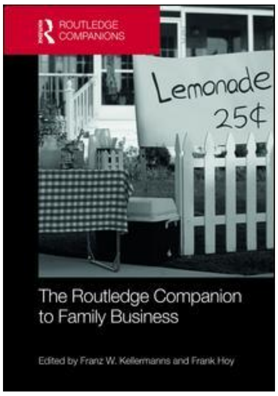
This article was downloaded by: *10.2.97.136*
On: 27 Mar 2023
Access details: *subscription number*
Publisher: *Routledge*
Informa Ltd Registered in England and Wales Registered Number: 1072954 Registered office: 5 Howick Place, London SW1P 1WG, UK



The Routledge Companion to Family Business

Franz W. Kellermanns, Frank Hoy

The Heart of the Matter

Publication details
https://test.routledgehandbooks.com/doi/10.4324/9781315688053.ch21
Sharon M. Danes, Kathryn Stafford
Published online on: 29 Sep 2016

How to cite :- Sharon M. Danes, Kathryn Stafford. 29 Sep 2016, *The Heart of the Matter from:* The Routledge Companion to Family Business Routledge
Accessed on: 27 Mar 2023
https://test.routledgehandbooks.com/doi/10.4324/9781315688053.ch21

PLEASE SCROLL DOWN FOR DOCUMENT

Full terms and conditions of use: https://test.routledgehandbooks.com/legal-notices/terms

This Document PDF may be used for research, teaching and private study purposes. Any substantial or systematic reproductions, re-distribution, re-selling, loan or sub-licensing, systematic supply or distribution in any form to anyone is expressly forbidden.

The publisher does not give any warranty express or implied or make any representation that the contents will be complete or accurate or up to date. The publisher shall not be liable for an loss, actions, claims, proceedings, demand or costs or damages whatsoever or howsoever caused arising directly or indirectly in connection with or arising out of the use of this material.

PART IV

Family Science

Downloaded By: 10.2.97.136 At: 08:17 27 Mar 2023; For: 9781315688053, chapter21, 10.4324/9781315688053.ch21

Downloaded By: 10.2.97.136 At: 08:17 27 Mar 2023; For: 9781315688053, chapter21, 10.4324/9781315688053.ch21

This page intentionally left blank

Downloaded By: 10.2.97.136 At: 08:17 27 Mar 2023; For: 9781315688053, chapter21, 10.4324/9781315688053.ch21

21

THE HEART OF THE MATTER

Family Processes Affect Family Businesses

Sharon M. Danes and Kathryn Stafford

In the development of any academic field that is grounded in human behavior such as that of family business, there are three stages of conceptual development (Danes, 2014). The first stage focuses on structure, roles, and rules within the focal group and effects of these structures, roles and rules on the group's outcomes. Within the field of family business, the group being studied could be either the family or the business system. The second stage involves progressing from the investigation of structural concepts to a focus on processes. The third developmental stage is studying those processes over time. This longitudinal lens would bring an understanding of processes not only in times of stability but in times of change. The call then is for the family business field to progress deeper into the second and third stages of its conceptual development in order to refine its behavioral foundations. This chapter's focus is a discussion of conceptual and methodological issues around family processes supported by examples of recently published research by chapter authors that illustrate points being made.

The field of family business is fairly new as academia goes; as a result, it has focused primarily on structural concepts in its research base (Danes, 2014). An example of this initial stage is the use of marital status to explain whether a new business venture succeeds or not. Findings from that research indicate that the family structure of marriage has an impact on new venture viability, a business outcome. However, the inclusion of that concept in an analysis reveals nothing about the processes creating the positive relationship between marital status and new venture viability and limits the applicability of the results. It is the understanding of family processes associated with marriage that expands the applicability of the results and provides a lens into what might be used in education, consulting or training with family firms to guide them in their mission. In other words, research on family processes addresses how to change behavior to obtain better outcomes. Research on processes provides the foundation for results-based education, consulting and owner action.

