The role of non material resources characteristic for a family enterprise

in creating its market value

Introduction

The power of an enterprise can be proved by its ability to generate profit. The other evidence of the company’s power can be its value showed in the money units. The increase of value is measured by different accounting systems, which mainly take into account the profitability and the efficiency in the exploitation of involved wealth. Until recently a success in business had only one dimension – profit, but lately the companies’ aims are getting more and more complex. Together with economic development, property assets start to lose its meaning while non material values are gaining the importance. Customers satisfaction, employers satisfaction, atmosphere at the work place and activity for socially responsible business are more and more important. When we take a family business into consideration, where two systems exist together: a family and a business, non financial resources in building financial value of a company is getting even more complex. Because of that the question arises: What decides and what influences the value of such a complicated subject as a family business, where we have two contradictory systems? Thereby the considerations about the role of non material resources in building the value of a family enterprise have become the main aim of a following article.

1. The meaning of family relations in creating the company’s value.

A family enterprise is an entity of an optional organizational and legal frame, which capital, totally or in a great part, belongs to a family, and one or a few members of a family
have decisive influence on the management. The intention to keep the company in the family is also crucial. This broad frame enables many combinations of linking the family with the enterprise [Sudoł 1999, p.92]. We can take into consideration a small production plant, where only members of a family work, through middle-class company, which is managed by an owner and finishing at a corporation, where a family plays only a role of a majority owner, while the management was handed over to a manager, who does not belong to the family.

In a family business there are specific non material resources which influence both the way of functioning and managing of such a subject and also determine its market and emotional value. The model of complex relations and possible sources of influencing the organizational culture of family business is shown in picture number 1.

![Organizational Culture of Family Business](image)

Picture Nr 1. The model of family business according to Donckels and Frohlich
Source: [Donckels, Frohlich, 1991]

Family life has a very important impact on forming and developing a human being. Parents, number and sex of siblings and other relatives as well as many other aspects of family structure influence the development of a person. Norms and the culture of a family force particular ways of behavior of family members, but the same it increases mutual trust

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and strengthens the meaning of emotional elements in mutual relationships, what can be rarely met in other social situations in life [Dyer, Handler 1994, p.71-84]. And this interior feeling of unity and very often of uniqueness which are created inside a harmonious family in a consequence gives many family companies strong, positive energy [Kotkin, 1992]. However, family relations can also shape badly. Competition between siblings or relatives, parents’ unwillingness to hand over the power in an enterprise and also competition between fathers and sons can lead, in extreme situations, to breaking up family ties or loosening them, which of course influence changes in the company’s situation. For instance, many serious health problems, physical and mental, have their sources in improper relations with other people. In the situations not connected with a family we can avoid or reduce contacts with those people, with whom we have difficult relations. In case of family business it is hard to avoid each other, either at home or at work [Kaye 1991, p.21-44]. Of course all forms of social organization can experience conflicts. But what is really important is our will, and the way of solving many problems, which differ depending on what social organization they refer to. In family businesses, in a situation when people are members of both a family and a company, no matter if a family is harmonious or not, the changes inside will influence business. In case of a situation when a family system is linked to a business system (as it is in a family business) there are many possibilities of this kind of influence. In family-oriented enterprises, family members will be treated equally even if their abilities are not equal. In this kind of companies, family members are expected to work for the company. This expectation influences the policy of employment as well as managerial behavior in the company. It is also believed that assumptions made by a family and its behavior will shape family business orientation and the same as a result its value, seen by the others. Ward [1987] claims that family impact on an enterprise is so strong that can become a basis to set family business value both in plus and in minus. It is undeniable that family relations are one of the elements of the capital creating the enterprise value.

2. Family resources versus value of an enterprise

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To assess the value of a family business the resource theory can be applied. Adapting this theory suggests that family companies with resources (assets), which are valuable, rare, do not have substitutes and are really hard to fake, have the ability to create competition advantages [Barney 1991, p.99-120]. Three “types”, kinds of family resources are distinguished. They are linked and influence activity and results of a family business. These are: human assets, social assets and real and finance capital. Because of the article aim only human and social assets are going to be analyzed.

