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Management Practices of Family-Owned Enterprises

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Abstract: ***This study assessed the management practices of small and medium scale family-owned enterprises in Region 02. The descriptive research method was employed. A total of ninety (90) family-owned enterprises were involved selected through quota random sampling. The business establishments were identified through the data coming from the Department of Trade and Industry Regional Office No. 02. The questionnaire gathered data on the management practices of family-owned enterprises, specifically along their operational and people management. Results of the study show that the family-owned enterprises comply with government regulations in the operation of their businesses. Operating expenses are kept as optimal as possible. Moreover, owners of these enterprises have measures to objectively assess performance of their workforce. The family-owned enterprises employ workers based on criteria which they perceive would be at the best interest of the enterprise. The results of the study are consistent across all business sectors, namely, merchandising, manufacturing, construction, service and leasing sectors.***

Keywords: Operational Management, People Management, Family-Owned Enterprises

1. Introduction

The Philippines remains to be an agricultural country and is dominated with a vast of family-owned enterprises. Family enterprises started around the 1930s in an intuitive way. Taxes were not significant, there was a local market awaiting products, competition was scarce and inflation was unknown. There was almost full employment and the working and middle classes had reasonable incomes. Technological changes were relatively slow. This trend continued after the Second World War. Family businesses can be defined according to a number of different criteria (Bork, 2004). A general definition, incorporating different criteria, considers them to be those firms which are businesses owned and/or managed by at least two relatives, including spouses.

On the basis of this work, the researcher argues that traditional classifications of family businesses failed to do justice to the range of variables which differentiate them. The economic landscape of most nations remains dominated by family firms. There seems to be widespread agreement that family firms comprise a large proportion of businesses. The estimates range from 42 to 92 percent (Anderson & Reed 2003). Therefore, it is fitting that academia has begun to recognize the importance of family businesses. The field has gathered considerable momentum, particularly in the last several years. Studies of founders (De Angelo, H. 2001), members of the next-generation, women (Cole, 1997; Dumas, 1998; Fitzgerald & Muske, 2002), and non-family managers (Mitchell, Agle, & Wood, 2003) have increased our understanding of key individual stakeholders. Studies at the group level have added to our knowledge on two of the most pervasive problems in family businesses: conflict (Kellermanns & Eddleston, 2002) and succession (Steier, & LeBreton-Miller, 2003; Morris, Williams, Allen, & Avila, 1997). Still other studies have broadened our horizons by providing perspective of the family business situation (Welsch, 200).

Recently, the idea that the family is the critical variable in family firm and that the heart of the field is about understanding the reciprocal impact of family on business has begun to crystallize in the minds of many scholars (Astrachan & Kolenko, 2004) based models of sustainable family businesses that take into account the reciprocal relationships between family and business systems in an effort to foster the simultaneous development of functional families and profitable firms have emerged (Stafford, Duncan, Danes, & Winter, 2000). Other scholars have encouraged the adoption of a “family embededness perspective” by including the characteristics of family systems in research studies (Aldrich & Cliff, 2003). Recognizing that the family and business are intertwined in family firms, some researchers define the performance of family firms along both family and business dimensions. Some studies even suggest that the success of family firms depends more on effective management of the overlap between family and business than on resources or processes in either the family or the business systems (Olson, Zuiker, Danes, Stafford, Heck, & Duncan, 2003).

2. Statement of the Problem/ Research Questions

This study aimed to determine the management practices of family-owned enterprises in the key cities in Region 02.

Specifically, it sought to answer the following questions:

1) How do family owned businesses manage its operation?
2) Ho do family owned businesses manage their business performance?
3) How do family owned businesses manage its workforce?

Significance of the Study

This study on the management practices of family-owned enterprises is expected to give insights on how these businesses have managed to survive for least five (5) years. Considering that these enterprises are either small or medium scale, the management practices may vary from those of big businesses. The result of the study can serve as inspiration to the owners of these enterprises to elevate their performance towards greater productivity by refining or gradually changing some of their practices.

