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Family involvement in and institutionalization of family businesses: A research

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This study considers family involvement (presence of family) in business context, with the aim of understanding from the perspective of institutionalization how this involvement affects the pillars of institutionalization. The study considers the top managers of family businesses in Turkey's four largest cities, and hence draws a general picture of this subject in Turkey. The results reveal that top managers show a resistance towards institutionalization: if the adoption of rules regarding the family's presence in relation to the business context is sufficiently well emphasized, then it is not particularly necessary to emphasize the institutionalization of managerial, financial, and succession issues.

JEL Classifications: M19

Keywords: Institutionalization, family, involvement, family business, Turkey.

Introduction

In the many studies of family businesses conducted throughout the world, these businesses are defined in various ways. Although attempts have been made to group these definitions (e.g. Ward and Dolan, 1998), there is a clear point: "Family" emphasizes the definition of a family business. Moreover, this emphasis appears to be relevant to the family's particular role: Family as the business owner (e.g. Donckels and Frohlich, 1991), business manager (e.g. Dunn, 1996), successor (e.g. Donnely, 1964), or worker (Shanker and Astrachan, 1996). Some studies consider the multiple roles of the family in defining the family business (e.g. Dannhaeuser, 1993; Gumustekin, 2005). Similarly, some studies have examined the multiple roles of the family to understand the degree to which they have stepped into the business. Such studies (e.g. Astrachan, Klein, and Smyrnios, 2002) claim that it may be unnecessary to define family businesses, as a family business should be considered according to how and how much the family is involved in the business. The present study is concerned in part with this degree of involvement.

For several previous studies, the nature and degree of the family's involvement in the family business is the main concern. These studies (e.g. Alcaraz, 2004; Von Buch, 2006) consider family involvement as a means of affecting the business, and usually analyze the relationship between the family's effect on the business and business performance. (In other words, they seek to find out how the presence of family affects the business's performance.) The effect of the family in this regard is usually assessed by the Family-Power, Experience, Culture (F-PEC) scale (Astrachan et al., 2002). This instrument has been validated (Klein, Astrachan, and Smyrnios, 2005) and has been used, in part or in full, in studies in many different countries (e.g. Alcaraz, 2004; Ayranci, 2009; Di Pofi, 2003; Jaskiewicz et al., 2005; Von Buch, 2006). However, there have been signs that this instrument is not fully usable in some cases (e.g. Alcaraz, 2004; Ayranci, 2009; Ayranci and Semercioz, 2010; Di Pofi, 2003), indicating the need to develop tailored instruments that assess family involvement. Another need emerges in terms of the subject: Family has many connections with the business; therefore, family involvement may be related with many organizational aspects, not only performance.

The present author considers that one of the prominent subjects regarding family businesses is institutionalization; hence, it is worthwhile seeking to understand the effects of family involvement on the institutionalization of family business. After reviewing the relevant Turkish and international literature, the author forms items related to family involvement in the business and institutionalization. The items form specific statistical structures that are used to construct and test a model designed to assess how the family's involvement in the business affects its institutionalization. The model is presented here for the first time, bringing together a popular subject (institutionalization) and an ambiguous concept (family involvement), thereby representing a useful contribution to family business literature.

Family involvement in family business

When the concern is family business, it is impossible to de-emphasize the influence of family. A review of the relevant literature reveals that many studies consider the involvement (presence) of family or some family members in the business. Of note, the involvement of family is usually not the main point; i.e. few studies have considered "family involvement" as the main subject of their investigation.

Some questions may be asked concerning the involvement of family or its members: How is the family involved in the business? Which family members are included in the business? Does the family involvement have an effect on business issues?

The literature reveals that founders, successors, and spouses are among the most widely investigated family members. The founder starts up the family business and decides on how to run the operation (Sraer and Teshmar, 2006), sets the initial business goals (Ayranci, 2009), and forms the organizational culture (Athanassiou et al., 2002). Over time, succession approaches and the successor start to share power with the current business leader (Pontet et al., 2007). Some businesses develop succession plans in advance, and these plans show how the successor is to become a more influential family member over time (Churchill and Hatten, 1987; Handler, 1990). Some successors may be introduced to the business context at an early age, with the expectation that this will enable them to be more effective in terms of increasing the financial performance of the business (Goldberg, 1996), as well as enabling the family to evaluate the successor's attitude towards the business and other workers (Garcia-Alvarez, Lopez-Sintas and Gonzalvo, 2002).

Spouses are also included in family businesses in many ways: they may work for a small salary or none at all (Rowe and Hong, 2000), may emerge as a business leader and thereby become vital to the continuity of the business (Poza and Messer, 2001), and may affect the business by influencing the decisions of the current business leader (Kaye, 1999).

Some studies, rather than focusing on a specific family member, consider that the relationships between family members reflect the relevant business issues. Such studies (e.g. Rodriguez, Hildreth, and Mancuso, 1999) generally use the phrase "family dynamics" to refer to the situation of the relationships among family members and the changes faced by these relationships, and claim that these dynamics have an influence on family businesses. Conflict between family members is also a popular subject in this sense, and it is generally found to be harmful for the business and family members alike (Karofsky et al., 2001; Stewart and Danes, 2001).

There is another approach to assessing the involvement of the family in the business: Use of a family member's title as manager and/or owner. This approach is both obvious and ambiguous. It is obvious in the way that the family members, who are managers and/or owners, are within the business system. In this case, any definition of family business, based on the family's ownership and/or management (e.g. McConaughy, Matthews, and Fialko, 2001; Schulze et al., 2001; Zahra, 2003) may also be considered to accept that the family is involved in the business. On the other hand, this approach is ambiguous because the definition of family business and family involvement become difficult to distinguish.

If a scholar seeks to define the family business according to the family's share in the ownership and management of the business, this definition may interchangeably be used with family involvement, as the family's ownership and management already indicate the presence of the family in the business. However, this approach is insufficient, in terms of assessing the degree of family involvement, if the family contributes to business issues in an unofficial capacity. In other words, focusing only on the family's ownership and management means focusing on family involvement in terms of official (on paper) aspects, and ignoring any unofficial (off paper) issues (e.g. the presence of non-owner and non-manager family member workers, and the family's role in formulating the organizational culture).

