Organizational Behavior and Management in Family Businesses

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Edited by

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FOREWORD

Family firms are considered as inferior in some cases and superior in other cases. Hence, exploring, analyzing, and publishing about these firms are necessary for literature and academia. Following the same logic, there are books and articles about these firms that are showing good and bad ways of family firms. Hence this proposed book is valuable and supportive for the literature and academia. Bringing scholars who have published in multiple research areas to write about family firms is the value of this proposed book.

Another value of this book is being a collection of essays that emphasizes multiple management functions from an academic perspective. Furthermore, this book is prepared to explore the family business-related management and organizational behavior topics from the perspectives of Turkish Scholars. The content of the book will provide a comprehensive analysis of the management functions that are applied in family businesses. Important topics such as talent management, financial management, marketing management, innovation, professional management, change management, and leadership will be explored.

Readers of this book will have thorough details of each managerial problems that are specific to family firms. Each chapter will take the reader to next level of understanding how family firms operate. Furthermore, in addition to understanding how family firm owners run the business, readers also will realize how the employees of family firms face different organizational behavior issues.

Family firms constitute more than 80% of the businesses and employ 60% of the workforce worldwide. This book presents valuable insights about how these firms operate and how their employees feel. Starting from management philosophy, this book covers topics like institutionalization, financial management, talent management, social media management, HR management and commitment.

Studies shows that family firms have strong familial ties therefore should have strong commitment and strong human resources, but on the other hand, due to these ties, family firms lack of fair and just human resource policies, resulting dissatisfied workforce. There are chapters dedicated to HR and commitment issues in this book. Furthermore, family integration is a source of competitive advantage and one of the advantages of this integration is strong financial support. Family firms are hesitant to take risky decisions and bear lower financial debts than nonfamily firms. Chapters dedicated to finance of family firms of this book explores the financial management practices of family firms.

Family firms rarely live up to third generation due to lack of professional management practices. Professionalization and institutionalization are important transformations that family firms have to take in order to survive more than third generation. Hence importance of this topic is explored in multiple chapters of this book. Readers will find barriers on the path of professional management practices in these chapters.

In summary, family firms have strengths that make them competitive and strong compared to nonfamily firms. But there are some weaknesses come with family integration as well. Readers will find multiple perspectives of positive and negative aspects of being a family firm in between pages of this book. Suggestions for family firms to live longer, manage better and be better are placed among the chapters of this book. Happy readings.

Family firms constitute more than 80% of the businesses and employ 60% of the workforce worldwide. Nevertheless, there is a limited number of researchers and research focused on how competitive and how problematic these firms are. Family firms are considered as inferior in some cases and superior in other cases. These organizations rarely live up to third-generation due to a lack of professional management practices. Therefore, books, such as this one, helps academics and practitioners to discover good and bad ways of family firms. This results in increased efficiency and performance along with increased academic rigor. Bringing scholars who have published in multiple research areas to write about family firms is the key value of this book. The chapters in this book are selected to answer the needs of both practitioners and researchers. The content of the book provides a comprehensive analysis of the management functions that are applied in family businesses. Important topics such as talent management, financial management, marketing management, innovation, professional management, change management, and leadership are explored in the chapters. Each chapter will take the reader to next level of understanding how family firms operate. Furthermore, in addition to understanding how family firm owners run the business, readers also will realize how the employees of family firms face different organizational behavior issues.

Studies shows that family firms have strong familial ties, therefore, should have strong commitment and strong human resources, but on the other hand, due to these ties, family firms lack fair and just human resource policies, resulting in a dissatisfied workforce. There are chapters dedicated to HR issues in this book. Furthermore, family integration is a source of competitive advantage and one of the advantages of this integration is strong financial support. Family firms are hesitant to take risky decisions and bear lower financial debts than nonfamily firms. Chapters dedicated to finance of family firms of this book explores the financial management practices of family firms. Third generation family firms are uncommon because of a lack of professional management practices. Professionalization and institutionalization are important transformations that family firms must take to survive more than the third generation. Hence the importance of this topic is explored in multiple chapters of this book. Chapters about institutionalization and professional management practices provide new approaches to state-of-the-art problems of family firms. Readers will find barriers on the path of professional management practices in these chapters.

The chapters that discuss the formalization of the family firms include change management and family constitution. Change management and family constitution are two main processes that must be managed to survive multiple generations. Readers will find details about how and why these are important and what are the key points to survive in these processes. Some important and sensitive managerial functions are also represented in the book. Financial management, marketing management, innovation management, and HR management are these management functions. Family firms are strong with financial support that is received from the family itself. On the other hand, there are cases where family members can't apply the financial restrictions and cause unstable finances. Readers will find what to pay attention to in financing and where to find appropriate financing. Mostly it is a small business problem, but marketing is also a big family firm's problem as well. The marketing management chapter explores the specifics of family firm marketing. Family firms are notorious for HR problems and not being able to keep talented employees in the firm. Chapters exploring HR and talent management will provide details about how and why these firms are facing such problems. The chapter focused on socially responsible HR management could show a good way to clear the name of family businesses.