3. Literature Review

The phenomenon of the "family business" continues to attract research interest across a range of scholarly disciplines (Ibrahim et al., 2004; Getz and Petersen, 2005). Most commonly the phenomenon of the family business is defined as "any business venture owned or operated by an individual, couple(s) or family" (see Getz et al., 2004). The evidence is substantial that globally, family business is "big business" and that the category of family-owned enterprises represents a significant element in the economic landscape of many countries such as China and India (Stoy Centre for Family Business, 2002; Chen, 2004). The question of business decision-making within family-owned enterprises continues to be of major interest in international writings (Gersick et al., 2001) with a considerable scholarship around the family business in tourism and the hospitality industry (Getz et al., 2004; Getz and Nilsson, 2004; Getz and Carlsen, 2005; Getz and Petersen, 2005).

Management Practices of Family-Owned Enterprises: Operational Management

Research suggests that family firms are more cost efficient than non-family firms. Harris et al (2004) reported higher cost savings in recruitment for family firms. However, Mc Conaughy (2000) and Romano et al (2001) found that compensation, interest and agency costs are lower for family firms. They explained that these cost savings arise from the family's management and ownership interest in their firms and their high aversion to debt. Bukart et al (2003) argued that family ownership and control reduce the conflict between majority and minority shareholders and thus minimize agency costs. Mc Conaughy et al (2001) observed higher cash flow per employee for family controlled firms than for the non-family firms. They also noted that cost savings in family firms translated into increased cash flows, which are ploughed back into the business to increase equity holdings of the family and to provide greater resilience in hard times. Schulze et al (2003) opposed this view arguing that gains in agency and other costs for family firms are offset by costs associated with the altruism of family proprietors, free riding of family members and family conflicts that flow over to the business. They suggested that family ownership does not necessarily minimize agency costs and in some cases can exacerbate it.

Ateljevic and Doorne (2000) suggest a further conceptualization in the form of 'lifestyle entrepreneurship', which is characterized by the pursuit of individualistic approaches and constrained business growth. A number of researchers have identified lifestyle as an important dimension within entrepreneurship and suggest that success can no longer be measured solely by financial means, but has to take into account broader social and cultural factors and the ability of the family to sustain their chosen lifestyle. Much valuable research has also been undertaken at a micro level in relation to case studies focusing on particular geographic areas and on particular issues such as diversification, business motivations, lifestyle and social issues (Ateljevic & Doorne, 2000; Nelton., 2003; Dewhurst & Thomas, 2003).

As a business proposition, most family ventures are the main source of income. As a result, there is potentially a wide degree of variation in terms of the time and effort deployed in maximizing the resource commercially. Gasson and Errington (2000) maintain that the primary goal of many family businesses 'is not to maximize profits but to maintain control and pass on a secure and sound business to the next generation'. This is particularly important within a business context where lifestyle considerations are of prime importance (Getz & Carlsen, 2000; Getz & Nilsson, 2004). Within the general agricultural context, in most cases the family lives on the farm, so objectives for the farm will almost inevitably become bound up with those of the family or household that 'pluriactivity' where farm businesses combine agricultural production with other income-generating activities has always been an important and distinctive feature of the farm sector.

As a model for exploring family businesses, Getz *et al.* (2004: p. 6) referred to a three-dimensional approach by Gersick *et al.* (2003) which allowed for the examination of issues along three axes: family, business and ownership. The family axis shows four stages representing a life cycle of family business development from nurturing the business, encouraging the children to enter the business, working together as 'networks' of families leading into the generational shift in leadership as the baton is passed on to the next generation. Getz *et al.* (2004) discovered that the direct involvement of children in businesses 'is not at all common and therefore inheritance of businesses is an option only for a small minority'. Inheritance issues are therefore more likely to involve ownership of a family business and the legacy that represents for the next generation.