Although the consideration of only ownership/management appears to be a narrow approach to assessing the family's presence in the business, previous studies have utilized this approach. Examples include Lauterbach and Vaninsky (1999), who reported that the family's share in management has a relationship with profitability; and Anderson, Mansi, and Reeb (2003), who concluded that the family's share of ownership has an effect on debt financing, up to a certain point.

The previous paragraphs summarized the approaches employed in assessing the involvement of the family in the business. The founders, successors, and spouses are prominent family members in the business context. Relationships among family members may reflect business issues, and the official titles of some family owners and managers can be used to indicate their presence in the business. An important question remains to be answered: Does family involvement have an effect on the business? This question is addressed in the following section.

From family involvement to an effect on business

It should be noted that the studies cited in the previous section claim or report that the involvement of family members or involvement of the family in the business context has an influence on certain business issues. Therefore, evidence exists to suggest that the family's presence has an effect on the business.

The present study is concerned with family involvement and institutionalization, and the effects of family involvement on institutionalization lies at the heart of this analysis. Therefore, it seems appropriate to examine studies that primarily consider the effect of family on business issues. Few studies have used the term family effect, and almost all of these studies assess this effect by the F-PEC scale. In fact, F-PEC seems to be the only attempt to standardize family effect in the literature to date. The scale was developed by Astrachan et al. (2002) and was later validated by Klein et al. (2005). The scale has many advantages: It is a multi-dimensional construct that includes the family's share in ownership, management, and governance (power sub-scale); the generation that owns, manages, and governs the business, and the number of family members within and outside of the business context (experience sub-scale); and the family's commitment to the business and the degree of similarity between family and business values (culture sub-scale) (Astrachan et al., 2002). It can be utilized without needing to define a family business, because the scale itself is used to understand the degree to which a family is involved in and therefore influences the business. It has also been used in international studies.

F-PEC also has some limitations. The power and experience sub-scales depend on objective knowledge, whereas the culture sub-scale is based on the ideas of the participant. In other words, the scale includes a mix of objectivity and subjectivity. In addition, there exist different types of data among the sub-scales, which complicates any attempt at statistical analysis. There appear to be ambiguous items in the culture sub-scale that could be omitted (Cliff and Jennings, 2005), and some studies found that the scale is not fully usable (e.g. Alcaraz, 2004; Ayranci, 2009; Ayranci and Semercioz, 2010; Di Pofi, 2003).

Taking into account these pros and cons, F-PEC may be summarized as an instrument that considers the involvement of the family in terms of official (power sub-scale), generational (experience sub-scale), and cultural aspects. This involvement is expected to affect business issues (family's effect).

As mentioned earlier, few studies have focused on the family effect and used F-PEC. One such study is that by Jaskiewicz et al. (2005), who consider German and Spanish businesses. The authors found that greater family involvement (which is handled by the power sub-scale) is associated with better long-term performance of the company's stock.

Von Buch (2006) examines the relationships between the family effect, the behavioral patterns of top management teams, and business performance in German family businesses. The presence of family causes top managers to act similarly to the family members, maintaining a focus on the firm's performance.

Di Pofi (2003) analyzes the relationship between the family effect and managers' satisfaction with the financial performance of their business, using data from the 2002 American Family Business Survey. The power sub-scale is omitted, and the experience and culture sub-scales show a positive relationship with the degree of satisfaction.

In a similar study, Alcaraz (2004) uses two methods to assess the family effect in Mexican family businesses: F-PEC and the familial index. The familial index, which only includes the family's share in ownership and management, shows a weak, positive relationship with satisfaction with financial performance. The power and culture sub-scales of F-PEC show positive relationships with satisfaction, whereas the experience sub-scale shows no significant relationship.

Dudaroglu (2008) considers family firms in Turkey in the automotive supplies industry. The researcher uses the culture sub-scale of F-PEC as a means of assessing the family effect. Positive relationships are found among the family effect, business performance, and the behavioral integration of the top management team.

Ayranci (2009) starts with F-PEC but claims that this scale, in its original form, is unsuitable for Turkish family businesses. The researcher reviews the Turkish literature and adds relevant items to F-PEC. After a pilot study, it is seen that the family effect depends on five criteria: The contribution of the family to financial decisions, loyalty and harmony related to the business, the effects of spouses, effects of successors, and effects of founders. A weak, negative relationship is found between the family effect and satisfaction with financial performance.

Ayranci and Semercioz (2010) consider the family effect and agency theory with the aim of understanding whether family affects the opinions of top managers in the family business regarding family-member managers. Most of the items in the power sub-scale and a few items in the culture sub-scale are omitted due to statistical inconsistencies, and a new statistical structure is formed. The result is that some components of the family effect (the generation of the top manager, top managers' opinions about the business, and the family's loyalty to the business) influence the top manager's opinions about family-member managers.

It is convenient to summarize the findings at this point. It seems that family involvement inevitably causes the family to affect business issues; some studies consider family effect directly; these studies examine the effects of the family on managerial or financial aspects of the business; and finally, the only scale dedicated to assessments of the family effect seems to be F-PEC. The following section deals with the other component of this study: the institutionalization of family businesses.

Institutionalization: Definition, institutionalization of family businesses, and some current studies in Turkey

The term institution, which dates back to the study of Hughes (1936), is defined as a social system that has consistency and that changes slowly. The process of institutionalization was first related to organizations by Selznick, who noted that organizations are tools designed to reach specific goals, although with their own specific lives (Selznick, 1957). In other words, organizational members create new values, bring their own values, and ascribe certain properties to their organizations. These actions cause organizations to become distinctive entities, not only formally but also informally (Selznick, 1957). This distinctiveness is also reflected in organizational changes. Organizations exist in an environment; consequently, they must adapt themselves to environmental change. This adaptation must be consistent with the values of institutional members (Stinchcombe, 1997). DiMaggio and Powell (1991) criticize Selznick's approach and refer to this approach as the "old" institutionalism.

