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Family Council From A Cultural Approach: the case of eastern european countries

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Abstract

The family council is a formal mechanism of the family governance in family businesses that aims to give a voice to all members of the family, and to unify the interests of all members. These interests are identified with the purpose of the family, necessary to achieve a long-term legacy, and the sustainability of the company. However, the establishment of the family council is a topic that is still at an incipient stage, both in the literature and for practitioners, so our contribution advances the understanding of family governance within the sphere of family businesses culture and context. For that purpose, we rely on two cultural indexes widely accepted in the literature. We have taken Hofstede's dimensions and CAGE Distance Framework to explain the establishment of a family council in family businesses settled on the Eastern European countries. The prevailing culture in these countries defines the values and behaviors of their social organizations, namely, the family. The joint study of Hofstede's dimensions and of the cultural, administrative, and economic differences in the Eastern European countries (CAGE framework) sheds light on how, when and why to establish a family council. This research opens a new field in the intersectional study of culture as an element of sociology and family business in the field of family governance. In advancing this line of research, multilevel analysis through case studies would confirm the coincidence of national values, with individual characteristics.

Keywords: Family business, family council, organizational culture, eastern countries

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1. Introduction

Family businesses differ from non-family business mainly from its overlapping in management, ownership and family roles. In the purpose of achieving harmony among the three spheres, governance mechanisms establish solid foundations for effective communication. Family governance is to the family what the corporate governance (i.e., board of directors) is to the company. In general, understanding how family businesses work is important throughout the world [1]. Specifically, this study responds to the demands made by different authors on the need to explore behavior patterns within families owning and running businesses [2], the communication among family members [3], and the formal governance mechanism [4], such as the family council. The family council can represent a strategic asset for family cohesion, communication and consensus, and thus be a source of sustainable competitive advantage for the family business. In this vein, the most significant task is to establish a forum in which all the voices of the family can be heard and a common purpose in the family can be promoted. Given the involvement in the ownership and management of the company, this common purpose will also be transferred to the business sphere. In turn, the family council will serve as a backdrop to promote harmony within the family, and help the organization increase its ability to renew, adapt and change quickly as a key to success in a changing, ambiguous and turbulent environment. Among the challenges family businesses must address currently are, internationalization, innovation, digital revolution, and training [5] Previous studies by Migliori [6] have explored the drivers of innovation in family businesses, concluding a series of factors institutions can consider when fostering it. However, the most outstanding strategic challenge from the point of view of achieving business continuity lies mainly in the correct planning of succession processes and mechanisms for the professionalization of the organization [7, 8]. The family council can help in achieving the institutionalization of the family relationships, with the help of tools such as a family protocol.

The economic activity of the company has an impact on the family, and vice versa; therefore, for this continuity to be achieved, it is necessary to have a harmonious family context [9]. Conflicts between committee members of an organization are constant antecedents in the creation of tensions within companies. Thus, it deserves special attention to analyze the particular context in which family businesses are found [10]. In these types of organizations, occupying a role as a family member and, in turn, being a member of the company's executive committee can lead to conflicts and diverse situations [11]. Thus, the underlying motives of the family logic may be at odds with the economic interests of the company. For the family, the main motivations are to protect members and promote socialization. Therefore, these premises differ from the objectives to be achieved by the company, which are generally focused on the economic aspect and optimization of resources. Thus, it is very interesting for the academic community to analyze the performance of the family business and the management of family harmony based on the assumption of the difference between the logic of the family and that of the business.

However, each family business has its own objectives. In practice, some owners or managers who also have a role in the family may, on the one hand, make decisions based on what is best for the family, rather than what is best for the profitability of the company, or vice versa, thus compromising family harmony and good relations among family members, and taking as a reference the difference between the dominant logic of the family and that of the company. This fact will depend on which sphere the owners and managers place the focus. That stands out the classical dilemma of family-first, or firm-first.