Human assets meaning skills, attitudes or work ethics – is one of named resources, which contributes to creating competition advantages in a company and the same can influence the growth of its value. Researchers of family business claim that these business entities have unique human assets. Firstly, it stems from the fact that the name (surname) of the family is in the same time the name of the company or is associated with the family so it’s natural that family members are more motivated and more involved in the family business. Such family links build the loyalty of family members by the fact that they are motivated to hard work, are more flexible at work and at tasks, which they do – often without sufficient salaries just to contribute to a success of family business. Secondly, family members are often involved, even unconsciously, in company’s matters, from early childhood. It helps to understand deeply nature and specific character of an enterprise, its customers as well as competition. They are also supported by those family members who already work in the company and who have knowledge and skills necessary to run a particular kind of business [Dyer 1992]. This way of socializing family members with the company can be a meaningful resource for building the value of an enterprise. It stems from the fact of “creating” highly qualified, having proper skills staff – family members, who are normally motivated and willing to big challenges for a future success of the company. Only a few non family companies can be proud of staff forming such a team. However, on the other hand, a family business has a limited group of potential employees. This is why a family in itself can be unable to provide the company with a sufficient number of workers, who can manage the key operations of the company. Such cases mostly concern companies which need specialized knowledge in the field of technology or markets as well as enterprises, which are so big and


complex that they need advanced knowledge in the field of systems and processes management. In such enterprises, but not only, if nepotism is an accepted norm, unskilled workers taking key posts can endanger the activity and achieving successes by a company and it can also influence the decrease of company’s market value. Such family links can stop the company from using the best managers and put it in an unfavourable position in the matter of human assets. Two conclusions can be drawn. First of all, enterprises with the workers belonging to the family will have better human assets than the companies with the workers not connected with the family. It stems from the fact that workers-family members can be better prepared to applying for a particular post, they are more flexible and more motivated than workers from outside. Second of all, companies relying only on family as a workers provider for key posts in the company will have weakened human resources comparing to those companies, who are ready to set key posts also with managers not connected with the family.

Among non material assets so-called social assets must be distinguished. Social assets as family business resources is a complex phenomenon defined as “wealth created thanks to links net and social relationships, which can be used to help activities in a company” [Adler, Kwon 2002]. Social asset is a very important resource because it helps company to gain access to other forms of capital, for example intellectual capital, human or financial capital, which every enterprise needs for development. A family can gain unique benefits developing social capital between a family and different stakeholders of a company such as suppliers or workers. Family companies usually have skills to enrich and care for long lasting relationships. What’s more, the surrounding of a family business is more prone to set and develop personal relations with a family enterprise – a family, who owns and runs the business rather than with an amorphous and impersonal company. Obligations made by a family are more durable than obligations made by individuals. It is the result of the fact that in a family business there is an idea of so-called collective responsibility. It means that durability of the relations with the surrounding and high credibility if it comes to making obligations give family companies benefits in setting, keeping and developing social assets, and what’s more, it positively influences value of this enterprise. Creating such an exceptional status is often attributed to family members, who are linked with company belongings. This condition makes it easier to keep important relations and relationships, which can help both a family

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and a company. Employers, customers, suppliers, bankers and others involved directly or indirectly in an enterprise activity actually prefer to contact in important matters a family member who is an owner rather than a manager or a worker who is not a family member. To a great extent it is caused by the fact that family members are perceived as those who are financially and property responsible for their decisions. Family enterprises can use their family relations with society creating for example advertisement slogans as one of companies from Ohio, announcing while selling its products: “From Our family to Your family”. In this statement there is a credo that we can trust their products, because they are produced by a family known from a surname. Social asset “attracted” to a company because of the family, which positively influences customers, suppliers and other stakeholders, can turn out to be unique, impossible to imitate resource, which can later be used by a family business to gain and build competition advantage, and it will have an impact on building the value of a family enterprise. Creation and protection of “family company brand”, can become a meaningful resource in services, also in cultures where reputation and a good name are necessary to achieve success. The other form of social assets, which can be beneficial for a family company is broadening the favour coming from the good name of a family, and it also means a good name of a company for those company workers who are not connected with the family. For example, the research on strikes in enterprises which took place in Jamestown (New York) carried out by Meek [1988], showed that companies connected with local community, especially linked with the owner’s family members, had much fewer protest actions or their duration time was much shorter than in companies who have so-called “anonymous owners”. As a main reason of such a situation the authors state that anonymous managers (owners) were definitely less aware of local norms regulating work conditions. Families, who own and manage a company, can generate better social capital and greater trust among its workers in comparison to those companies, which are run by owners and managers not interested in social values and needs of local community, and of course its workers.