The alternative view is "new" institutionalism, which depends heavily on Meyer (1977), who claims that organizations are affected by macro influences. According to new institutionalism, the institution is a social template that is formed and maintained by social interactions (Meyer and Rowan, 1977); a shared set of rules to categorize social interactions (Burns and Flam, 1987); a set of repetitive interactions or rules (North, 1986); the list of allowed and prohibited actions in the social context (Ostrom, 1986); political, social, and legal fundamental rules (Williamson, 1993); patterns of social interactions and implied interpretations (Burns and Wholey, 1993); or a set of basic formulas about the relationships among the members of a social context (Barley and Tolbert, 1997).

The new institutionalism accepts that institutions are influenced by macro influences. Organizations have to react to coercive (regulatory and monitory), normative (professionalism and educational), and mimetic (habitual) macro influences (Dimaggio and Powell, 1983). As different organizations operate in the same institutional context, they face similar influences, and hence they react similarly to form and preserve their legitimacies with the context. They start to resemble each other, eventually becoming isomorphic (Dimaggio and Powell, 1991). This whole process is considered as institutionalization, according to the new approach. Some other definitions of institutionalization include the taken-for-granted portion of social realities at any given point of the process, in which social realities are transferred by individual actors (Zucker, 1991); and the process in which a business has specific rules, standards, and procedures rather than specific people (Karpuzoglu, 2000).

In summary, old institutionalism is about the uniqueness of the organization, but new institutionalism is about the homogeneity of the organization as a response to macro institutional influences (Hirsch and Lounsbury, 1997). In addition, the "change" experienced by organizations seems to be related with adaptation in old institutionalism and with isomorphism in new institutionalism.

Many studies have examined institutionalization, and Farashahi (2003) performed an extensive literature review on the subject. When it comes to the institutionalization of family business, however, there are few relevant studies. A useful theoretical study was conducted by Leaptrott (2005), first dealing with old institutionalism and explaining that there are various structures of the family. Leaptrott claims that the relationships between family configuration, business resources, and the distribution of income or losses can lead to the formation of specific family business structures (family businesses become distinctive entities). The researcher then turns to new institutionalism and starts with regulatory (coercive) influence. Regulatory forces outside can limit the family businesses' policies and behaviors, and these forces can eliminate non-conforming family businesses. There are also regulatory forces inside the family businesses, in the form of governance structures. Normative forces can stem from the voluntary requirements to comply with professional standards; and customers, worker unions, and even the government may impose normative forces on the family business. The stakeholders may also be limited by normative boundaries implicitly, and family members (who are also stakeholders) have a good reason to obey these boundaries: Family members tend to share norms and values. In terms of cognitive (habitual) forces, the researcher favors the idea that family businesses have some scripts of actions that lead to the creation of certain behaviors by business participants. Family members also have certain roles (i.e. familial scripts of actions) within the family context. These roles may be carried into the family business, thereby becoming a part of the habitualization process in the business context.

TABLE 1. EXAMPLES OF STUDIES THAT CONSIDERED THE INSTITUTIONALIZATION OF TURKISH FAMILY BUSINESSES

Study	Pillars of institutionalization	Results
Adsan and Gumustekin (2006)	Presence and application of family constitutions and family councils.	The family constitution should contain rules to separate family and business matters, solve conflicts between family members, and include retirement plans for employed family members. The advantages of a family constitution and family council outweigh the costs.
Atli (2007)	Decision-making via a board of directors. Having written procedures for business operations. Facilitation of a family constitution and family council.	The majority of businesses use boards of directors, and have and follow written procedures, but lack a family constitution or family council. Younger generations are more willing to adopt professional management, strategic planning, and advanced financial techniques.
Aydemir, Seymen and Tasci (2004)	Written procedures for business operations. Succession plans. Consideration of professional background when distributing duties.	Businesses are in the process of institutionalization, but do not recognize some of the pillars of institutionalization.
Baraz (2006)	Standardization of operations. Presence of mission, vision, and a family constitution. Separation of ownership and management. Adoption of an independent business structure.	Business managers generally favor the standardization of operations and the presence of an independent business structure. Managers are largely unaware of institutionalization. Institutionalization is perceived to be advantageous in terms of systematic decision-making, balancing authority and responsibility, and growth. However, the cost and time required are perceived to be disadvantages of institutionalization.
Bilgin (2007)	Written procedures for the functions of the business. Connections between organizational culture and family. Interactions between business and environment.	Majority of businesses are not strongly institutionalized. Majority of business managers do not consider that institutionalization is important. The least-favored written procedures are those for planning and human resources management.
Bute (2008)	Growth: Forming growth strategies Financing strategies Considering legitimacy in the process of growth. Management: The roles of professional non-family managers Distribution of authority and responsibility Family-Business relations	Participant businesses lack most of the necessities of institutionalization. Problems faced in the institutionalization process: Conflicts between owners and professional non-family managers, lack of capital and overly-centralized decision-making.

TABLE 1. EXAMPLES OF STUDIES THAT CONSIDERED THE INSTITUTIONALIZATION OF TURKISH FAMILY BUSINESSES (cont-d)

Study	Pillars of institutionalization	Results
Celik, Ayas, Koc, and Ozturk (2006)	The ratio between the number of family-member workers and the total number of workers. Participation of family members in the decision-making process. Role of professional non-family managers. The process of distributing authority and responsibility.	Although owners are keen on having professionalism in management, the decision-making process, and the distribution of authority and responsibility, the families' involvement in the businesses acts as a barrier in this regard.
Karpuzoglu (2004)	Sharing organizational goals. Preparing succession plans. Forming a board of directors. Risk planning in case of sudden familial events. Preparing written rules for the structure and operations of the business. Forming policies to decide how relatives are involved in the business.	-
Kiran (2007)	Business functions: Having written procedures Decision-making via formal meetings Family's involvement in operations Organizational culture: Focus on people Family's involvement in the business culture Interactions between business and environment	All of the businesses are in the initial stages of institutionalization. Businesses are keen on advancing in their institutionalization. An important reason for institutionalization is legitimacy: most of the businesses are exporting and they perceive institutionalization as the key to being accepted by their foreign customers.
Ural and Balikcioglu (2004)	The relationships between organizational and family cultures. Presence of policies on human resources, finance, sales, and production.	All participating businesses are reasonably institutionalized. Larger businesses are more institutionalized than smaller businesses. Family businesses in Antakya are more success-oriented, whereas family businesses in Kayseri are more conservative. Institutionalization processes of all businesses are related to cultural aspects such as loyalty, open-mindedness, independence, risk-taking, and respect towards religions.