Chapter about women in family firms explore the ups and downs of being a woman in family firms. Being a daughter, wife, or daughter-in-law in a family firm has its merits as well as its disadvantages. Readers will find what it means to be a woman entrepreneur in family firms. Family firms have strengths that make them competitive and strong compared to nonfamily firms. But there are some weaknesses that come with family integration as well. There are multiple perspectives of positive and negative aspects of being a family firm in between pages of this book. Suggestions for family firms to live longer, manage better and be better are placed among the chapters of this book.

Another value of this book is being a collection of essays that emphasizes multiple management functions from an academic perspective. Furthermore, this book is prepared to explore the family business-related management and organizational behavior topics from the perspectives of Turkish Scholars. The perspective of Turkish scholars will reflect the view and understanding of academics from developing countries. Developing country perspective gives a second evaluation of the theories and findings in the family business literature. Theoretical and empirical studies in this chapter would reflect an initially set global perspective along with the developing country perspective. The content of the book will provide a comprehensive analysis of the management functions that are applied in family businesses. Hence this book will be beneficial to any family business manager or owner. Students and scholars of business management in general and family business management in specific, would benefit from this book the most. Not just this book proposes a comprehensive analysis of the managerial issues in family businesses, it also provides state-of-the-art literature and findings on these issues. Therefore, scholars and students will benefit from it at any point of study or research.

In summary, family firms have strengths that make them competitive and strong compared to nonfamily firms. But there are some weaknesses that come with family integration as well. Readers will find multiple perspectives of positive and negative aspects of being a family firm in between pages of this book. Suggestions for family firms to live longer, manage better and be better are among the pages of the book.

Omer Yazici, Ph.D.

CHAPTER 1

SOCIALLY RESPONSIBLE HUMAN RESOURCE MANAGEMENT PRACTICES IN FAMILY FIRMS

ABDULKADIR ALTINSOY & MERT ÖNER

Introduction

Social responsibility awareness is one of the practical tools in ensuring and sharing the welfare of society, and contributes to developing policies on fundamental human rights and environmental awareness beyond the law. Businesses have taken responsibility for economic, legal, ethical and volunteering issues by social responsibility awareness. Fenwick and Bierema (2008) defined the social responsibility concept as being "[It is] a complex process of promoting the ethical workplace; respecting human rights, dignity and values; balancing human and economic concerns; harmonizing the benefit of the organization and society; and managing tensions between work-life balance and individual rights".

Besides that, human resource management (HRM) ensures the most effective use of human resources following legal issues taking into account the benefit of the environment and society. Human resource management contributes to implementing effective corporate social responsibility policies by fulfilling its responsibilities towards the employees as the firms' stakeholders (Cooke & Baxter, 2010; Mees & Bonham, 2004). At the same time, HR plays a vital role via recruitment and training functions that directly support corporate social responsibility values in CSR policy development and implementation of CSR practices (Weaver, 2004).

The meaning of HRM described above overlaps with the fundamental functions of social responsibility. Garavan and McGuire (2010) examined socially responsible human resource management within the scope of sustainability, ethical behavior and social responsibility. Shen and Zhu (2011) grouped socially responsible human resources management in three dimensions: legal compliance HRM policies, employee-oriented HRM policies, and general CSR facilitation HRM policies. In this context, socially responsible human resources management is at the center of corporate social responsibility practices. Carroll (1991) stated that corporate social responsibility contributes to outcomes of positive organizational employee behavior. Shen and Zhu (2011) stated that corporate social responsibility practices positively affect the attitudes, behaviors, and performance of employees.

This study is important in terms of determining the critical success factors of the socially responsible human resource management system (SRHRM). Determining the critical success factors of the SRHRM system shows that the practices of SRHRM are important to implement for family businesses. From this point, the research question is; what are the critical success factors to implement SRHRM by expert opinion? Depending on this research question, this study has three objectives:

(i). To present critical success factors of SRHRM categorized by Shen and Zhu (2011)

(ii). To conduct a research to determine critical success factors of SRHRM from Turkish family businesses manager's perspective

In this paper, a decision-making trial and evaluation laboratory (DEMATEL) method is adapted to construct a network structure of interdependent factors of SRHRM. This paper is organized as; Section 2 reviews the literature on socially responsible human resource management. Section 3 presents the DEMATEL method. The findings of this study are presented in section 4. Section 5 presents conclusion.