Until now, theories specific to the field of business and organization, such as the theory of resources and capabilities, agency theory and stewardship theory, have represented the basic theoretical pillars on which studies in this area have been based [12, 13, 14]. In terms of literature, studies on family councils are scarce. The most salient proof of this is the limited number of papers indexed in the Web of Science (WOS), in the category of “Business Management”. In addition, it is worth mentioning that since 2016 the trend in the number of citations in this topic has been especially upward, as has the number of publications.

Therefore, the research gap that this paper aims to address lies in the advancement of knowledge about the family council and its implications on conflict management from the family sphere. At the same time, we have opted for a cultural approach to the implementation and operation of this family governance body. On the one hand, the nature of corporate governance is formally mandatory in most countries, on the other hand, the consolidation of governance in the family sphere is dominated by its voluntary nature. This voluntary character is not subject to free will in its entirety. In this context, by adopting an environmental determinism, and specifically a sociocultural one, it is understood that families are reluctant to formalize their relationship ties, especially in collectivist and familiarist countries, where power and responsibility lie on the individual, to whom respect and loyalty must be maintained [15]. Ultimately, depending on the socio-cultural parameters of a country, the predisposition to institutionalize family relationships by employing governance mechanisms may vary. Under these circumstances, our contribution related to cross-cultural research, which sheds light on the advancement of the incorporation of a family council. For this purpose, we have relied on the cultural dimensions proposed by Hofstede, as these determine the level of collectivism-individualism by nation, among other dimensions. For our study, we will use as a reference the dimensions of individualism-collectivism and power distance, since these are the two dimensions that provide us with information on the aversion to institutionalizing family relationships. However, we believe that Hofstede’s dimensions have some limitations [16]. To counteract them and provide our study with higher robustness, we have relied on the CAGE distance framework, which brings some insights for the administrative, cultural, geographic, and economic differences among countries [17]. These three indexes are complementary to each other and will bring a more holistic approach to the complex phenomenon of cultural distance, and its applicability to families, and family business. Therefore, we believe it is an adequate cultural distance measurement for several reasons. For future studies, we will consider the Global Leadership and Organizational Behavior Effectiveness (GLOBE) measurement scale too, since this project also considers individualism and collectivism, and power distance [18].

Thus, previous research reveals little about the anthropological causes of the family unit. Until the psychological logics underpinning the family are uncovered, a holistic understanding of the family involved in the business will not be possible. The discrepancy seems to be due partly to the fact that the observation of the family council is incomplete from a managerial perspective, as is the application of scales of measurement, evaluation and control. The analysis of the family sets a precedent for the establishment of a family council that preserves its long-term interests, based on the family's own definition of purpose.

The structure of the paper is as follows: the theoretical framework that supports the foundations on which we have built the research model is presented. Secondly, the method, with the explanation of the complementary cultural indexes is presented. Later, the findings and results are exposed, and lastly, the conclusions and discussion of the cover the limitations of the present study and future lines of research.

2. Theoretical Framework

The uniqueness of family business governance has been extensively studied in the literature, analyzing the differences with that of non-family businesses. For example, the study of Carney [19] warns that family management is prone to manage resources more prudently, to a higher degree of personalization of authority and idiosyncrasy in their behavior [20]. It is precisely the personalization of authority associated with the concentration of control that allows the family to project its vision and values onto the company [21]. However, when ownership is diluted among a larger number of family members, governance bodies - family councils - are presented as a solution to preserve family values. However, the heterogeneity of companies of this nature should not be overlooked, meaning that a family council should not be incorporated without prior reflection on its mission, vision and values. In the correct establishment of the family council, it is necessary to know first the premises and starting point of the given family, and to analyze if on those foundations a family council would favor the implementation of mechanisms for family harmony and organizational agility [22]. In other words, prior to the establishment of a family council, minimum parameters of communication should be achieved, and a common purpose for both the family, and the company. Only then would the family council represent a source of sustainable competitive advantage.