Leaptrott's (2005) study seems to be a rich source of ideas about the institutionalization of family business. It is also one of the very few studies that considers only the institutionalization of family business. On the other hand, the author of the present study reviewed the content of prominent international family-business journals in a previous study (Ayranci, 2009), and wishes to summarize the subjects that are added in addition to the institutionalization of family business.

When popular family-business journals such as Family Business Review and Electronic Journal of Family Business Studies are looked into, these subjects include organizational structures dedicated to family businesses, the development of family business structure, the process of shifting to professional management, differences between family business institutions and other institutions, the effect of non-family managers on the institutionalization process, the results achieved when home-based family businesses are moved to professional business places, family members' attitudes to the staffing process, and the effects of the institutionalization of family business on work contexts and the public. There is also a relatively new journal, Journal of Family Business Strategy, which had published two issues as of June 2010, although including no studies focusing on institutionalization.

Given that the present study was performed in Turkey, the attention should turn towards Turkish family businesses. Reviewing the relevant Turkish literature appears essential for three reasons: The pillars of institutionalization in the Turkish context and the institutionalization levels of Turkish family businesses are revealed; Turkish family members' perceptions about the institutionalization of family business are uncovered; and the author will form items for institutionalization and family involvement in light of these studies.

Although there is no journal dedicated to family business research in Turkey, Istanbul Kultur University hosts a bi yearly congress on family businesses in Turkey, attracting many scholars. The papers presented at this congress represent a rich source of knowledge about the situation of Turkish family businesses. Another important source is the database of the Council of Higher Education (http://tez2.yok.gov.tr), which can be used to track Turkish theses and dissertations. In addition, a number of relevant studies are scattered among various journals. Some up-to-date studies on the institutionalization of family business in Turkey are summarized in Table 1. The studies in Table 1 are based on theses and dissertations that are freely accessible, and some of them are the proceedings of the Istanbul Kultur University Family Business Congresses.

Many articles on Turkish family businesses can be found in various media. It seems, however, that institutionalization is not a popular subject in scientific journals. Turkish articles in such journals seek to understand the pillars and levels of the institutionalization of family business in Turkey (Yazicioglu and Koc, 2009), analyze the relationships between institutionalization and nepotism (Ozler, Ozler and Gumustekin, 2007), consider the attempts of Turkish family businesses to institutionalize, examine the connections between these attempts and second-generation family members (Ozkaya and Sengul, 2006), and investigate the perceived need of institutionalization (Akdogan, 2000).

To sum up, Turkish studies reveal that family businesses perceive institutionalization to involve having a professional management team, standardization of business operations, written codes and rules, and family constitutions and councils. Of note, few Turkish studies relate the institutionalization of family business to other business issues. In most cases, the purpose is to determine what family members think about institutionalization or the degree to which the family businesses are institutionalized. Overall, Turkish family businesses are not strongly institutionalized.

Method

Research model

This study appears to be unique in the sense that prior studies have not examined the relationship between family involvement and the institutionalization of family business; consequently, there is no existing model to test, and a new model must be proposed.

Two concepts should be included in the model: Family involvement and the institutionalization of family business. It was seen previously that a family's presence in the business context can be considered by many different approaches; however, these approaches were not adopted in the present study because (1) they consider family involvement implicitly, whereas family involvement is one of the main foci of this research; and (2) the range of approaches outlined previously would make it difficult to compare the results of this research with the results of previous studies.

Another approach to the assessment of family involvement is the use of F-PEC, as explained before. F-PEC has been used internationally, meaning that it should be possible to compare the results of the present research with those of previous studies. However, this scale appears to have some limitations. Previous studies performed in Turkey reveal that F-PEC cannot be fully utilized. Moreover, Astrachan et al. (2002), in referring to F-PEC as a scale of family influence, implicitly assume that the involvement of the family results in the family effect. In contrast, the present research is performed to assess whether family involvement creates any effects on institutionalization.

For these reasons, the author chose to form items for the presence of family members in the business context. This study lies in the realm of institutionalization, and as explained before, Turkish literature generally perceives the existence of rules, standardizations, and written procedures as the pillars of institutionalization.

Therefore, the author thought it would be appropriate to combine these pillars with the presence of family in the business context, and formed items that include the following: Some practices regarding the employment of family members; the possibility of newcomers joining the family; family members' rights, obligations and relationships with regard to business issues; family members' access to and use of business accounts; business ownership; the staffing process; positions of family members in the business; and finally, the firing of family members. In other words, the author considered family involvement from the perspective of institutionalization.

An analysis of institutionalization is much easier than considering family involvement. Literature review highlights the fact that the institutionalization of Turkish family businesses depends on a common set of facts. These facts were taken into consideration when forming the items for institutionalization.

To sum up, the author chose not to use existing scales, preferring to use items developed specifically for the present study. Consequently, the statistical structures of family involvement and institutionalization were unknown at the beginning of the study. This leads to the proposition of a closed-form model (the components of the involvement and institutionalization are not yet known).

The studies outlined before show that family involvement is related to many business issues. Because institutionalization is also a business issue, the author expected that family involvement would have a statistically significant effect on the pillars of institutionalization.