To summarize: family social capital provides with the access to resources, which help to create specific value of a company from the customers side but also other stakeholders of an enterprise, which also help to build strong ties between a family company and its workers what leads to setting up unique resources in creating competition advantage.

Despite the benefits because of having social assets, the presence of strong family ties

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has also its negative sides. There is the so-called idea of “amoral familism”\textsuperscript{10}. Families, whose ties with the surroundings (local community) are very weak, can be unable to protect needed sources to develop their business. In present economic life the most useful social capital is the ability to create new contacts, groups or relations in order to cooperate in a particular aim. Case studies showed that in some family businesses, the mentioned “amoral familism” can be noticed in relation: workers – family members versus workers from outside of the family [Christensen 2002]\textsuperscript{11}. It means that workers from outside the family are treated as “second class citizens” and are overused by the family. Such a contradiction of relations between owner’s family and outside family workers causes low morals of the latter and lowers their productivity. Conclusions connected with family influence on company’s social assets are following: family enterprises with owners/managers from the family can build more useful social asset with each other and also with different stakeholders (customers, suppliers and so on) but the same they can be more limited and interested only in gaining profits only by family members (amoral familism) than enterprises without family links.

3. A factor of “familiarity” and its influence on value of a company.

According to the resource approach in the organization and management theory, enterprises build their strategy and compete on the market on the basis of resources which they have. As it was mentioned, in family businesses particular attention should be paid to

\textsuperscript{10} Amoral familism – an idea introduced by Edward Banfield, who in 1954 and 1955 spent nine months in Montegrano, a place in southern Italy, carrying out the research on cultural basis of economic and political underdevelopment among local peasants. Banfield came to the conclusions that amoral familism is a characteristic way of thinking among people living in southern rural Italy. It means the strong identification in the frame of nuclear family while there is great distrust according to other families and defining them as potential competitors in fighting for limited set of resources. Banfield claimed that such a system of attitudes and ties causes subjective obligation to treat members of a family in an exceptional and preferential way, not taking into consideration the interest of bigger community and even morally accepting the damages done to people from outside the nuclear family. Particular interests of small groups dominate interests of bigger communities, whose normal functioning needs applying universal criteria for society members. Society is divided into many little groups, which members trust each other and their loyalty is directed inside the group while their distrust is directed outside. These little groups egoism results in the inability to organize themselves around common problems in bigger organizational groups, who could found it easier to fight with serious problems and threats.

\textsuperscript{11} Christensen, J., 2002, Bishop mines, Brigham Young University Case Study, Provo, UT: Brigham Young University.
non material resources, which stem from specific link between a family and a company [Sirmon Hitt 2003, p.339-358]. These resources called “familiarity” can be a source of competition advantage and it is the reason why these resources became such an interesting subject for research. Non material resources of a family business involve resources based on knowledge and resources resulted from the reputation. These non material goods can become competition advantage and characteristic “creator” of values and also because of that it is a fascinating research topic. In family businesses such resources based on knowledge as well as company’s reputation and fame are the most important. Resource theory pays attention to the fact that value of particular resources in a company highly depends on the way of using them. To make the resource unique, it needs proper management of its value. It means that specific resources created as a result of interaction between the system of a family versus the enterprise system, can be the source of competition advantage of a family business [Chrisman, Chua, Sharma 2005, p.555-576]12. The analysis of potential advantages and disadvantages of family involvement in creating the strategy of a family business development as well as in managing the resources, is important not only from a theoretical but also practical point of view. According to the resource approach of a company, which has unique resources which are able to create development strategies enabling to gain competition advantage and to build up the value. Resources are unique when they are valuable, rare and impossible to imitate or to fake, and also when there are no other substitutes [Wernerfelt 1984, p.171-180]13. Despite some limitations connected with defining, and especially with measuring the existence and the meaning of non material resources as enterprise value. Resources theory has become a theoretical frame for many research areas from company’s strategies through entrepreneurship to international business. The resource approach has found its usage also in the topic of family business. In their early work Habbershon i Williams [1999]14 used this theory to prove that in many family companies, their resources and possibilities can generate competition advantage. “Familiarity” is an idea referring to a family and its exceptional sources, which are the results of interaction between an enterprise, a family as a whole and between particular members. In the name “familiarity” all the resources of a family business are hidden, which, while well managed, can help to achieve better results and the same to increase company’s value. “Familiarity” is understood as involvement and