The business axis follows the development of the business from its initial startup through to its formalization and expansion into a mature business. Issues relate to the training and background of the owners, the structure and growth of business operations and obstacles or challenges that would hinder future development. In terms of the motivations for founding the business, research has shown that the majority of small family businesses studied in Western Australia and Denmark has either been started by the owner or purchased (Getz & Carlsen, 2000; Getz & Nilsson, 2004). There has generally been no discussion in the literature as to how the business developed yet 'quite a few businesses incorporate more than one activity, such as a hotel plus restaurant, or campground plus retail shop' (Getz & Nilsson, 2004: p. 23). Getz and Nilsson's (2004) research on business activities on the island of Bonholm, Denmark, suggests that many have two activities from among the following categories: accommodation, restaurants/cafés, arts and crafts, attraction/recreation, other retail or tour company.

The ownership axis illustrates the likelihood of family businesses to evolve in ownership from one controlling owner into shared ownership through a sibling partnership and latterly into a more complex network of cousins as subsequent generations take over. However, Getz *et al.* (2004) note that most family businesses ever make it to the second or third generation because of the lack of capital needed to expand and the reluctance to employ staff. Most businesses rely on seasonal workers and fall back on family members in the low season.

A review of this research suggests that succession continues to dominate the field, with over 22% of the research having succession as the primary topic and another 8% including succession as a secondary topic. A significant proportion of the study reviewed includes consideration of the economic performance of family businesses as a strategic management approach. Still, there is much to be accomplished as only a little over 15% have that as a primary focus. Equally heartening from both a theoretical and pedagogical standpoint was the number of studies about topics such as corporate governance, resources and competitive advantage, entrepreneurship and innovation, and functional strategies.

While the fact that one generation will succeed the next with biological inevitability is undeniable, one of the most pressing problems in the realm of family business is planning to pass control of the business to the next generation. Davis and Harveston (2000) stated that the concept of “succession” in a family firm was a contraction of terms. This contradiction is due to the fact that succession is a highly charged issue that requires not only structural changes but cultural as well. The “family business” and the “business family” are two distinct components that must be dealt with and disentangled if progress toward succession to be made (Holland and Boulton, 2001).

Management Practices of Family-Owned Enterprises: People Management

An individual’s human capital, such as skills and experience as well as his / her social capital, such as contracts with external constituencies and professional networks, can add substantial resources to a family enterprise (Corbetta and Salvato, 2004; Hillman and Dalziel, 2003). In particular, in economies with limited capital and small labour markets, a successor who has high levels of human and social capital can reduce the family enterprise’s dependency on its external environment, thereby attenuating the uncertainty it faces and enhances its prospects for survival (Pfeffer and Salancik, 2008). The basis of human capital theory lies in the concept that individuals possess knowledge, skills or experiences, which have economic value to a firm (Becker, 2004). An individual who possesses more human capital has more relevant knowledge and experiences necessary to be productive. However, human capital is a very broad concept and these writers should have considered that human capital includes achieved attributes, accumulated work and habits that may have a positive or negative effect on productivity.

It also observe, however, that most of the questions that raised in many research remain largely unaddressed because the great proportion of publications since then continue to contribute mainly to the cumulative collection of observations, opinions, and conjectures about families in business. Over one-fifth of the research has nothing to do with strategic management and, while the other research deal with strategic management topics, it was clear that many of these were not grounded in a strategic management perspective. As a consequence, simply updating the literature review using the strategic management framework would not add very much value at this time. This focus reflects our bias that data, observations, opinions, and conjectures are best interpreted in the context of theory. They believe that, without theory, research results will remain isolated pieces of information, lacking the causal linkages that are needed to help family firms manage their businesses better, guide researchers toward the most fruitful directions of investigation, and improve the content of courses on family business management. Another bias obvious in the review is our interest in the business side of the family-business and in our strategic management approach to the study of family business. In the following sections, the researcher presents what consider being the most important trends in the development of a theory of family business.

On the other hand, it notice that, in the past several years, researchers have begun to rely more and more on two theoretical perspectives that represent a confluence of insights from the fields of strategic management, finance, and economics: the resource-based view of the firm. Consequently, the researcher decided to devote the survey section of this research to a more detailed treatment of the contributions that have been made from the application of these theoretical perspectives to the study of family business. Some might disagree with this focus and others might view this as a departure from our previous stance. However, the researcher believe that it is both appropriate and entirely consistent with a strategic management view of the field because theory potentially assist in explaining the formulation and content of goals and strategies, strategy implementation and control, leadership, and succession in family firms.