The potential conflict found in the arena of family businesses can be addressed from two different perspectives: corporate governance and family governance. The first one is widely discussed in the literature, so there is sufficient evidence on its effectiveness and implications. However, the family governance perspective presents numerous opportunities for study in academia, and has been a very important topic in recent decades [23]. In relation to family governance, family harmony has a direct impact on the planning adopted in terms of succession [24]. Harmony in the family business is defined as the existence of a clear difference between the roles occupied by a family member in the organization and in the family, respectively. Likewise, it is necessary to establish an explicit agreement between all the members of the executive committee, with the aim of resolving any possible discrepancies that may arise in the family-business sphere. Therefore, it is necessary to establish a family council, aimed at promoting clear and transparent communication systems within the family sphere. In this way, the family council represents for the family what the board of directors is for the company [25], and therefore constitutes a body focused on obtaining an efficient balance between ownership, management and family harmony. Family governance bodies are tools for the institutionalization of family relations [23, 26] and act as conflict prevention mechanisms in the family arena and strengthen family harmony. These mechanisms encourage the family's emotional ties to represent a strategic asset, and no longer a competitive disadvantage. According to literature reviews in the field of family governance mechanisms, the family council is the most prevalent in recent years (1994-2012) [23].

However, depending on the degree of family complexity, families opt for more formal or informal mechanisms. In the initial stages, when ownership and management is concentrated in a single person, or a consortium of siblings, informal governance mechanisms prevail (mainly family meetings and assemblies). However, as ownership is diluted among more family members, the formalization of such bodies becomes necessary, especially when aiming to establishing a dynasty or leaving a legacy, it is advisable for the company to incorporate solid governance bodies that provide the organization with explicit rules. The family council is established once the family has reached a certain level of family complexity, and its incorporation is voluntary [27]. This fact is decisive since, unlike the formal governance bodies of the company, in this case the family decides when and how family relations will be formalized or, on the contrary, informal mechanisms such as family meetings or assemblies will continue to be used.

In the absence of a coercive institutional force, that is, an extrinsic motivation determined by law that forces family businesses to establish these mechanisms, it is the intrinsic motivations of the family that will determine their inclusion. These intrinsic motivations are influenced by the family's values, habits, history and idiosyncratic behavior patterns [28]. In other words, the family's established culture will define the issues most relevant to the implementation of the family council.

In relation to Hofstede's power distance dimension, if this value is higher, it means that a clear hierarchy prevails in the organization, and that there is a tendency to rely on positions of power and high authority. Under these circumstances, there is a high degree of acceptance of inequality between positions of power and lower positions, because it is accepted and shared that this is the right thing to do. Applied to family businesses, those entrepreneurs or initial founders will have a very high position in the hierarchy in organizations that are more oriented to high power distance, and therefore decision making will depend to a large extent on these actors. If there are very strong hierarchical inequalities, it will be more difficult to promote listening to all the voices of the family, since it will be the founder's voice that predominates, and the one that is most listened to. In this way, there will be a certain aversion to consolidating a family government where the interests of the minority are taken into account.

As a conclusion, the family council is generally established when the family has reached a certain level. [20], replacing informal governance bodies to make way for greater institutionalization of family legacy [23, 26, 29]. In addition, knowing the engagement profiles can shed light on the attitudes, desires and expectations of the family group and therefore can help the incorporation of appropriate tools in family counseling, with the aim of building, developing, and protecting the family's resources and capabilities. For that purpose, getting insights on the cultural, administrative, social, and legislative distances of the different countries will help us to develop theoretical models more precise to solving the requirements of each family business. We have relied on already validated and widely employed in the management literature. These indexes are the Hofstede's dimensions and CAGE Distance Framework.