Socially Responsible Human Resource Management

The idea of SRHRM takes its roots from corporate social responsibility and human resources management theories. The role of businesses in social, environmental, and financial problems in recent decades has been shown in the literature, and to prevent these problems corporate social responsibility has received attention from scholars and managers (Bergamaschi & Randerson, 2016: 54). On the one hand, businesses have an economic role in society; and on the other hand, they have responsibilities for developing social issues and human rights for internal and external stakeholders who are affected by operational activities.

Corporate social responsibility is generally defined as “the responsibilities integrated in the company embracing legal, ethic, economic and philanthropic expectations that the society expects from organizations” (Carrol, 1979: 499). To meet these expectations, businesses must sustain their operation economically, comply with legal issues, and behave ethically to society

(Lopez-Gonzalez et al., 2019: 1045). Businesses need to internalize CSR policies in their organizational strategy to perform social organizational outcomes. To develop and enact CSR policies and develop CSR understanding for employees, HRM plays a vital role in businesses (Voegtlin & Greenwood, 2016: 181). HRM utilizes employees as strategic stakeholders and the voice of the company to implement CSR policies and be a social and ethical firm.

While CSR and HRM studies have gained attention for large organizations, family businesses have also faced social, environmental and economic problems and felt a lack of financial and human resources to be socially responsible firms. Despite this, family businesses have unique features such as relationships with employees and society to implement CSR practices (Uhlaner et al., 2004: 187), unpredictable of the external conditions and intricacy of the internal environment for HRM practices (Flamini et al., 2020). Employees are the most strategic stakeholders and they significantly impact an organization's CSR performance (Inyang et. al., 2011; 119). Family businesses don't have enough talented family members to perform successfully at any time; which is why they always need qualified non-family employees. It is therefore crucial to find and retain talented non-family employees in family businesses (Chrisman et al., 2003: 470). While non-family employees have a lower perception of job satisfaction than others, this causes employees to have the intention to quit (Block et al., 2015: 189). Family businesses must realize that what employees have qualifies and what employees' require from the organization, because employees as stakeholders have a crucial role in SRHRM practices.

HRM practices enhance employee behaviors and attitudes for coherent superior employee performance and organizational performance. To make these performances socially responsible, HRM generally focuses on complying with laws for employees and CSR concerns in the broader range of HRM matters and beyond legal issues. Shen and Zhu (2011: 3022) defined socially responsible human resource management as "HRM practices that serve the execution of social responsibility practices of the organization". In line with this definition, Castejon and Lopez (2016: 25) stated that due to a lack of economic and communication resources, family businesses must emphasize SRHRM policies and practices in human resources.

Shen and Zhu (2011: 3022) categorized three major components of the SRHRM system. These are; "legal compliance HRM", "employee-oriented HRM", and "general CSR facilitation HRM".

Legal Compliance HRM Policies

Legal compliance HRM policies in SRHM involve local laws and international labor standards such as equality, health and safety regulations, working hours, wages and non-forced labor, etc. (Shen, 2011: 1654). Legal compliance HRM requires the abidance of local labor laws to meet the international standards set by the ILO (Shen & Zhu, 2011: 3022).

-Equality on HR Practices

CSR is a strategic tool to implement HRM activities effectively, and also, there is a mutual influence relationship between the two concepts (Voegtlin & Greenwood, 2016: 187). While HRM promotes CSR values in the organization, CSR helps HRM to implement HRM practices such as recruitment and selection, appraisal and motivation, the compensation and reward system, and training and development. Businesses that behave equally on recruitment and selection procedures, have employees with higher morale, engagement perception and productivity (Inyang et al., 2011: 123).

-Health And Safety Regulations

Occupational health and safety regulations, covering the social, mental and physical well-being of employees, are set by national legislation and international standards. Meanwhile, the well-being of employees is also a topic of corporate social responsibility practices. Montero et al. (2009: 1441) stated that occupational health and safety rules designed by a firm's CSR procedures are required more than regulations set by national law. While health and safety regulations focus on legislation and penalties, CSR elevates health and safety issues beyond the legal requirements (Hasle & Grenerud, 2011: 110).

-Fair Wages

In general, different wage policies are applied to family members in family businesses, and these wages are perceived as unfair by other employees (Samara & Arenas, 2017). Employees who receive an organizational message about fair wages in a company, have high performance at work.

-Compliance With Legal Issues

Socially responsible human resource management is interested in an organization's HRM practices which comply with national law regulations. Family businesses obey the working conditions set by the national constitution. Businesses must implement HR practices and comply with legal issues, such as working hours, minimum wages, union rights, etc. (Shen & Zhu, 2011: 3022). Besides this, corporate social responsibility initiatives and legal issues have a mutual relationship. CSR policies and practices may assist a government in fulfilling welfare state goals (Buhmann, 2006: 189).