Furthermore, both theories have a performance orientation. Finally, both theories contribute to what it believes should be an overarching concern in family business studies: the development and testing of a theory of the family firm.

The idea that a manager who does not own a business is unlikely to be as diligent as an owner can be traced back to Adam Smith (1976).This idea propose that, as long as a conflict of interests exists, a manager will pursue his/her own interest rather than that of the owner. It also presents a mathematical formulation of this situation and called it the principal-agent problem. Also apply this to the capital structure decision of the firm and coin the phrase “agency costs” to include all actions by managers that contravene the interests of the owners plus all activities, incentives, policies, and structures used by the firm to align the interests and actions of the agent with the interests of the owners. Myers (2005) and Smith & Warner (2003) point out that agency problems also exist between the lender and the borrower. To this, Morck, Shleifer & Vishny (2000) add the agency problem between the majority and minority shareholders. Conceptually, agency theory can be directly applied to the family business situation as long as the set of goals and objectives proposed for the firm is expanded to allow non-economic benefits. It is in empirical research that the theory may have the most serious problems. If agency costs are due to the manager pursuing goals that are different from those of the owner, then many actions considered agency costs in non-family firms may not be so for family firms. For example, if a family business owner holds a view of justice that implies a guaranteed minimum standard of living for close relatives, then employing an unproductive nephew for that purpose would not be an agency cost, although it would be so for a non-family firm. Thus, empirical research on the agency problems of the family firm has to start by identifying the interests of family business owners. Agency costs must be measured by the decisions and actions pursued in contravention of the interests of owners and the activities, incentives, policies, and structures set up by owners to prevent these decisions and actions. In this regard, it will be especially helpful if the incentives and monitoring mechanisms of family firms are compared with those of non-family firms.

In this research, the researcher reviewed the leadership succession processes of several Philippine family businesses and investigated how the process affected and was affected by the ownership structure, family system and business system. The criteria for selecting successor's entry into the family business and the timing of the succession comprise the succession process.

The product of this research is a descriptive model that could serve as hypothesis for future research. The model attempts to capture the essence of what would likely lead to a smooth leadership transition process for Filipino family businesses and, perhaps, for similar group-oriented societies.

An offshoot of this research is a simple model that lists circumstances, where succession planning is best suited, and where the absence of succession planning will not unduly affect succession outcome. Again, it is possible that this applies to other group-oriented societies as well.

4. Research Framework

The government promotes industrialization and full assistance to all family-owned enterprises make full and increase sustained benefit and expanding productivity as the key to raising the quality of life for all especially the unprivileged one's.

In the pursuit of this goal, all sectors of the economy and all regions of the country provide optimum opportunity to develop family businesses and similar collective organizations are encouraged to broaden the base of their ownership. Hence, below is the research paradigm that guided the conceptualization of this research.

The research framework assumes that management practices of family-owned enterprises along operations, performance and people management are critical areas to be studied as these may affect the success or failure of the business. Many studies emphasize that businesses that are able to manage their operations and maximize the utilization of their employees are inclined to have better business performance. Similarly, better operations and people management practices of the business, and assure the business of its success.

Figure 1: Research Paradigm

5. Method

The researcher made use of the descriptive-survey method. It described the management practices of family-owned enterprises.

The study was conducted among family business owners of the three (3) key cities in Region 2, namely: Tuguegarao City, Santiago City and Cauayan City. A total of 90 family business owners are included in the study which was selected using quota random sampling.

