considered as moderate variables in future models.

Another change could be made in terms of participants. In the current study, only one person from each family business is taken into account and this person has dual characteristics as being a manager in the business and being a family member. Future studies may collect data from multiple family members, who are formally active in their businesses. Changes may also be made for other issues – different definitions of family firms may be used to form different levels of homogeneity in the sample, or different family definitions depending on blood kinships or marriage may be used. This study, with its results and suggestions, might excite researchers for future studies.

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