Dyer and Dyer (2009) state that there is a trend in family firm research to neglect the concept of family and its impact on business success. In doing so, what has been neglected is of vital importance to most family business owners – their family interactions. To move beyond the study of structure, roles, and rules of enterprising families or their businesses, researchers must investigate processes such as interpersonal and resource transactions occurring within families or at the intersection of firm and family (Danes & Brewton, 2012). There are only a few researchers who investigate effects of family processes on firm performance; and their work is often, but not exclusively, published in family science journals, not regularly read by business

Downloaded By: 10.2.97.136 At: 08:17 27 Mar 2023; For: 9781315688053, chapter21, 10.4324/9781315688053.ch21

managers and consultants. Use of Google Scholar (www.scholar.google.com) can readily overcome this historical barrier. A greater obstacle that persists is the difference in concepts and vocabulary between family science and business management and the lack of credibility that accompanies this difference. An iceberg metaphor best epitomizes what results. By primarily measuring structural concepts and neglecting the study of family processes – the fuel of family business management- the current research presents only what is above the water line. The major part of an iceberg is hidden below the water line; if family processes (what is below the water line) are not studied, the major part of the entrepreneurial fuel of family businesses has not been tapped.

With a focus on family processes, defining what we mean by family and processes is important. For the purposes of this chapter, the family consists of two or more people related by blood marriage, adoption or long-term commitment to each other who share resources. This definition of family does not require two or more generations. Neither does it require legal marriage. It does require sharing resources, the financial, physical, human and social capital. In other words, a parent and child who live in separate states and have not spoken to each other for a decade would not qualify as a family by this definition. If there should be a reconciliation, the parent and child would then qualify. The latter part of this family definition is vital because different ethnicities and collectivist cultures define family in varied ways; defining family as those who have a long-term commitment to each other who share resources allows for this ethnic and cultural diversity in definition (Danes, Lee, Stafford & Heck, 2008).

This chapter is about business owning families, not all families. Although defining family is more critical to our chapter discussion, ownership is also important to define. A family is considered to own a business if one or more adults in the family own a portion of a private firm. Although we do not disagree with researchers who include ownership of a publicly traded firm in their definition of an owning family, we exclude them from consideration in our chapter because of their rarity and the lack of data on which to base that discussion. Also, the decisions of those families are circumscribed by a different set of rules from those for private firms.

Family processes are largely unseen patterns created, sustained and modified by the family (Dyer & Dyer, 2009). Processes refer to decision making and acting by family members singly or jointly. Owning family processes transform inputs into family and business system achievement in the short-run and sustainability in the long-term (Danes & Brewton, 2012). With this definition in mind, there are two key points to note when attempting to study underlying family processes.

First, one must identify observable family behaviors that are indicative of underlying family processes of interest. Those might include resource transactions such as utilization or transformation of time, energy, or money. They might also include interpersonal transactions such as communication or relationship interactions such as degree or kind of commitment, support, conflict, or harmony (Danes & Brewton, 2012). An observable behavior for the unobservable family process of trust might be acting on the advice of a spouse.

The second key point in measuring family processes is that once observable behaviors are measured, they must be combined in such a way as to measure the shape or nature and size of the underlying process, the quality, and quantity of the underlying process. There are several typologies commonly used to simplify the description of the "shape" of family processes, rational versus irrational, interpersonal versus transactional, leisure versus production, for example. Description and analysis of family processes are frequently prescribed by the intended purpose or the goal to be achieved, such as decisions and actions that are taken to acquaint children with the business (Danes et al., 2008).

Downloaded By: 10.2.97.136 At: 08:17 27 Mar 2023; For: 9781315688053, chapter21, 10.4324/9781315688053.ch21

Tracking family processes can be achieved in a number of ways. Key aspects of tracking family processes are being conceptually precise about the focal type of transaction and its characteristics. For example, having multi-informants about interpersonal interactions is a vital part of creating validity. Processes might be observed qualitatively or quantitatively. Collecting data qualitatively allows for observations of actual interactions containing both verbal and nonverbal cues. It is critical to account for differential, individual interpretations about the group interaction. Another way to track processes is quantitatively through surveys or face-to-face interviews. Measuring the multiple interpretations of a similar interaction is a huge conundrum within surveys about processes because there is expense in time and money to collect data from multi-informants' assessments of interaction patterns. An advantage of face-to-face interviews is an opportunity to probe respondents about their responses to questions and to note some of the nonverbal cues during the interview as they describe family interaction patterns.

Studying family processes within family firms is complex. In this chapter, we will be addressing five points within that complexity. These points include:

(a) informal power of family processes;
(b) value of multiple methods of assessment;
(c) value of data from multiple family members;
(d) direct and indirect indicators of family processes;
(e) long-run and short-run family processes.

For each of these points, there will be a discussion of the issues around the point that will be grounded in a recent study conducted by chapter authors.