FIGURE 1. THE PROPOSED RESEARCH MODEL (IN CLOSED FORM)

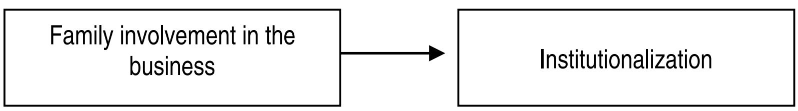


Table 1 clearly indicates that Turkish family businesses are generally not strongly institutionalized and that institutionalization depends on standardization, written procedures, rules, etc. The author considered that by having standards, written procedures, or rules, the family members would have to obey these, thereby losing some of their independence to act according to their own will. Table 1 also shows that some studies are concerned with the cost of institutionalization. The establishment of written procedures, rules, and plans, as well as performing analyses, requires consultation with professionals. Family members may consider this cost and conclude that expenditure on institutionalization would be unnecessary. The author also considered that Turkey is an emerging country and has a volatile economy. This volatility forces businesses to rapidly act and respond to changes. In this sense, family members may see institutionalization as paper work (e.g. writing and updating family constitutions, procedures) and perceive it to be an obstacle to rapid decision-making and an obstacle to organizational flexibility.

Based on these possibilities, the author expected that family involvement would have a negative effect on each of the pillars of institutionalization:

H_a: Family involvement has a negative effect on each of the pillars of institutionalization.

If each pillar of institutionalization is negatively affected, then institutionalization overall is negatively affected:

H_b: Family involvement has a negative effect on institutionalization.

Population, sample, data collection, measures, and limitations of the research

Most of the studies concerned with the institutionalization of family business in Turkey analyzed samples from a single city. In such a case, however, one cannot claim that these studies consider a general picture of the subject in Turkey. For this reason, the author decided to consider family businesses from multiple Turkish cities, focusing on organized industrial zones (OIZs) that contain thousands of small and medium enterprises, thereby improving the chance of encountering family businesses.

The selection of OIZs for analysis was a challenge because almost all Turkish cities contain multiple OIZs. Consequently, the analysis focused on family businesses in the OIZs of the biggest cities in Turkey. Because of constraints related to cost and time, the four largest cities in Turkey were selected for analysis. The volume of economic activities was chosen as the measure of city size. Because economic activity is subject to taxation, the amount of tax revenue is a potentially useful proxy in this regard. The amount of tax accrued and collected from each Turkish city in April 2010 was assessed to identify the four largest cities. The tax data (Gumushane Defterdarligi, 2010) revealed the four largest cities to be (largest city first) Istanbul, Kocaeli, Ankara, and Izmir.

The Higher Council of Organized Industrial Zones states that these four cities contain 46 OIZs (OSBUK, 2010). The total number of businesses was calculated to be 27,832 as of 3 May 2010, as calculated by either referring to each OIZ's official Web page or contacting the management of each OIZ by phone.

In this case, the population consisted of 27,832 businesses. However, not all of these businesses would have been family businesses. In other words, it was important to distinguish between family and non-family businesses. The author proposed a definition for this purpose: If a family owns more than 50% of the stock in a business **or** if family members constitute a majority in the management of a business, then the business is considered a family business.

As the number of family businesses that complied with the above definition was unknown at this point, it was assumed that all 27,832 businesses could be seen as family businesses as of this point.

With a 5% margin of error and a 95% confidence level, the required sample size was calculated to be 379. However, given that some businesses might not have been family businesses and that some of the data may have been missing, it was decided to include 500 businesses, which meant that the exclusion of up to 32% of the businesses could be tolerated. It was decided to use questionnaires to gather data, but the distribution of the questionnaires remained a concern. Quota sampling was employed, based on the ratio of the number of businesses in the OIZ relative to the total number of businesses.

Quota sampling was the solution to the question of how many questionnaires should be issued to each OIZ, but it remained to be determined how to distribute the questionnaires within each OIZ. The author decided to use simple random sampling to select the businesses within each of the OIZs.

The questionnaires started with the author's definition of a family business. The first question was whether the business was actually a family business, according to this definition. The present analysis only used data from the questionnaires that complied with the definition of a family business. A message on each questionnaire required that the form only be completed by the top manager, who was also a family member. The idea was that family-member top managers were simultaneously in the family and business systems, and thus had information and experience about both systems. The top manager status of such people would also make them eligible to represent their businesses.

The questionnaires included many items developed by the author, concerned with either family involvement or institutionalization. The items on family involvement were developed while taking into account the studies of Adsan and Gumustekin (2006), Baraz (2006), Celik et al. (2006), Karpuzoglu (2004), Kiran (2007), and Ural and Balikcioglu (2004). Items about institutionalization were formed while considering the studies of Atli (2007), Karpuzoglu (2004), Kiran (2007), and Yazicioglu and Koc (2009).

The process of gathering data represented a large problem because the questionnaires had to be applied in four different cities and the data were to be obtained only from the family-member top managers of those businesses that are really family businesses. Four different consulting firms (one in each city) were employed to administer the questionnaires according to the quotas.

The consulting firms were instructed to pay attention to the answers provided to the first question (being or not being a family business) and to apply the questionnaires to family-member top managers only. In addition, at the end of the data-gathering process, the author phoned a selection of the participating businesses to check whether the questionnaires had actually been applied. The data-gathering process started on 10 May 2010 and ended on 10 June 2010.

Finally, this study design has two limitations. First, the sample included family businesses from the four largest cities of Turkey, meaning that the results are not generalizable internationally. Second, no other studies have analyzed the relationship considered in the present study; consequently, the results of the present study cannot be compared with those of other studies.

Statistical structures and reliabilities of family involvement and the institutionalization of family Business

Of the 500 completed questionnaires, 78 were omitted from analysis because of missing data or because the enterprise was not a family business, leaving 422 questionnaires for analysis. Small numbers of missing values (3%-7% of the total items) were found in 14 of the 422 questionnaires; in these cases, the missing value was replaced by the mean value for that item.

Given that the aim was to understand the factors (pillars) of the institutionalization of family business and family involvement, exploratory factor analysis was performed. Reliability analyses were also performed on the factors and all of the items within these factors.