3. Method

In this method section, our intention is to justify the tools we have chosen to address our research question. We have already seen that incorporating family governance mechanisms in a family business is not an easy, neither fast process. For that reason, there are some considerations that we as academics, and practitioners, and family business owners should consider before taking that decision. For that reason, this study sheds light on the previous cultural, administrative, and institutional forces that drive this decision, in order to anticipate possible different outcomes. Our method is composed by three different indexes and scales. Firstly, Hofstede's cultural dimensions are distance to power, individualism vs. collectivism, masculinity vs. femininity, uncertainty avoidance, and long-term orientation. However, in our study we will only analyze the dimensions of power distance and individualism vs. collectivism as they are the dimensions that best reflect the management of hierarchical relationships and emotional ties that take place within the family. We have taken as a sample the countries of Hungary, Poland, and Romania because these represent a very accurate sample in the analysis and comparison of Hofstede's dimensions, and how the dimensions affect the willingness of families in the consolidation of a family council. Our interest resides in advancing the literature on the family governance practices of family business located in Eastern Europe. According to their demographic and geographic characteristics, we believe that these three countries conform a suitable sample for several reasons. Firstly, due to the reason that they belong to the East part of Europe, they share some cultural and sociodemographic traits. However, the differences among deserve special attention. In other words, draw from a common basis, these three countries present enough variations among them, that are worth to be analyzed. Their heterogeneity offers valuable insights on the advancement of the literature on the topic of family council, specifically addressing European countries.

We are aware that relying on just one index presents several limitations. Specifically, Hofstede's dimensions were formulated from questionnaires shared at IBM corporation. This implies that the answers obtained were biased by the American corporate culture of IBM and the industrial sector where the company belonged to [30] Also, these first questionnaires were obtained in 1970, which means, that the data left margins of correlation with the current cultural context, affected mainly by a recent phenomenon such as globalization [31].

These conclusions reinforce our idea to complement our method with CAGE Distance Framework. This framework is based on four dimensions: cultural, administrative, geographic and economic difference [32]. For this reason, it offers a comprehensive overview of patterns of behaviour among different cultures [33]The cultural dimension refers to social norms, values, and attitude towards a particular issue. Administrative differences, on the other hand, relate mainly to the political situation, and trade agreements between countries. Although traditionally the CAGE Distance Framework has been used to analyze entry strategies and internationalization, in our study its main purpose is to obtain the nuances towards the institutionalization of social family ties. These administrative differences deserve special attention in our study, since the legal requirements regarding the corporate and family governance mechanisms are key to further develop this area. It is not only about cultural and social differences, but also institutional support and conditions. Further, this index also analyses the geographic dimension. However, to the contribution of our research, this dimension offers no superior value. Average income levels and wealth distribution are some aspects that are taken into consideration in the economic dimension [33].These aspects will be also be decisive in the implementation of a family council.

4. Results

The following chart shows the indicators for each of the Hofstede dimensions, obtained from the Hofstede Insights website. This tool allows users to include the countries of their choice from an extensive list and compare their cultural dimensions. For our study, we will only analyze the dimensions of power distance and individualism vs. collectivism. The results obtained are very insightful, as there seems to be an inversely proportional correlation between the dimensions of power distance and collectivism vs. individualism, as shown in Figure 1.

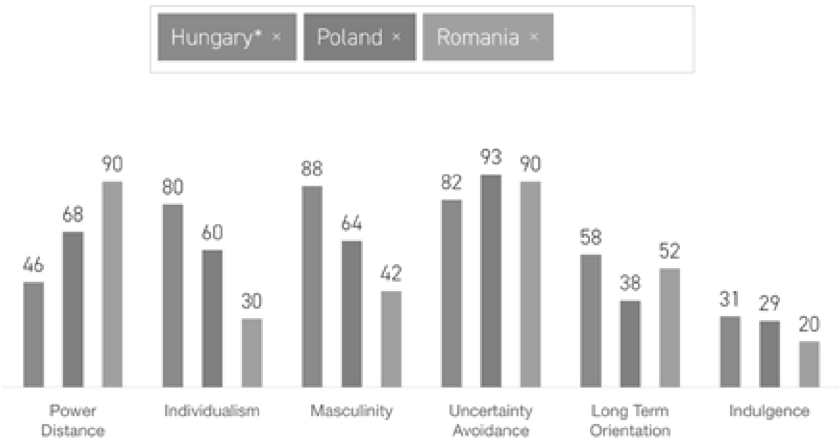

Figure 1: Hofstede's dimensions in Hungary, Poland, and Romania (Source: Adapted from Hofstede Insights: https://www.hofstede-insights.com/product/compare-countries/)