Informal Power of Family Processes

Literature on enterprising families has tended to primarily focus solely on the formal power of entrepreneurs when studying their entrepreneurial endeavors. That means that the literature has focused primarily on those family members who work for pay in the business and who have formal titles within the business. In an attempt to draw greater attention to the impact of the informal power generated in entrepreneurial efforts through family processes, Danes and Jang (2013) investigated the development of a copreneurial identity within couples who were starting a new business venture. The identity of the entrepreneurs is clearly established when they begin to operate a business. However, we know little about the couple interactions of the owning couple that contribute or detract from new venture viability. The study was a longitudinal one with multiple informants-the entrepreneur and the entrepreneur's spouse.

Other researchers have recognized the importance of spouses in the entrepreneurial process. Dimov (2007) indicated that although the literature is filled with how entrepreneurs form their identity, we know little about how entrepreneurs and their spouses form a collective, copreneurial identity. Van Auken and Werbel (2006) stated that an entrepreneur's decision to launch a new business venture depends not only on opportunity analyses but also on the degree that an entrepreneur's spouse shares a common vision about firm goals, risks, and rewards. If an entrepreneur's commitment to new venture's goals is shared and verified by the spouse, increased emotional attachment to the new venture develops resulting in increased trust and access to spousal resources (Burke and Stets, 1999; Danes et al., 2009). This study built on the work of Danes et al. (2010) who found that couples with a mutual commitment to new venture goals had a substantial impact on its sustainability over time.

Downloaded By: 10.2.97.136 At: 08:17 27 Mar 2023; For: 9781315688053, chapter21, 10.4324/9781315688053.ch21

A collective identity such as a copreneurial identity is a dyad-level concept representing shared cognitions that dyad members feel are central, enduring, and distinctive such as goals for the new venture (Pratt and Forman, 2000). This collective identity resides in the couple relationship (Bershcheid, 1994). By its very nature as a social construction between the spouse and entrepreneur, a collective, copreneurial identity involves communicating the sense-making of each member to the other. As couples communicate and clarify their individual social identities in developing shared cognitions for their collective identity related to new business goals, spouses define their meanings through their interactions. The couple's copreneurial identity was not directly assessed in the study but was measured through the interrelationships of the self-report of a spouse's commitment to new venture goals in Time 1 and the assessment of the entrepreneur's evaluation of spousal commitment over time moderated by satisfaction of the entrepreneur with the communication about business issues with the spouse. Conceptual clarity and precision are critical in family process research such as this study.

This study was not about predicting copreneurial identity; it was not about assessing spousal resources that potentially flow from a copreneurial identity, or even to assess whether it existed or not. Rather, this study was about meanings and sense-making that were core to early stages of copreneurial identity formation where identity standards and reflective appraisals of entrepreneurs and spouses are verified. The study's findings reinforced the proposition that the copreneurial identity verification process has two parts. The first part involves the input about the spouse's commitment to new venture goals; the second part has to do with the feedback that the entrepreneur experiences over time-related to that initial spousal commitment. The copreneurial identity has to do not just with the spousal commitment to new venture goals, but it also has to do with the family process interaction of communicating about business issues. Communication is socially constructed and that communication in rooted within the couple relationship. Developing a copreneurial identity is an iterative process between entrepreneurs and their immediate context which includes spousal interaction, a facet of family process.

The message for family firm educators, consultants and to entrepreneurs themselves is that attention needs to be paid not just to business system concerns when starting a new business venture. To increase the probabilities of venture sustainability, attention needs to be given to the creation of a copreneurial identity within owning couples. So not only is available financing and business knowledge and market investigation important when starting a new business venture, but it is important to also assess the strength of the couple relationship of the owning couple. Their mutual commitment cannot develop without satisfying couple communication about new venture goals. It also brings attention to the need to negotiate and reconstruct a different couple relationship that is both personal and professional. It is another example of heeding the power of not only formal power processes but informal power processes within the family system because those processes are a major part of the entrepreneurial fuel that propels the initiation of the venture but also contributes to its sustenance over time.