Majority of family-owned enterprises are into merchandising and had been in business for an average of seven (7) years. Generally, these enterprises rely on the family's resources in building their capital and have been cautious in considering external funding sources. A typical owner of these enterprises is female, married, 41 years old and seven (7) years of business experience. A structured questionnaire was the principal data gathering tool. The questionnaire revolved around the management practices of family-owned enterprises and the parts included question items along Operational Management, Performance Management and People Management. The researcher personally administered the questionnaires to preclude any possible misinterpretation and likewise to assure the respondents that their answers will be held in the strict confidentially. The questionnaire was supplemented with informal interviews in order to ascertain the validity and gather more information to make the findings more generalizable.

6. Results

A. Operational Management

Business Renewal

Business Type	Average Number of Days for Business Renewal	Average Monthly Tax Payment
Merchandising	5	69, 157.375
Manufacturing	5	50, 926
Construction	5	107, 500
Service	5	115, 894.86
Leasing	6	53, 486.86

As shown from the table, it takes an average of 5 days for family-owned enterprises to renew their business permits. This result suggests that the government is mandated with the citizen charter as providing fast release of documents. The charter prescribes the minimum number of days for business service delivery. On the part of the respondents, this move and support of government is certainly considered an advantage because the speedy release of documents in their business renewal results to smooth business operations.

The data further show that the average monthly tax payment of the family-owned enterprises is 83, 954.41. Among the business types, it is the Service business sector that paid the highest monthly tax while the manufacturing has the least amount of payment. This implies that the service sector gains for income and is more profitable than the other type that is why they are levied and collected higher taxes.

Bills and Rent

Business Type	Average Monthly Bill				Total Average	Average Monthly Commercial Rental
	Water	Electricity	Telephone	Internet		
Merchandising	11, 186.19	39, 253.98	10, 422.50	9, 231.25	70,093.92	23, 384
Manufacturing	8, 220	35, 552	7, 800	9, 540	61,112	-
Construction	14, 872.75	34, 458.75	11, 975	9, 556	36,403.75	18, 000
Service	39, 973.07	109, 947.04	14, 904.21	11, 047	175,871.3	26, 333.3
Leasing	6, 212.80	300, 651.14	9, 097.6	14, 601.6	330,563.1	41, 520

In terms of bills and rents, Table 2 shows that the average water bill of the service sector obtained the highest monthly bill, indicative that this sector requires higher consumption of water for their operation.

On the other hand, the leasing sector garnered the highest amount of bill on the use of electricity. As regards telephone bill, the service sector consumed the highest amount, implying that telephone use is very important in transacting business for their day to day business activities.

Furthermore, some business sectors are higher with respect to their bills most especially in electricity and water bills because of the reason that they use those services for the whole duration of the activities or operation. Those business sectors continuously using those services will tend to consume higher volume, thus, incur a higher bill.

Salaries and Wages

Business Type	Average Monthly Salary of Worker/Staff				Total Average
	Managerial	Administrative Staff	Technical	Maintenance	
Merchandising	16,937.5000	11,906.8693	7,684.3939	3,131.0078	39,659.77
Manufacturing	18,516.6670	12,500.0000	8,500.0000	3,500.0000	43,016.67
Construction	15,233.3330	11,375.0000	6,750.0000	3,750.0000	37,108.33
Service	19,055.8823	15,438.8888	8,488.0000	4,500.0000	47,482.77
Leasing	18,104.1667	12,576.3888	13,402.7778	9,333.3333	53,416.67

As regards the average entry-level wage paid of workers, the data clearly reveals that the service sector significantly pays higher compared to other type of business. Since service sector require much effort to exercise their jobs, so in return the family business compensate it.

B. People Management

B1. Quality of Workers

As to the quality of workers, the table depicts that in all the types of businesses, the overall mean of 4.19 means that workers' quality are satisfactory. It can be deduced from the findings that workers in family-owned enterprises are efficient and effective in the performance of their duties and functions in the business

Business Type	Mean	Descriptive Value
Merchandising	4.22	Satisfactory
Manufacturing	4.00	Satisfactory
Construction	4.25	Satisfactory
Service	4.18	Satisfactory
Leasing	4.00	Satisfactory
Overall Average	4.19	