family’s influence on different processes and structures in an organization [Ensley, Pearson 2005, p.267-289]15. However, no matter if a “familiarity” factor is a limiting or stimulating activities factor it has a crucial characteristic happening only in family businesses. It has its influence on the structure, culture and on organizational behavior. In the name “familiarity”, next to involvement and family’s influence on the functioning of a company, there are also involved resources based on knowledge as well as social assets and company’s reputation. Resources based on knowledge are the main type of non material resources needed to achieve high results and to increase value of a family business. In the broad meaning these resources are perceived as a way in which enterprises link and transform available material sources so as to make them competitive on the market and to improve results of organization [Galunic, Rodan 1998, p.1193-1201]16. As a rule, non material resources can come in particular skills: technical, connected with creativity and ability to cooperate, which are run in an enterprise by human resources (managers, workers and so on). Particular attention should be paid to those non material resources, which are connected with specific “know-how”, because it is this factor which mainly decides about achieving advantages on competitive markets. On the other hand, permanent ability to gain competition advantages influences the possibility to create value of every enterprise. Cabrera-Suarez [2001]17 together with her research team noticed that family companies, using commonly available technologies or know-how, can create their own “knowledge” and ways of acting, which can differentiate them from the competition. In family companies this technical and social complexity of resources based on knowledge can be highly expanded because of specific interactions that happen between members of the family and the company, and also between the structure of ownership and the structure of management. Next to human resources, very important among resources based on knowledge are: knowledge about production processes, marketing distribution and technology. In case of family business these factors gain exceptional meaning because their position has very often been worked out by the generations [Carney 2005, p.249-265]18. In other words, resources based on knowledge are positively correlated with value of family enterprise [Miller, Le

18 Carney, M., 2005, Corporate governance and competitive advantage in family-controlled firms, Entrepreneurship Theory & Practice, 29(3).
Reputation and company’s brand are the examples of non-material goods, which are considered as very important in creating the competition and value of a company [Greene 1997, p.161-173]. A brand can constitute a unique resource supporting possible to achieve results, while positive reputation and a good name of an enterprise can lead to gaining advantage in comparison to competition [Greene 1997]. A company which has good reputation among customers, suppliers, workers or investors in a better-organized company, more efficient and in the consequence it has higher value. These two resources – reputation and a brand – are the basis of competition advantage, because they help, for example, to use prize offers, to employ better workers and provide with an access to capital and investment markets [Rindova, Williamson, Petkova, Sever 2005, p.1033-1049]. Brand reputation of a family company can also be a barrier for other companies to enter a particular market. The name of a company has been built for many years and even if it is not looked after all the time, its value falls slowly and is not prone to changes in the outside surroundings. What is more, reputation or fame of a particular company is difficult to imitate or fake by the competition because of its non-material character [Roberts, Dowling 2002, p.1077-1093]. Additionally, this source is closely linked and dependant on company’s properties. This dependence is especially visible when for example the owner of a company changes, then the reputation of the company is going down [Grant 1991, p.21-28]. However, thanks to the fact that in a family business long prospect of activity and the durability of the ownership are being inscribed, these companies create great conditions for creating and keeping good fame of the company. According to Ward, family companies pay more attention to a brand than non-family companies. It is especially visible in enterprises, where a family name occurs in a company’s name or is strongly associated with it. Owners and managers of a family business aspire to keep the desired fame of a brand, which means that enterprises, because of their emotional involvement and because of the fact that in case of losing its reputation, it is