The Value of Multiple Methods of Assessment

Power is a concept that is of concern within family firms. It is often measured through structure by identifying formal titles that family members hold within the family firm. Power, however, is about the decision-making process, not just who makes the final decision. Assessing power dynamics is more than the formal title or role that a family member holds. The concept

Downloaded By: 10.2.97.136 At: 08:17 27 Mar 2023; For: 9781315688053, chapter21, 10.4324/9781315688053.ch21

of power has both formal and informal dimensions. Within family firms, one is not obtaining the complete picture of power dynamics if assessments approach power in only a structural sense because there is much informal power grounded within the family system that is wielded within family firms. That informal power is expressed across the family, not just within the family members who work for pay within the firm. Family members not having a formal title in the firm can exert informal power in the firm by the nature of their role in the family or the relationship they hold with those working in the firm. An example of such informal power was recognized by Danes in her 2011 editorial in the Entrepreneurship Research Journal when she entitled it "Pillow Talk Leaks: Integrating Couple Interactions into Entrepreneurship Research."

Hedberg and Danes (2012) studied on both formal and informal power by exploring dynamic power processes within family business decision teams as they made a major business change decision. The study was an in-depth investigation of behavioral dynamics of decision-making processes. The focus is important because research indicates that these decision teams are more effective when they exhibit social cohesion (Ensley & Pearson, 2005), when they share leadership (Ensley, Hmieleski & Pearce, 2006; Ensley, Pearson & Pearce, 2003), when they have a unified vision (West 2007), and when they have collective perceptions of how they are working together (Sheperd & Krueger, 2002). However, we know little about what precise conceptual components of individual, dyadic and group dynamics make this happen, especially when family roles overlap with business roles. What we do know about successful communication patterns and productive interactions is that they are based not only in verbal cues but nonverbal cues. Hedberg and Danes' study methodology captured and analyzed both types of cues.

In addressing conceptual complexity and texture of power dynamics, Hedberg and Danes (2012) used four ways to examine power structure and interactions within the family firm decision teams. First, individuals provided written answers to questions about their firm power structure (self-reports). Second, decision teams were interviewed about the process of making a major change within their business. Third, the decision team interview was videotaped and coded for observations of power structures and interactions as well as firm integration. Finally, individual interviews with each spouse were used to contrast with observations from couple interviews to confirm or refute what was said in the team interviews. Through the four analyses, message content could be compared or contrasted with the way messages were conveyed. Likewise, decision team interactions could be examined in comparison to individual perceptions of decision power dynamics. Combined, multiple methods and perspectives allowed for comparisons of message content with nonverbal messages, and dyadic dynamics with individual perceptions.

Induction (Gilgun, 2001) was the analytic procedure used in the study. The procedure requires a theory to guide the analysis; a family theory, Family FIRO theory (Hedberg & Danes, 2012) framed data collection, analysis, organization and presentation of research findings. Power processes were examined from the respondent's perspective with a focus on how people form their own social experiences. To create the power dialogue, interviews were designed around the execution of a planned change. Open-ended questions provided a rich source of information and allowed examination of phenomena using family member words, expressions, and actions resulting in qualitative data rich in content and context without researcher bias from preconceived notions of Family FIRO dimensions. The goal of the analytic induction was to confirm or refute findings from the decision team group interview through an individual member, confidential interviews (Gilgun, 2001). An initial hypothetical conjecture was used to examine cases to determine if the conjecture fit the case observations. The initial conjecture derived from the

Downloaded By: 10.2.97.136 At: 08:17 27 Mar 2023; For: 9781315688053, chapter21, 10.4324/9781315688053.ch21

main Family FIRO tenet was that inclusive power structures lead to more collaborative power interactions resulting in more productive decision teams.

Observational coding from the videos of the decision team interviews was used along with analytic induction to verify decision team power structures and interactions. Group and dyadic interaction scores were coded using Iowa family interaction rating scales (Melby & Conger, 2001). The scales were intended to tap both verbal and nonverbal behaviors and affective and contextual dimensions of interaction. In the observational coding, three coders separately viewed videotaped group interactions. Group consensus among coders determined final scores when differences were detected. Analytical induction analyses were performed by still another coder to prevent introducing bias. To assure consistency in focus, the principle investigator was the one constant in the research project. All these checks and balances created trustworthiness and authenticity. Power structure and interactions were understood through triangulation of multiple perspectives. This form of validation added rigor, breadth, complexity, richness, and depth to any qualitative inquiry (Denzin & Lincoln, 2005).