Employee-oriented HRM Policies

SRHRM needs to go beyond legal compliances to retain socially responsible employees in the organization. Businesses' employee-oriented HRM policies involve union recognition, profit distribution, employee involvement, work and family balance, health and safety programs, etc. Employee-oriented HRM practices have been developed with work design applications by organizations (Shen, 2011: 1354). Employee-oriented HRM policies provide employees with organizational support and justice (Shen & Zhu, 2011: 3022).

-Work-Life Balance

Businesses must review employees' expectations of their work and life spheres respectively. Nowadays, employees spend more time at work and they also have family responsibilities. Corporate social responsibility practices allow firms to realize the demands of human resources for family responsibilities (Alvarez-Perez et al., 2020: 2779).

-Employee Involvement

A business needs employees' thoughts about CSR to achieve a successful performance of corporate social responsibility. Employees' perceptions about CSR initiatives reflect how employees participate in decisions. Employee participation in CSR practices is related in corporate volunteer programs and they can also suggest CSR policy (Kim et al., 2010: 559).

General CSR Facilitation HRM

General CSR practices helps businesses to obtain organizational legitimacy on social issues. General CSR issues involve, for example, reducing poverty, rewarding employees who have high performance and giving employment priority to local citizens and disadvantaged groups, etc. (Shen & Zhu, 2011: 3022). Firms that engage with general CSR issues meet society's expectations from firms and compensate for their activities harmful effects on society and the environment.

-Rewarding Social Performance

There is a paradigm shift of the corporate financial performance from corporate stock price success to social success. Businesses have also changed the incentive and reward system for employees who contribute to organizational social performance (Berrone & Gomez-Mejia, 2009: 960). Rewards and compensation are an extrinsic motivational resource for employees who work for capital. Besides this, rewarding employees for social performance motivates them externally and they perform well for organizational social performance (Khan et al., 2014: 71).

-Giving Employment Priority to Locals and Disadvantaged Groups

Family businesses are faced with pressures from local communities due to potential hazards exposed to the environment and the use of natural resources. Family businesses respond to these pressures by employing local candidates (Castejon & Lopez, 2016: 25). Besides this, family businesses have clarity in their stakeholders' eyes by employing disadvantaged groups such as the disabled, women, ethnic groups, etc.

Method

Critical Success Factors: The concept of critical success factors was used for the first time in the business literature on project management (Zhou et al., 2011: 49). Critical success factors are the basic areas where "things must go right" for the development of the business and for the managers to reach their goals (Bullen & Rockart, 1981: 7). Limited time and limited resources are the factors that need to be focused by managers and are critical for success (Bullen & Rockart, 1981: 12). Critical success factors are the factors that provide special and continuous attention by the managers to ensure high performance and ensure the current activities and future success of the enterprise (Boynton & Zmud, 1984: 17). In this direction, knowing the critical success factors of the socially responsible human resources management (SRHRM) system will directly affect the success of the system.

Sample: Socially responsible human resource management practices were identified as eight criteria (as seen in variables section). The questionnaire was developed based on these criteria and distributed to five family businesses that operate in the metal manufacturing sector in İzmit, Turkey. The managers of the businesses completed the forms by using a pair-wise comparison scale to evaluate the influence of each of the SRHRM factors. After obtaining data from the managers, the DEMATEL method procedures previously stated were applied.

Variables: Socially responsible human resource management practices were identified as eight criteria is identified by (Shen & Zu, 2011) as follows: "paying attention to HR issues such as equality (L1)"; "health and safety issues (L2)"; "fair wages (L3)"; "compliance with legal issues (L4)"; "work-life balance (E1)"; "employee involvement (E2)"; "rewarding employees' social performance (G1)"; and "employment of local candidates and disadvantaged groups (G2)".

The decision-making trial and evaluation laboratory (DEMATEL) is a multi-criteria decision-making (MCDM) method that is used for solving complex problems and for weight factors in a system. This was developed by Battelle Memorial Institute of Geneva (Lin & Wu, 2008: 207). DEMATEL is an effective method that presents the values of influential effects between each factor in a system (Tzeng et al., 2007: 1031). The DEMATEL method uses an influence causal diagram and a visual relationship map to divide factors into the cause group and the effect group. (Wu & Lee, 2007: 51).