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24 Grant, P. R., 1991, Ethnocentrism between groups of unequal power under threat in intergroup competition, Journal of Social Psychology, 131(1).
extremely hard to change work or a company [Grant 1991]25. According to Anderson and Reeb [2003]26 the problem of keeping this good reputation of an enterprise and family is an encouragement to guarantee company’s survival and of course to increase its value. What’s more, Miller and LeBreton-Miller [2005]27 observed that family businesses, which achieved high results measured by the level of sales, paid great attention to building and keeping a strong brand and good reputation. Results obtained by Mr and Mrs Miller were confirmed by recent research, which showed the importance of resources connected with reputation and fame of family companies for getting great effects [Zellweger, Kellermenns 2008]28. Above research results permit to advance a thesis that the same non material resources of family business will influence its value. Family enterprises have other functions of economic targets than enterprises controlled by non related stakeholders. In some families it is clear that the business is positive for the family in contrast to those families who are positive for the business [Dunn, Hughes, Adams 1996, p.1-10]29. For families involved in broadly understood business, taking decisions is accompanied not only by economic rationality. In family enterprise’s activities, an idea “family at the first place” can be noticed in combination with maximizing profit and value. Family business is a lifestyle of broadly understood family in contrast to enterprises oriented on results and growth from the point of view of economy. These non-economic targets often become more important function of economic aim and has its implications for economy life in general. The mentioned above factors bring about the fact that in family enterprises different philosophy of functioning works and different management practices are applied, which can lead both to a success or to a failure. However, it should be remembered that success in reference to a family business does not only mean the increase in profit or assets value. Success also means achieving non-economic targets.

Ending

The aim of the above article was to describe the meaning of non material resources,
specific for family businesses, in building and strengthening its value. In a family business there are specific non material resources, which influence both the way of functioning and managing this subject and determine its market value. Among the specific non material resources in a family business there should also be mentioned family and business relations because they influence accepted managerial attitudes and the same in consequence, influence its value, observed by others. The other non material resource in a family enterprise is a family resource in itself, with its specific human and social resources. Human resources or skills, attitudes or work ethics are one of mentioned resources, which help to create competition advantage and the same can influence the growth of value. “Unique” human resources in family business stem from the fact that family name (surname) is often the name of the company or is associated with the family and it is obvious and natural that family members would be more motivated and involved in a family company. Such family relations build the loyalty of family members and cause that they are more willing to work hard, they are more flexible at work and at tasks, which they carry out – often not sufficiently paid to work for a success – the increase of family company value. What’s more, family’s social capital provides with access to resources, which help to create specific value of a company from customers side, as well as other stakeholders of an enterprise, it helps to build strong relations between family company with its workers what in consequences leads to create unique resources in building competition advantage. Despite the benefits coming from having human and social resources, which are family resources brought to an enterprise. The presence of strong family relations can also have its negative sides – we can remind an idea of “amoral familism”, which can occur. For non material family business resources we can include resources based on knowledge and resources resulted from reputation. Resources based on knowledge are often unique, passed from generation to generation, it is a kind of “mystery” of success in company’s functioning. The resources, stemming from reputation thanks to being included in the long prospect of activities in the policy of family business and the duration of ownership create great conditions for creating and keeping good fame of its brand what has the consequences in the increase of an enterprise value.

**Summary**

The article constitutes the consideration about the role of non material resources, specific for family business in building and strengthening its value. In a family company there
are particular non material resources, which influence both the way of functioning as well as managing such a subject and they determine its market value. To unique, non material resources of a family company we can involve relationships that occur between family members or between a family and an enterprise. Among these resources there are also family resources like human and social resources with long lasting relations, workers and exterior stakeholders trust. The key role is played by resources based on knowledge passed from generation to generation, family involvement in building a brand, reputation etc. Mentioned above resources can contribute to growth but also bad management – to lowering the value of family business but still they are the unique element of non material resources characteristic only for this group of companies and influencing the level of its value

Abstract

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