Legend: ≥3 - Satisfactory
<3 - Unsatisfactory

B2. Recruitment and Selection

Business Type	Mean	Descriptive Value
Merchandising	4.04	Satisfactory
Manufacturing	4.00	Satisfactory
Construction	3.75	Satisfactory
Service	4.18	Satisfactory
Leasing	3.86	Satisfactory
Overall Average	4.06	

Legend: Legend: ≥3 - Satisfactory
<3 - Unsatisfactory

In terms of the recruitment and selection policies of the family-owned enterprises, the data shows that a 4.06 overall mean is indicative that recruitment and selection criteria and policies are satisfactory. This implies that business owners observe and implement strictly their procedure and processes of recruitment and selection in their respective line of business.

B3. Performance Management

Business Type	Mean	Descriptive Value
Merchandising	4.06	Satisfactory
Manufacturing	4.00	Satisfactory
Construction	4.25	Satisfactory
Service	4.00	Satisfactory
Leasing	4.14	Satisfactory
Overall Average	4.06	

Legend: ≥3 - Satisfactory
<3 - Unsatisfactory

As reflected in the table, the different type of business is rated satisfactory in terms of their performance as revealed by the overall mean of 4.06. It can be deduced from the findings that the family-owned enterprise have objectively criteria in assessing the performance of their work force as basis for promotion and retention.

7. Discussion

The results of this study provide insights into the management practices of family-owned enterprises. The most significant finding is that adoption of work family practices depend on the established management practices of the family and their work orientations. In this study, family-owned enterprises were less likely to provide flexible work schedules, financial benefits and miscellaneous supportive benefits than non-family-owned enterprises. This finding supports the researcher's prediction and is consistent with previous empirical evidence that, relative to other small businesses, family-owned enterprises implement fewer practices and policies and do not engage in strategic human resource activities (Astrachan & Kolenko, 2004; Kets de Vries, 2006). This finding also suggests that family business owners may expect their own work habits and values to be shared by all employees, including non-family employees. Although family-owned enterprises do less scanning of their competitive environment than non-family-owned firms (Astrachan & Kolenko, 2004), it is quite possible that when they do look outward, they primarily turn to other family-owned firms for comparison. While non-family owned firms may define 'similar' in terms of size or industry, family-owned firms may define 'similar' in terms of family ownership.

Management Practices of Family-Owned Enterprises: Operational Management

Operations Management is the functional area of business primarily devoted to the creation, planning, and management of the resource capabilities used by a firm to create products or services. The resource capabilities are comprised of the work force (e.g., skills), technology (e.g., manufacturing equipment and information-based technology), and processes (e.g., supply chain, inventory-distribution system, quality control system, material flow system, production planning methods, monitoring system, etc.) all of which typically represent a significant portion of a firm's total costs and controllable assets. Since resource capabilities determine the types of products and services a firm can offer to the marketplace as well as the associated cost (price), quality attributes, and lead-times necessary to meet demand, the operations function is a critical driver of competitive advantage. Moreover, recent forces such as technology change and increased competition in cost, time and quality have elevated the extent of distinctive competence that can be obtained from the effective management of the operations function.

In family-owned enterprises, family members are likely to be the powerful stakeholders while non-family employees may be viewed as less critical to the successful functioning of the firm (Beehr et al., 2001). As a result, the demands of less influential employees in this case, non-family employees may be viewed as lower priority issues by the firm (Ingram & Simons, 2002). Although family-owned firms were not as likely to embrace work family practices as non-family-owned firms, my findings indicate that family-owned firms have adopted at least some management family practices. In particular, the researcher found that more than half of the family-owned firms in this study offered flextime.