For both family involvement and institutionalization, exploratory factor analysis was performed using the following criteria: principal components extraction method, extraction of factors with eigenvalues greater than one, varimax rotation method, suppression of factor loadings with absolute values less than 0.5.

The items of family involvement formed only one factor. The KMO (Kaiser-Meyer-Olkin) measure was 0.858 and Bartlett's test was significant, suggesting that the data were suitable for factor analysis. The only factor formed could explain 69% of the total variance. This factor was termed family involvement. Table 2 lists the results obtained for this factor and its items.

TABLE 2. RESULTS OF EXPLORATORY FACTOR ANALYSIS FOR FAMILY INVOLVEMENT

Component Matrix[a]	
	Family Involvement
It should always be possible to dismiss an employed family member.	0.950
There should always be a family constitution that includes the purposes, values, and plans of the family, as well as the relationships between family members regarding business issues.	0.942
Employed family members should obey all of the business rules and procedures in the same way as non-family workers.	0.935
Family members should have positions in family businesses.	0.931
The top management of the family business should evaluate the use of business accounts for consumption by family members.	0.919
The rights and obligations of all family members regarding the family business should be clearly determined and written down.	0.862
There should be written criteria or rules for family members who take on positions in the family business.	0.845
The extent to which family members can use business accounts, should be determined in advance.	0.845
The performance of employed family members should be regularly appraised.	0.772
The ownership structure of a family business should be clearly determined and written down.	0.764
Employed family members should attend an orientation program in the family business.	0.728
The entire staffing process should be free of the family effect.	0.606
Family businesses should have written procedures for newcomers (brides/grooms) in the family.	0.593

Note: Extraction method - Principal Component Analysis. [a]one component extracted.

The items of the institutionalization of family business defined three factors. The KMO value was 0.698 and Bartlett's test was significant. The three factors explained 82.49% of the total variance. The three factors were termed managerial institutionalization, financial institutionalization, and succession. Table 3 shows these factors and their items.

It is important to recall that the items listed in Tables 2 and 3 were originally in Turkish, so there may be slight changes in the meanings after translation. The factors in these two tables can be summarized as follows:

- Managerial Institutionalization: Presence of a board of directors, professionalism of the managers, presence and equality of non-family managers, creating ways for managerial decision-making and conflict-solving, and change in managers.
- Family Involvement: Regulations for family member employment and appraisal, the adoption of a family constitution, defining the rights and obligations of family members regarding business issues. The possibility of firing employed family members.
- Financial Institutionalization: Financial planning and the presence of written procedures for financial issues.
- Succession: Monitoring the family members for possible future leadership potential, educating young family members on business issues, and the presence of a succession plan.

TABLE 3. RESULTS OF EXPLORATORY FACTOR ANALYSIS FOR THE INSTITUTIONALIZATION OF FAMILY BUSINESS

Rotated Component Matrix[a]			
	Managerial Institutionalization	Financial Institutionalization	Succession
Family-member managers should behave as work colleagues in the family business.	0.966		
Family business managers should make decisions according to the needs of the business, even if the decisions contradict the family's expectations.	0.960		
Family businesses should have a board of directors.	0.954		
Meetings between managers or family members should always address the efficiency of the business.	0.938		
Managers of the family business should meet regularly.	0.935		
Family businesses should have action plans for the event of a family-member manager's death or departure.	0.934		
Family businesses should have non-family managers among the managerial staff.	0.931		
Family and non-family managers should be treated equally in terms of wages.	0.916		
Family businesses should have a strategy with which to reach to an agreement when managers cannot find agreement.	0.892		
Written procedures should be adopted to solve conflicts between family-member managers regarding business issues.	0.888		
There should be a clearly defined process to select the next top manager in the family business.	0.862		
Family businesses should have written procedures regarding the management of assets and wealth, while meeting the needs of both the family and the business.		0.966	
There should be written procedures to manage the cash and other funds of the family business.		0.887	
Financial analyses should be performed periodically in the family business.		0.859	
There should be written procedures for the management of profit and investments in the family business.		0.847	
Sales and profitability targets in the family business should be determined and assessed annually.		0.725	
There should be financial planning in the family business.		0.657	
Meetings of senior and younger family members should be held regarding business issues.			0.993
Talented young family members should be tracked to assess their potential as future business leaders.			0.974
Family businesses should have plans to enhance the capabilities of young family members regarding business issues.			0.964
Family businesses should have succession plans.			0.936

Note: Extraction method - Principal Component Analysis. Rotation method - Varimax with Kaiser Normalization.
[a]Rotation converged in three iterations.

Table 4 shows the results of reliability analyses of the factors and items, using Cronbach's alpha.

TABLE 4. RESULTS OF RELIABILITY ANALYSES

Factor	Cronbach's Alpha
Managerial Institutionalization	0.981
Family Involvement	0.953
Financial Institutionalization	0.870
Succession	0.966
All items	0.883

The results reveal that Turkish family businesses' top managers depend on three pillars to express their ideas about the institutionalization of family business. They consider managerial and financial aspects, and passing the business to future generations. On the other hand, family involvement does not have multiple pillars.

Results based on descriptive statistics

Tables 2 and 3 include the factor loadings of the items; i.e., these tables show how each item is related to its factor (Garson, 2010). In this case, the factor loadings can be used to weigh the contribution of each item to its respective factor (Rummel, 1970), and weighted averages can be calculated as a summary of each factor.

TABLE 5. DESCRIPTIVE STATISTICS OF THE FACTORS OF INSTITUTIONALIZATION AND FAMILY INVOLVEMENT

		Managerial Institutionalization	Financial Institutionalization	Succession	Family Involvement
N	Valid	422	422	422	422
	Missing	0	0	0	0
Mean		2.9036	1.9973	3.0669	2.4779
Median		3.2019	1.7793	3.1475	2.3245
Mode		3.20	1.78	3.15	2.19
Std. Deviation		0.87416	0.49178	1.11506	0.64966
Range		3.29	2.21	3.63	2.81
Minimum		1.09	0.82	0.97	0.82
Maximum		4.38	3.03	4.60	3.63

In this analysis, each item was weighed by its factor loading, and for each factor, the weighted values of the factor's respective items were used to calculate the average (see Table 5).