The DEMATEL method uses a pair-wise comparison matrix to solve problems and the steps of the method are (Lin, 2013: 35):

i. Generate the direct-relation matrix: The relationship between criteria is measured by comparison scale form: 0 (no influence), 1 (very low influence), 2 (low influence), 3 (high influence) and 4 (very high influence). An initial direct relation matrix X is an *n x n* matrix obtained by pair-wise comparisons, in which Tij is denoted as the degree to which the criterion *i* affects the criterion *j*. $T = [t_{ij}]_{nxn}$

ii. Normalizing the direct relation matrix: On the base of the direct relation matrix X, the normalized direct relation matrix $\bar{X}$ can be obtained through the equation.

$$S = k\, x\ \bar{X} \tag{1}$$

$$k = \frac{1}{\underset{1 \le i \le n}{max} \sum_{j=1}^{n} aij} \tag{2}$$

iii. Attaining the total relation matrix: once the normalized direct relation matrix S is obtained, the total relation matrix I is denoted as the identity matrix

$$T = \bar{X}(I - X)^{-1} \tag{3}$$

iv. Producing a casual diagram. The sum of rows and the sum of columns are separately denoted as vectors *D* and *R* within the total relation matrix *T*. A cause and effect graph can be acquired by mapping the dataset of (*D*+*R, D*-*R*). The horizontal axis vector (*D*+*R)* is named “Prominence”, which reveals the importance of the criterion. The vertical axis (*D*-*R*) named “Relation”, is made by subtracting *D* from *R*. If *D*-*R* is positive the factors are grouped as a cause group, and to the contrary if *D*-*R* is negative the factors are grouped as an effect group.

$$D = \left[\sum_{i=1}^{n} t_{ij}\right]_{1xn} = \left[t_j\right]_{nx1} \tag{4}$$

$$R = \left[\sum_{i=1}^{n} t_{ij}\right]_{1xn} = \left[t_j\right]_{nx1} \tag{5}$$

Findings

The questionnaire distributed to five family businesses that operate in the metal manufacturing sector in İzmit, Turkey. The managers of the businesses completed the forms by using a pair-wise comparison scale to evaluate the influence of each of the SRHRM factors. After obtaining data from the managers, the DEMATEL method procedures previously stated were applied. The descriptions of the sample businesses are shown in Table 1.1.

Table 1.1: Descriptions of Family Businesses

	Foundation Year	Employee	Average Employee Tenure (years)	Disadvantaged Employee
Company A	1974	50	30	0
Company B	1997	122	8	3
Company C	2004	75	7	2
Company D	2006	68	6	3
Company E	2007	116	5	4

As shown in Table 1.1, the family businesses' organizational tenure is 23,4 years, the average employee number is 86,2, and the average employee tenure is 11,2. The method is based on the expert opinion of 5 family business managers. After the data were obtained from the managers, the DEMATEL method was applied by using equations (1-5).

- Step 1: Direct-Relation Matrix (X): Based on the expert opinion average, the direct relation matrix was generated and is shown in Table 1.2.

Table 1.2: Direct-Relation Matrix

	L1	L2	L3	L4	L5	L6	L7	L8
L1	0	3	2	2,4	3,4	3,8	2,8	1,6
L2	1,4	0	1,8	2	3,2	2,8	3	3
L3	3,2	3	0	2,8	3,2	3,6	3,6	3,4
L4	2	3	2,4	0	3,4	2,8	2,6	3,6
E1	1,4	2,4	1,6	1,4	0	1,8	2,2	3
E2	1,6	2,4	1,6	2	2,6	0	2,2	2,6
G1	1,6	1,4	1,6	1,4	2,2	1,8	0	2,6
G2	1,6	1,8	1,4	2	2,6	2,6	3	0

- Step 2: Normalized Direct-Relation Matrix: By using Eqs. 1 and 2, the direct-relation matrix was normalized and is shown in Table 1.3.

Table 1.3: Normalized Direct-Relation Matrix

	L1	L2	L3	L4	L5	L6	L7	L8
L1	0,00000	0,13158	0,08772	0,10526	0,14912	0,16667	0,12281	0,07018
L2	0,06140	0,00000	0,07895	0,08772	0,14035	0,12281	0,13158	0,13158
L3	0,14035	0,13158	0,00000	0,12281	0,14035	0,15789	0,15789	0,14912
L4	0,08772	0,13158	0,10526	0,00000	0,14912	0,12281	0,11404	0,15789
E1	0,06140	0,10526	0,07018	0,06140	0,00000	0,07895	0,09649	0,13158
E2	0,07018	0,10526	0,07018	0,08772	0,11404	0,00000	0,09649	0,11404
G1	0,07018	0,06140	0,07018	0,06140	0,09649	0,07895	0,00000	0,11404
G2	0,07018	0,07895	0,06140	0,08772	0,11404	0,11404	0,13158	0,00000

- Step 3: Total-Relation Matrix: By using Eq. 3, the total-relation matrix was generated from the normalized direct-relation matrix and is shown in Table 1.4.