This study examined power interactions through the use of innovative and diverse methodologies (Helmle et al., 2011). Study findings contributed to understanding how family business decision teams tackle complexities of change and ways in which power processes affect business productivity. Study findings indicated that it was not enough to have an equitable firm power structure; that structure needed to correspond with collaborative power interactions (Edmundson et al., 2003). Family members with business decision teams who listen to each other, who respectfully share ideas and opinions, and who create a positive dynamic do more than communicate well. They provide a platform for constructive discussion of important firm decisions resulting in psychological safety, a situation that mitigates interpersonal risk (Edmondson, 1999). At the very least, repressing a family member's contribution limits resources available to the firm. Creativity in problem solving thrives on the interplay of ideas and insights within an open and respectful team climate where decisions can be discussed without fear of harming interpersonal relationships.

Although the methodologies identified here are time-consuming, they can be quite productive for business decision teams. Videotaping a business decision team while it is making a planned change decision and then analyzing verbal and nonverbal interaction among decision team members can provide some rather insightful observations. The insights might be about its functioning as a group or interactions between dyads within the group. Those insights then might be cross-referenced with the roles and responsibilities of decision group members.

Value of Data from Multiple Family Members

Gudmunson, Danes, Werbel, and Loy (2009) used longitudinal data and structural equation modeling to investigate whether emotional spousal support for business-related concerns was transmitted from spouses to entrepreneurs and whether receipt of this specific type of support would have an impact on business owner's work-family balance. This study demonstrates the use of two family members' views of the same concept by including the spouse's assessment of the emotional support given and the business owner's assessment of the emotional support received. The findings of this study epitomize the benefits of measuring family member interactions at the intersection of family and business systems using information from more than one family member. Within the study's findings, the effects of spousal support were confounded until satisfaction with business communication was introduced. That communication variable was introduced into the model to assess whether spousal support was contributing to the business owner's recognition of its usefulness.

Downloaded By: 10.2.97.136 At: 08:17 27 Mar 2023; For: 9781315688053, chapter21, 10.4324/9781315688053.ch21

Introducing the family process concept of communication into the model demonstrates some of the subtlety of family processes. The introduction of this firm communication concept revealed competing direct and indirect effects on the firm owner's work/family balance. Owners who sensed that emotional spousal support for firm-related concerns was productive were found to have greater satisfaction with communication about the business and this satisfaction further contributed to his/her sense of work/family balance. On the other hand, once these positive effects of spousal support through satisfying communication were accounted for, we also discovered that the receipt of spousal support could detract from a sense of work/family balance for business owners. Thus, our findings were consistent with Hobfoll's conservation of resources theoretical proposition (2001) that social support is a conditional resource dependent on circumstances.

Resources can be classified as objects, personal characteristics, values, beliefs or energies. There are some family interactions such as the extension of social support that depend on situational needs or that have a time-limited effect (Hobfoll, 1989). In terms of situational context, social support may contribute to resilience when it facilitates the preservation of other resources but it can also have a deleterious effect when it detracts from other personal resources. For example, a spouse might offer support to the entrepreneur by taking sole responsibility for child care during hectic business times and that would create a certain resilience capacity for the entrepreneur. The situation needs at a point in time may dictate the assessment of the giving or receiving of social support as a resource or a constraint. Its positive effect could be time-limited as well. If the full responsibility for child care continues for an extended time period, the spouse's work/family balance could become strained creating a stress contagion effect for the spouse that eventually spills over to the entrepreneurs that gradually leads to a deleterious impact on business performance.

Several lessons may be learned from this example. One of the lessons learned for family business educators, consultants, and business owners alike, is that within family processes there is never just one individual perspective and that perspective might change with time and situational needs. With structure, roles, and rules, generalizations can be made more easily than with family processes. Knowing and understanding context is absolutely critical when assessing family processes and taking account of all players in that social context is part of understanding the context. Another lesson is to think through whether you need input from a family member about her/his processes or input from more than one family member about family processes. Gudmunson et al (2009) obtained results and insights that would not have been possible without responses from more than one family member.

Direct and Indirect Indicators of Family Processes

In their paper on the effects of family capital on family business outcomes, Danes, Stafford, Haynes and Amarapurkar (2009) measured family processes directly and indirectly while controlling for the effects of family and firm structure. They included respondent answers to questions about family processes, the outcomes of family processes and family capital stocks and flows over time. They defined family capital as all resources of owning family members, whether or not employed by the firm. They used data from the first two years in the National Family Business Panel. Respondents were a geographic area probability sample of U.S. business owning families in 1997. Due to the method of sample selection, the results are generalizable to all business owning families in the United States and their businesses. Precisely because the overwhelming majority of family businesses are small and privately owned, so are the businesses in this data. Generalizability to any particular subset of families and businesses is less reliable.

