

## Performance implications of institutionalization process in family-owned businesses: Evidence from an emerging economy

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Research has established the fact that the top management in family business firms (mostly comprising family members), have a long-term orientation in decisions and higher levels of commitment than found in non-family firms. Nevertheless, these may not necessarily be sufficient drivers of the institutionalization process in family firms. Institutionalization and adaptability is also greatly influenced by the owner family characteristics. Family business researchers are engrossed in discovering these linkages. Guven Alpay et al (*Professors at Bogazici University, Istanbul, Turkey*) conducted a research study on family businesses in Turkey to understand the role of family harmony and democratic decision-making in the institutionalization process of family firms and their adaptive capabilities. They also examined how institutionalization and adaptability influence the performance of family business.

### ***Institutionalization and its dimensions***

Institutionalization of family business construes the emergence of orderly, stable and integrated procedures and processes out of unstable, loosely organized or narrowly technical business activities. It is the process by which an organization develops a distinctive character structure that bears the imprints of the owner family and external environment. Institutionalization includes creation of a formal structure, emergence of informal norms, development of impersonal/objective procedures, administrative rituals and legalization.

The authors identified **five dimensions of the institutionalization** process. These included –

1. **Objectivity**: - Organizational rules and processes based on unbiased facts and not on personal feelings, interpretations, or prejudice.
2. **Transparency**: - Organizational practices and principles easily seen through by third parties.
3. **Fairness**: - Practices free from bias, dishonesty and prejudice.
4. **Formalization**: - Compliance to procedures stated as formal rules and
5. **Professionalism**: - Organization-wide adherence to universal ethics and quality standards.

### ***Measures obtained***

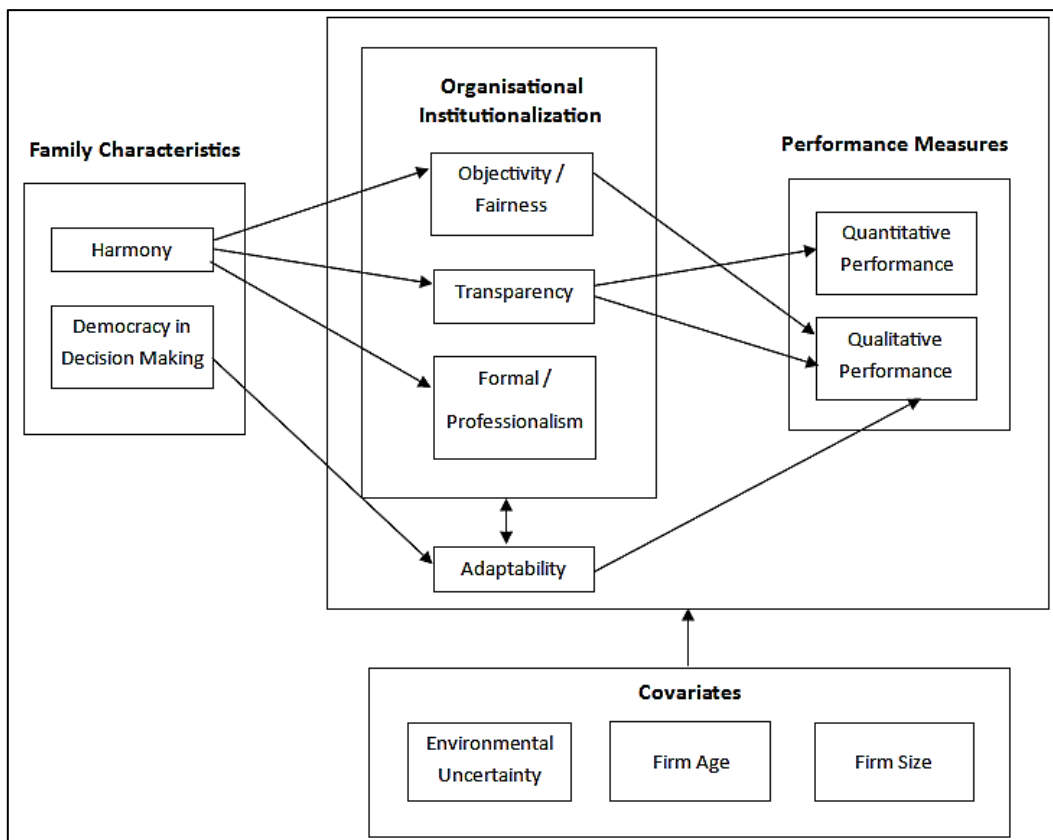
The authors collected a set of measurements for this study from family business executives using a survey questionnaire. **Family harmony** was determined on the basis of the extent to which conflicts occurred, whether conflicts were resolved amicably and in a functional manner

and whether some “family spirit” existed. **Democracy in decision making** was measured by the level of active participation in decision-making and the extent to which each family member could exert influence on business decisions. The authors considered the firm’s sales growth, market share and return on investment as indicators of firm’s **quantitative performance** and quality of goods/services, new product development and employee satisfaction as indicators of **qualitative performance**. In order to ascertain the firm’s **adaptive capability** they measured three indicators - creating change, customer focus and organizational learning.

### Findings

Statistical analysis of data obtained in the study revealed some interesting findings. The authors found that –

- **Family Harmony** has a positive influence on institutionalization. It promotes objectivity, fairness, transparency, formalization and professionalism in the family firm.
- **Democracy in Decision Making** enhances a firm’s adaptability (or capability to adapt).



Institutionalization process and firm performance in family business

- **Adaptability** positively influences firm’s institutionalization but also gets positively affected by it i.e. the more a firm gets institutionalized, the more it becomes adaptive.

- ***Firm's Quantitative Performance*** is positively influenced by institutionalization, more specifically by Transparency.
- ***Firm's Qualitative Performance*** is positively influenced by institutionalization, more specifically by Objectivity, Fairness and Transparency and by the firm's Adaptability.

The authors also found that environmental uncertainty adversely affects a family firm's performance. Firm age relates negatively and firm size relates positively to qualitative performance of the firm.

These findings are valuable for family business as they establish that institutionalization and adaptability are significant advantages for effective firm performance. Family businesses can achieve these objectives by promoting family harmony and democratizing the decision making process in their business.

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