Table 1.4: Total-Relation Matrix

	L1	L2	L3	L4	L5	L6	L7	L8
L1	0,21026	0,39288	0,28907	0,32543	0,46143	0,44998	0,42251	0,39132
L2	0,24743	0,24570	0,25967	0,28692	0,41974	0,38182	0,39925	0,40960
L3	0,37436	0,44249	0,24672	0,38324	0,51494	0,50019	0,51032	0,51391
L4	0,29971	0,40225	0,31112	0,23970	0,47407	0,42637	0,42976	0,47610
E1	0,21451	0,29802	0,21955	0,22965	0,24502	0,29981	0,32259	0,35806
E2	0,23485	0,31599	0,23299	0,26573	0,36808	0,24487	0,34105	0,36404
G1	0,21057	0,24668	0,20790	0,21657	0,31410	0,28265	0,21614	0,32468
G2	0,23269	0,29085	0,22359	0,26275	0,36400	0,34317	0,36590	0,25818

- Step 4: The Sum of Rows and Columns: By using Eqs. 4 and 5, the sum of rows and columns was generated from the total-relation matrix and is shown in Table 1.5. The sum of rows is shown as D and the sum of columns is shown as R.

Table 1.5: Sum of Rows and Columns

	D	R	D+R	D-R
L1	2,942885	2,024401	4,967286	0,918484
L2	2,650131	2,634857	5,284988	0,015273
L3	3,486176	1,990622	5,476799	1,495554
L4	3,059081	2,209998	5,26908	0,849083
E1	2,187215	3,161376	5,348591	-0,97416
E2	2,367594	2,928855	5,296449	-0,56126
G1	2,019294	3,007514	5,026808	-0,98822
G2	2,341142	3,095895	5,437038	-0,75475

- Step 5: Casual Influence Diagram: Based on the sum of rows and columns, the influence diagram was drawn and shown in Fig. 1.1. D+R is shown in the horizontal axis and D-R is shown in the vertical axis on the diagram. Eight SRHRM factors are depicted in Fig. 1.1 and the top factors in the diagram are called a cause group; on the other hand, factors at the bottom of the diagram are called an effect group.

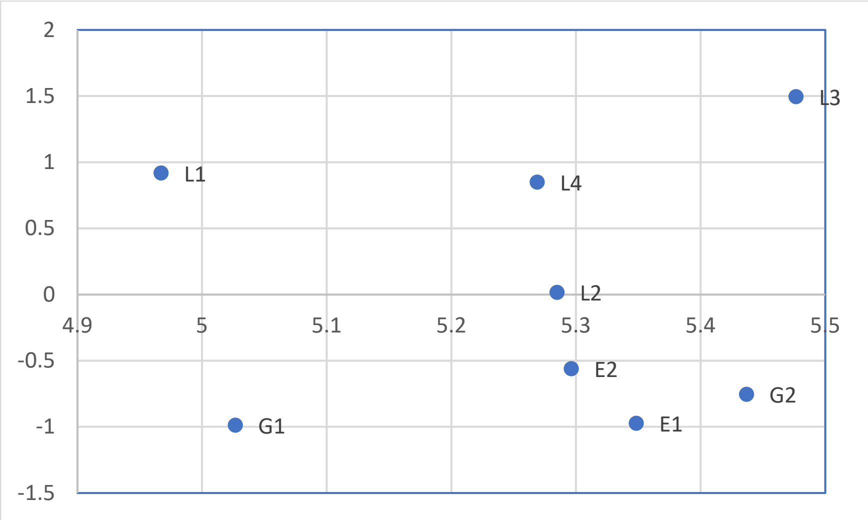

Figure 1.1: Casual Influence Diagram

Study findings from Table 1.5 and Fig. 1.1 generated by the sum of rows (D) and columns (R) are as follows; "paying attention to HR issues such as equality (L1)"; "health and safety issues (L2)"; "fair wages (L3)"; "compliance with legal issues (L4)" are cause groups, while "work-life balance (E1)"; "employee involvement (E2)"; "rewarding employees' social performance (G1)"; and "employment of local candidates and disadvantaged groups (G2)" are in the effect group. Cause factors are essential for a system because their performance impacts other factors to implement a successful SRHRM system and that's why cause factors should be paid more attention. The influence score of system factors is ranked, L3>L1>L4>L2>E2>G2>E1>G1, respectively.

Among cause factors, "fair wages (L3)" has a positive and the highest (D-R, 1,4955) score in the system and L3 has more impact on the other system factors. Besides that, L3 has the highest (D+R, 5,4767) score and L3 has more prominence in the whole system. The influence and prominence scores of L3 mean that it is the most influential factor in the system and that's why L3 needs to gets more attention in SRHRM practices. In this sense "fair wages (L3)" is a critical success factor for the SRHRM system.

"Paying attention to HR issues such as equality (L1)" also has a positive and high (D-R, 0,9184) score in the system so it is a cause factor. However, L1 has the lowest prominence (D+R, 4,9672) score in the system. Based on

D and R scores, L1 has a high impact on other factors (D), while the R score that impact receives from other factors is not high value. From these findings, L1 doesn't have an important impact on other factors so L1 isn't a critical success factor for SRHRM practices.