The data in Table 5 reveal the following:

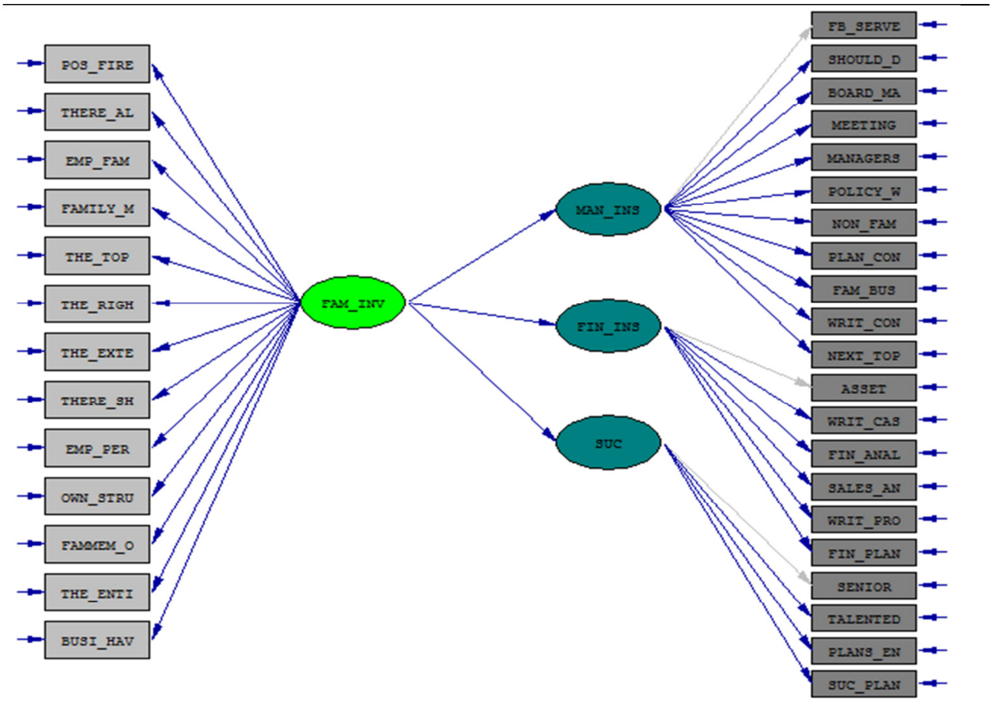
- The highest mean value is found for succession (mean = 3.0669). In other words, the top managers are unsure about the need for a succession plan, and about the need to invest in and track younger generations for future organizational leadership.
- The top managers do not seem to agree with managerial and financial institutionalization, or with family involvement generally (the mean values for these factors are below 3). The respondents objected most strongly to financial institutionalization (mean = 1.9973). Hence, the top managers are strongly unwilling to make financial plans about the business and they don't prefer to have written procedures for financial issues.

- Ideas about succession showed the greatest variability (standard deviation = 1.11506; range = 3.63), whereas ideas about financial institutionalization showed the least (standard deviation = 0.49178; range = 2.21).
- Similar trends are seen when the minimum and maximum values are considered. Except for financial institutionalization, the maximum values of the factors are close to the agreeing zone (values close to or greater than 4). Put another way, some top managers agree with the rules and specific applications about the family's involvement in the business, management, and succession in general; however, on the whole, they are not supportive of the establishment of rules or procedures regarding financial issues (the maximum value for financial institutionalization is close to 3). The minimum values imply that the most irreconcilable items are about family involvement and financial institutionalization.

Results about effects of family involvement on institutionalization

The research model (Figure 1) is presented in its closed-form. As the statistical structures are revealed, the research model can be shown with the factors and respective items (Figure 2).

FIGURE 2. THE PROPOSED RESEARCH MODEL (IN OPEN FORM)



Note: FAM_INV - Family involvement; MAN_INS - Managerial institutionalization; FIN_INS - Financial institutionalization; SUC – Succession.

TABLE 6. FIT INDICES OF THE RESEARCH MODEL

Goodness of Fit Index (GFI) = 0.99; Adjusted Goodness of Fit Index (AGFI) = 0.99; Parsimony Goodness of Fit Index (PGFI) = 0.87
Normed Fit Index (NFI) = 0.99; Non-Normed Fit Index (NNFI) = 1.00; Parsimony Normed Fit Index (PNFI) = 0.92
Comparative Fit Index (CFI) = 1.00; Incremental Fit Index (IFI) = 1.00; Relative Fit Index (RFI) = 0.99
Root Mean Square Error of Approximation (RMSEA) = 0.14; Root Mean Square Residual (RMR) = 0.036; Standardized RMR = 0.040
Expected Cross-Validation Index (ECVI) = 12.74; ECVI for Saturated Model = 2.83; ECVI for Independence Model = 86.15

TABLE 7. EFFECTS OF FAMILY INVOLVEMENT ON THE PILLARS OF INSTITUTIONALIZATION

	Value of effect	T-value of the effect	Is the effect statistically significant?
Effect of family involvement on managerial institutionalization	–0,02	–4,09	YES
Effect of family involvement on financial institutionalization	–0,03	–3,29	YES
Effect of family involvement on succession	–0,07	–7,95	YES
H_a: Family involvement has a negative effect on each of the pillars of institutionalization.	Family involvement has a significant negative effect on each pillar of institutionalization. H_a is accepted.		
H_b: Family involvement has a negative effect on institutionalization.	Family involvement has a negative effect on all the pillars of institutionalization; therefore, family involvement has a negative effect on institutionalization as a whole. H_b is accepted.		

The research model is assessed by structural equation modeling. Table 6 shows the fit indices of the model. The model appears to be realistic (i.e., seems to be able to explain the data statistically) when the general limits of fit indices are considered (Schermelleh-Engel, Moosbrugger, and Muller, 2003).