This study contributes to issues of family businesses in several distinct ways. First, it is one of the few studies to empirically explore the relationship management practices (Tagiuri & Davis, 2000). While there has been evidence suggesting that family employees may be limited in professional advancement relative to their counterparts in non-family-owned firms (Longenecker, Moore, & Petty, 2000), this study suggests that other types of professional opportunities may also be limited by family business ownership. Second, this study adds to the limited research on human resource management in family-owned firms. To date, most of the research in this arena focuses on succession planning (Fox et al., 2002) and leadership development (Lansberg, 2000), with very little focusing on specific human resource policies and practices (Astrachan & Kolenko, 2004; Mc Conaughy, 2004). Third, it shows that at least some family-owned firms are becoming more 'outward' looking and adopting strategic human resource practices that may have an impact on employee productivity and ultimately, family-firm success and longevity. Some researchers have suggested that firm inability to strategically manage their human resources for competitive advantage may contribute to the short lifespan of family firms (Astrachan & Kolenko, 2004).

Management Practices of Family-Owned Business: People Management

As the family-owned enterprises develop, communication becomes a critical function in aligning workers and ideas. It is a popular thought that building a "culture of candor" will allow the organization to work most effectively (Bennis & O'Toole, 2009). This type of culture of family owners is characterized by truthfulness, admitting mistakes, transparency and free flow of information (Bennis & O'Toole, 2009). Similarly, in family-owned businesses, effective and frequent communication, an envisioned future, conflict resolution, and trustfulness help to develop an effective personal culture (Mustakallio, Autio, & Zahra, 2002). Furthermore, trust has been cited as providing a competitive advantage to the family firm (Steier, 2001). However, overtime, the organization often adds more family members and employees which alters relationships and may diminish trust (Steier, 2001).

In order to cope with the evolving relationships in the organization, trust must also develop (Bennis & O'Toole, 2009; Steier, 2001; Sundaramurthy, 2008; Mustakallio, Autio, & Zahra, 2002). The model outlined by Chamu Sundaramurthy (2008), breaks trust into a systematic development gravitating to trust in systems (Sundaramurthy, 2008). In early stages, the trust between members of the organization is built on common interests – interpersonal trust.

As the business grows, trust must develop because work is delegated to others who are thought to be capable of accomplishing the task – competency trust. An advanced family-owned business discovers the benefits of transparent policies and procedures working to direct resources – system trust. To manage with declining trust that may occur as more generations enter the business, all three dimensions of trust must continue to develop (Sundaramurthy, 2008).

There is currently dominant theory of the family firm. A good place to start building a theory is to examine whether existing theories of the firm are robust enough to explain family firm behavior and performance. Resource-based theory and agency cost theory are two theories that have been increasingly used: the former to explain the positive side of family involvement and the latter the negative side. Development of a rigorous theory of the family firm is just beginning. It is encouraging nevertheless, to see scholars from mainstream disciplines applying the dominant theoretical frameworks from their respective disciplines to study family firms.

Using these dominant frameworks is likely to help impose more discipline and structure on family business research. However, as it discussed above, researchers must be careful about the applicability to family business of the implicit and explicit assumptions within these theoretical frameworks. Agency and resource-based theories leave some gaps that need to be filled if we are to develop a theory of the family firm. It needs to obtain a better understanding of the conditions under which the positive forces of family involvement can be unleashed and directed toward economic, and non-economic, objectives.

8. Conclusion

Family-owned enterprises generally have operations that are above board by complying with government regulations like having legitimate business licenses, payment of just wages and payment of taxes. These enterprises follow the rule of thumb of maximizing profit at least possible cost. Human resource management is equally given attention by small and medium enterprises recognizing that the human resource is the most important resource in an organization. Performance management is generally satisfactory to ensure that the best people are maintained in the enterprise. Moreover, while big businesses resort to getting external sources for additional capital, small and medium enterprises rely mostly on family financing. This means that growth of the family-owned businesses evolve as they stay longer in the business and as family members are getting more involved in the affairs of the business.

9. Implications for Further Research/ Recommendations

It is recommended that future researches focus on the extent by which family and work practices in family-owned enterprises actually contribute to decreased tension between work and family systems. In particular, researchers might consider the impact of these tensions on both family members and employees.

Second, researchers should consider investigating whether family practices are associated with success in family-owned businesses.

Third, a comparative study of the business performance of family businesses that have acquired additional capitalization from external sources and those that purely rely on internal funding, can be further explored, particularly for cases of small and medium enterprises that are family-owned.

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