"Compliance with legal issues (L4)" is another cause factor. While L4 has a positive (D-R, 0,8490) score, it also has a low (D+R, 5,2690) score. Based on the D+R score, L4 has the sixth prominence position in the whole system, and a small impact on other SRHRM factors. That's why L4 is not a critical success factor. Besides that, "health and safety issues (L2)" also has a positive (D-R, 0,015) score but its impact score is the lowest of the cause factor scores and, L2 has the fifth prominence position in the whole system. So, the L2 factor is not a critical success factor because of its small impact on others factors.

Factors in the effect group of the SRHRM system are impacted easily by cause factors. Overall, when cause factors are improved, effect factors are also improved. On the whole, the effect factor, "employment of local candidates and disadvantaged groups (G2)" has the second-highest D+R (5,4370) score and it's an important factor for the SRHRM; however, G2 has a negative D-R (-0,7547) score and it's an effect factor. G2 has high influential impact (D) and a highly influenced impact (R), so it's important for the system. With the employment of local candidates and disadvantaged groups, the SRHRM system can achieve success via G2's importance. That's why "employment of local candidates and disadvantaged groups (G2)" is considered as a critical success factor.

"Work-life balance (E1)" is divided as an effect group factor. E1 has the third-highest D+R (5,3485) score and it's an important factor for the SRHRM system, and also E1 has a negative D-R (-09741) score similar to G2. While it's an effect factor, the SRHRM system needs a successful work-life balance. So E1 is a critical success factor in the SRHRM system.

"Employee involvement (E2)" and "rewarding employees' social performance (G1)" are other effect group factors in the SRHRM system. They both have negative D-R (-0,5612 and -09882) scores and their importance level in the system is low. That's why neither are critical success factors in the SRHRM system.

Conclusion

Given the fact that socially responsible HRM practices are essential for successful business social performance and employee retention, family businesses are also faced with pressure to implement these demands to be socially responsible businesses. Family businesses have limited financial and human resources to fulfill these demands. That's why family businesses have to know thatsocially responsible human resource management practices need to be implemented for success. This study conducted an expert opinion questionnaire form for applying the DEMATEL method to determine the critical success factors of socially responsible human resource management practices for family businesses.

The findings of this study show that, "paying attention to HR issues such as equality (L1)"; "health and safety issues (L2)"; "fair wages (L3)"; and "compliance with legal issues (L4)" are cause groups, while "work-life balance (E1)"; "employee involvement (E2)"; "rewarding employees' social performance (G1)"; and "employment of local candidates and disadvantaged groups (G2)" are effect groups. Critical success factors are essential for managers and businesses to reach their goals at limited time and resources. That's why they must focus these factors for organizational outcomes. Three critical success factors are identified from the findings of the study and they are follows; "fair wages (L3)", "employment of local candidates and disadvantaged groups (G2)", and "work-life balance (E1)". Family businesses need to implement these critical success factors to achieve social performance and retain socially responsible employees.

Keywords: *Socially responsible HRM, Family business, DEMATEL*

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CHAPTER 2

INSTITUTIONALIZATION IN FAMILY BUSINESSES: A MODEL PROPOSAL

ERHAN POLAT

Introduction

Ensuring sustainable growth in the economy depends on many factors such as public policies, economic policies, and internationalization movements. Among all of these, the sustainability of the economy is significantly related to the sustainability of companies. The share of family businesses among all companies worldwide is between 60% and 95%. The fact that family companies have a significant share in the economy indicates that ensuring the sustainability of such companies should also be taken seriously. The longevity of family businesses is based on institutionalization as well as being connected to the product or service produced.

The institutionalization of family businesses has been investigated in many ways. Studies have focused on the institutionalization of family relations and the institutionalization of the company separately. The institutionalization of family relations is generally based on the family constitution, family council, family assembly, succession plan and shareholder agreement. Suggestions are offered in areas such as formalization, professionalization, cultural power, and consistency in order to institutionalize the company. In this study, a model proposal is presented with corporate governance principles, corporate risk management, internal control systems and internal audit systems that will strengthen the relationship between the institutionalization of family relations and the institutionalization of the company.