Given that the model is valid, it is appropriate to look into the model. All of the relationships between the items and their respective factors are statistically significant. The main concerns - the effects of family involvement on the pillars (factors) of institutionalization - are listed in Table 7, which also includes the results of tests of hypotheses.

Table 7 reveals that family involvement has a weak, negative effect on each pillar of institutionalization; thus, institutionalization as a whole is affected.

Conclusions and discussion

As explained earlier, studies about family businesses generally emphasize the presence of family in the business context, but few consider the possible effects of this presence on business issues as a focal point. It also seems that these few studies consider financial issues of the business. The present study starts with the presence of family and seeks to reveal its effects on a different business issue: institutionalization.

A result of the present analysis, attained via descriptive statistics, is that the top managers of participating Turkish family businesses are not keen on institutionalization. There are three pillars of institutionalization and the top managers are not positive about any of them. This result seems to be consistent with the findings of other, similar Turkish studies (see Table 1): some attempts at institutionalization have been made by some of the companies (e.g. the establishment of family constitutions, boards of directors, and written procedures), but these are not widely favored: there is an unwillingness to consider institutionalization positively and non-family managers are rarely welcomed.

When the relationships are taken into account, it is found that family involvement has a weak, negative effect on institutionalization. Family involvement includes the rules for adding family members to the business, keeping them in the business context, and firing them when necessary. Top managers consider that if these rules are heavily favored, then rules or procedures regarding managerial, financial, and succession dimensions may receive less emphasis. In other words: If the family's presence in relation to the business context is governed sufficiently well, then it is unnecessary to emphasize the rules regarding the managerial, financial, and succession dimensions of the business.

Several factors may underlie this result, including the protection of business. It is usually expected that family members have more freedom to intervene in business issues than do non-family members. This freedom may lead to abuse of the business by family members. Even if the family members show goodwill in their actions, the business may be worse off. Therefore, the business must be protected by forming certain rules regarding either the involvement of family in the business context or how the business is run.

Another reason for the above result may be associated with the cost of institutionalization. As explained before, the preparation of written procedures, rules, and plans, as well as performing analyses, requires professional assistance. In terms of cost, the top managers may have felt it necessary to choose between the family's institutionalization in relation to the business and institutionalization of the business. In this case, the two institutionalizations may have become opponents.

A third potential reason is ease of regulation: it may be easier to regulate only one matter (involvement of the family) than regulating several matters simultaneously (financial, managerial, and succession issues).

The results confirm the hypothesis stated above of a negative effect of family involvement on institutionalization. Although the author's expectation is fulfilled in this sense, the expectations of the literature are unknown, as the present study is the first to address this issue, meaning that comparisons are not possible. The best outcome appears to be to make some suggestions for future studies.

This study considered the effects of family involvement on the institutionalization of family business. Future studies may consider reverse effects. Institutionalization is generally tied to the existence of rules and written procedures about business issues, so these may affect how and to what extent the family is involved in the business. The possibility of combined effects may also be researched in the future. If family involvement is considered via multiple criteria (family's presence in terms of its share in organizational culture, its part in management and ownership, etc.), then each criterion may have a specific effect on institutionalization. A vastly different effect of family involvement may emerge when all the criteria are used together. In such a case, the single and combined effects of the criteria of family involvement may be compared with each other and discussed in future studies. Of even greater interest would be the occurrence of interactions between the criteria of family involvement. Concerning the effects on institutionalization, future studies may seek to distinguish between the effect of each criterion, the possible effects of interactions between criteria, and the effect of family involvement as a whole. If studies identify reverse effects (i.e. institutionalization affecting family involvement), the reverse combined effects may also be focused on.

Another useful point to consider is the effect of outsider family members on institutionalization. The present study focused only on family members who were actively related to the business context. On the other hand, some outsider family members (e.g. a retired family-member founder) may still influence the pillars of institutionalization. If these effects were to be identified, they may even be classified in future studies. For example, the outsiders may directly influence the rules of the business (e.g. the retired founder's rules are still active in the business context) and may be effective through other family members (e.g. current family-member managers are unwilling to change the written procedures because of the influence of the founder). A future study may also examine the differences between the effects of active family members and outsider family members on the pillars of institutionalization.

This study did not consider any effects on the relationships between family involvement and institutionalization, but future studies may wish to do so. There may be many sources of effects to consider. For example, trade laws in Turkey require that some businesses are founded by a specific number of people. A founder may present his/her spouse and children as the other founders on paper, but may prevent them from contributing to business issues. In such a case, it would be worthwhile to analyze the possible effects of laws on family involvement, and hence the effects of involvement on institutionalization. Interesting results are likely when taking into account the effects of factors such as a country's cultural characteristics, the purposes of the business, and the perception of institutionalization. These factors may be classified as internal and external factors, or may be used to make country-based comparisons about the relationships between family involvement and institutionalization. Additional subjects for future analysis include the interactions between these factors and how these interactions reflect the relationship between family involvement and institutionalization.

This study did not presume that family involvement has an effect on business issues, but some effects were seen on institutionalization. As mentioned before, some approaches (e.g. F-PEC) employ criteria to establish the family's presence in the business and use these to understand the effects of family on the business. In other words, family involvement is perceived as the source of the family effect. The author suggests that family involvement should only be seen as a natural characteristic of family businesses. Like many characteristics, family involvement may affect or be affected by a range of issues.

Future studies may analyze the role of family involvement in the relationships between business issues. The involvement may become a mediating variable between business issues such as business strategies and financial performance. It may also become a filter that reflects the effects of environmental factors on the business.

It was explained before; the structure of the family may determine the structure of the business. The same idea should be tested in the future for family involvement. Put another way, the possibility should be explored that different family configurations have contrasting effects on family involvement. Family involvement may also be affected by the family's culture, changes in familial context, and time. The last two factors may be associated with a family life-cycle approach prior to considering their possible effects on family involvement.

As shown above, there is much to explore.

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