In the case of Romania, while the culture is oriented towards a high-power distance (90), the level of individualism is very low (30). This means that they are oriented to establishing very defined hierarchies and with very differentiated roles for each position. In addition, it is a culture that tends to collectivism, which in the family aspect can be understood as the prioritization of family relationships over other aspects (family first orientation). The conclusions in this case are the following: the founder or entrepreneur will have the upper hand in the family in an informal way, and there will be a certain rejection of the formalization of family relationships, because that would imply the dissolution of decision-making and authority among more family members, and the individual assessment of the objectives to be achieved by each of the family members, instead of as the family as a whole (as an organization). Considering these circumstances, families can present some degree of reluctance to establish a family council. This is because the main purpose of a family council is to raise the voice of all the individual members. This would imply different interests being heard, which will put in risk the authority and power decision-making of the prime entrepreneur.

For the case of Poland, both dimensions are in average terms, with the power distance index being 68, and individualism 60. Finally, those cultures, such as Hungary, which exhibit a lower power distance, have a higher degree of individualism, as they tend to put business objectives before family objectives (business-first orientation). In these cultures, the propensity to establish a family council is higher, in comparison to more collectivist countries such as Romania. This is because they conceive the family business as an asset belonging to the family that should bring economic returns to the family. Also, the family should provide superior value to the company, in terms of human and intellectual capital. For that purpose, it is necessary to divide ownership, management and family and address the issues concerning each sphere in different forums. In the comparison of the three cultures, and according to Hofstede's dimensions, ceteris paribus, in Hungary there would be a greater willingness to formalize family relationships and ties, and therefore to incorporate a family council to achieve a common purpose in the family as an organization, in comparison to other collectivist countries such as Romania.

Complementary to these results, the CAGE Distance Framework corroborates the results obtained. This index assures the differences among the three countries in terms of culture, administration, and economy. Regarding the administrative aspect, a good example is that both Poland and Hungary belong to the Schengen area, whereas Romania is not part of this agreement. Incidentally, the culture dimension is very much influenced by the language used in the territory. The origins of the languages are diverse, therefore impacting and fostering differences among them. This reassures the necessity for academic, practitioners, and family business owners to analyze the sociodemographic and cultural characteristics of the context, to successfully implement a family council. Therefore, this study serves as an intermediation between macro and micro determinants of economics and family businesses, from a cultural approach.

5. Conclusion

In conclusion, in our study we have identified that cultural indicators seem to have an impact on the motivations of families to formalize and institutionalize their ties. This opens paths for further progress in the understanding of the forms of management of entrepreneurial families, and how their governance confers a competitive advantage. In this way, their idiosyncratic resources and capabilities can be strengthened through tools such as the family council and thus become more competitive.

Research on the family council as a catalyst of family relationships and a precursor of family harmony is vital to better understand the company-family binomial subtleties and intricacies. Although the contribution of this study is considerable and opens the way to new research in this field, this work is not without limitations. On the one hand, Hofstede's dimensions measure culture at the country level, whereas our unit of analysis was family firms. We are therefore assuming that the organizational culture of Eastern countries coincides with the national culture of those countries, although this need not be true in all cases. Related to this statement, the parameters related to cultures and nations cannot be closed and restricted to specific national borders, neither homogenized to all individuals [34]. This fact reinforces the difficulty to express social and demographic characteristics, inherent to a culture, with quantitative figures [34].

However, this is a well-established measure in sociology and management. Future studies, especially qualitative studies, can focus on the characteristics of the specific organizational culture of family businesses, and compare it with the national culture of the chosen countries; and their influence on innovation processes [35]. Additionally, other tools, such as the Kogut & Singh (1988) index, or the Global Leadership and Organizational Behavior Effectiveness (GLOBE) could be implemented to give further robustness to the study. These can be useful tools for researchers to identify differences and nuances in family business management and governance and thus advance this line of research. We are aware that this is a preliminary version of a further investigation on cross-cultural dimensions applied to the implementation of a family council. For this reason, we have relied on validated models and scales of the literature that measure distance. However, it should be recommendable to further theorize on cultural distance about families in different contexts. That should be done following the patterns established in [17] through qualitative analysis, and more concretely, grounded theory schemas.

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