Family Businesses

When the family business is mentioned, two concepts need to be explained first. The concept of family can be defined as the desire of two people to come together and live together. According to the Turkish Language Institution, family is defined as "*the smallest union in the society based on marriage and blood ties, formed by the relations between husband, wife, children, siblings*" (TDK, 2021). The concept of company can be said to be the prominent structure of a legal entity in economic affairs and transactions, rather than a real person. According to Otlu (2015), the concept of company is defined as "*a legal entity that emerges as a result of at least two or more persons coming together and combining their labor or goods with a contract for a common purpose*" (Otlu, 2015). In this context, the term family company mostly refers to the economic unit formed by the members of a family. The family business refers to the business environment established by members of a family. In such companies, family members appear to have a greater role in management, ownership of capital, and control. Family companies generally have the following features, with many criteria being classified (Fındıkçı, 2014);

- ✓ Family relations are strong in management, capital mostly belongs to family members,
- ✓ The management of the company is transferred between family members,
- ✓ The relationship between the family and work is effective, and
- ✓ Family members are more involved in decision-making.

One of the most important reasons for family companies featuring so much in the literature is the size of the share of such companies in the economy. It is stated that approximately 65-85% of companies in the world are family companies. Family companies employ 40-50% of the labor force in Europe and 63% in America (Özkul, 2016).

The size of the share of family companies in the economy and the longevity of such companies are important for the continuation of the country's resources (ASO, 2005). Considering the lifetime of family companies, the longest-lasting family company is Kongo Gumi, which was founded in Japan in 578 AD. The main activity of the company was temple restoration. It is stated that the main secret of its longevity is its success in adapting to conditions and focusing on its main business. The company was closed in 2006 (Polat, 2018). Table 2.1 shows the world's five long-lived companies.

Table 2.1: The top five longest-lived companies in the world

No	Company name	Year of foundation	Generation	Working Field	Country
1	Kongo Gumi	578	49	Construction	Japan
2	Hoshi	718	46	Han	Japan
3	Chaten De Goulaine	1000		Museum	France
4	Barone Ricasoli	1141		Wine/ Olive oil	Italy
5	Barovier & Toso	1295	20	Glass Production	Italy

Reference: Polat, 2018

Family businesses have many advantages. The first of these is to have a strong sense of trust which provides the ability to act quickly in the decisions to be taken. However, the desire to leave the dividends in the company and strong protectionism for the protection of assets provide financial and economic advantages. Respect for the company manager and the existence of strong communication channels increase the successful implementation of decisions taken. In family companies, the desire of the elder to head the company, the lack of consultation in the decisions taken and the desire to leave the dividends in the company disturb the partners after a certain period, and there may be generational conflicts, etc. There are also disadvantages. The problems caused by these disadvantages in family companies can be briefly listed as follows (Genç and Karcıoğlu, 2004);

- ✓ Generational conflict,
- ✓ Problems of influence,
- ✓ Conflicting roles,
- ✓ Continuation of old habits from the core of the business,
- ✓ Lack of future planning,
- ✓ Power struggles,
- ✓ Rumors,
- ✓ Unprofessionalization and high turnover rate, and
- ✓ (Lack of) Institutionalization.

Most family businesses close soon after they are founded. The lifespan of family businesses is usually defined by the generation that runs the company. In this framework, the rate of survivors in the second generation of family businesses is 30%, 10% in the third generation, and 4% in the fourth generation (Ward, 2002). In family companies, the founder of the company is the company head for a longer period of time. Decisions are made quickly during this period. This contributes to the sustainability of the company. In family businesses, the survival of the company is often more important than profit. For this reason, company shareholders tend to keep their dividends gained from the company within the company. With the transfer of the company to the second generation, children take over the business. In the second generation, the company starts to employ some professional employees. In this generation, there are movements towards bringing the company success and institutionalization efforts. However, problems may arise due to the older child's desire to lead. It is possible that the older brother does not allow his younger brother to take over the business even if he is more educated and talented. Second-generation businesses tend to strengthen their institutionalization efforts by establishing a board of directors made up of siblings. Depending on the legal personality of the company, it contributes to the tendency of institutionalization in some legal obligations. In third-generation family businesses, cousins tend to be shareholders or directors of the company. If family companies do not institutionalize the family business relationship before reaching this stage, it leads to the closure of most of them. Families at this stage have to set up their decision-making mechanisms to please a wider partnership structure.

In family businesses, things get even more complicated when brides and grooms join the family. The process leading to conflicts between cousins starts with brides and grooms who tend to join the company or are included in the company because of their skills. If these family members join the company, the need to organize wider relationships arises; for instance, dividend distributions, willingness to join the board of directors, willingness to work in managerial positions, etc. Many conflicts and problems are caused among other family members who make the same demands. At this point, the need emerges for the institutionalization of family relations. Some institutional structures are suggested for the institutionalization of such family relations which generally emerge in family companies, affecting the sustainability of the company, and are stated to be effective in the closure of 80% of family companies (Polat, 2018). These are; the family constitution, family council, shareholder agreement and succession plan (TAIDER, 2017).

- ✓ **Family Constitution:** This is defined as an atypical contract signed between family members of a company, which regulates many important issues such as the expenditures of family members, the