Downloaded By: 10.2.97.136 At: 08:17 27 Mar 2023; For: 9781315688053, chapter21, 10.4324/9781315688053.ch21

They analyzed effects of three direct measures of family processes during 1997 on both business gross revenue and owner-perceived success in 1997 and later in 2000: family functioning, adjustment strategies and resource family/business intermingling processes. These measures were considered direct because they were based on respondent answers to questions about their processes during telephone interviews. Family functioning type measured how members interacted with each other and their environments during stable periods. Family functioning was classified as either: a) family members negotiate with each other, b) family members act as individuals, and c) the family has ordered decision making. Families with each of these types of functioning in this sample reported fairly consistent interaction patterns; they did not readily switch how they functioned during stable periods. Adjustment strategies indicated how family members changed their routines during "crunch" times, periods of change and pressure on resources. Family members could use all or none of these strategies. In earlier research, five strategies had proved influential on family and business achievements and were included in the analysis. They were: a) use temporary hired help, b) family members volunteer to help, c) business manager takes work home, d) reallocate tasks to other family members and e) reallocate to spend more time with family. For this study, resource intermingling was coded simply as either from the family to the business or vice versa.

After controlling for family and business s structure, direct measures of family processes had statistically significant effects across indicators of success. In both 1997 and 2000, family processes explained less variance in gross revenue than did family and business structure, and in both years, family processes explained more variance in perceived success than did structure. Specifically, adjustment strategies had significant effects on gross revenue and owner's perceived success. Adjustment strategies had similar effects on both gross revenue and perceived success, but resource intermingling did not as indicated by the signs and significance of the coefficients. Differences in the relative size of effects and a qualitative (sign) difference in the effect of a variable have implications for scholars, practitioners and owners alike. Such results mean that it is necessary to identify and keep in mind the desired or important aspect of achievement or sustainability.

Furthermore, effects of direct measures of family processes on both gross revenue and owner's perceived success persisted over time. The relative explanatory power of direct measures of family processes was consistent over time, although it differed between gross revenue and perceived success. Also, the direction of the effects was consistent over time. By 2000, three of the adjustment strategies still had significant effects on business gross revenue and one adjustment strategy still had a significant effect on owner's perceived success. It is worth noting that among the direct measures of family processes those measuring family processes during change had greater effects than processes during stability. After all, families and their businesses are at greatest risk during crunch times or periods of change. Obtaining sound education and advice in preparation for such periods can make or break them.

Danes et al (2009) also analyzed indirect indicators of family processes. They analyzed effects of subjective family outcomes, capital stocks available for use and capital flows. They included two family process outcomes: a) family integrity and b) family/business congruity. Family integrity was measured by the Family APGAR score, a five-item scale assessing respondents' satisfaction with family Adaptation, Partnership, Growth, Affection, and Resolve (Danes & Stafford, 2011). This sample had high family integrity, indicating most were sufficiently strong to be able to withstand the stress of change. Congruity was also high, indicating a high degree of perceived harmony between family and firm systems. Harmony is the absence of conflict.

Downloaded By: 10.2.97.136 At: 08:17 27 Mar 2023; For: 9781315688053, chapter21, 10.4324/9781315688053.ch21

These family outcomes did not have significant effects on either business gross revenue or owner's perceived success.

Another indirect way to analyze family and firm processes is to track capital stocks available for input and capital flows. Processes require the use of resources; hence, analysis of resource use is one more means by which we may gain information about family business system processes and their effectiveness. Human capital and financial capital explained significant proportions of variance in business gross revenue and owner's perceived success in both 1997, the current year, and three years later in 2000. Social capital in 1997 explained significant proportions of variance in gross revenue and owner's perceived success only in 2000. Capital stocks are resources available for use either before or after a process; whereas, capital flows are changes in capital stocks during a specific time period. This difference in results highlights the importance of distinguishing between stock and flow measures of capital. Sirmon and Hitt (2003), Heck, Danes, Loy and Stafford (2008), and Danes et al. (2009) distinguish between capital stocks and flows and refer to use of capital stock, capital flows) as resource management, a process. Family resource management may be more important to firm achievement in the short run and sustainability in the long run than family capital stock available. The greater effect of the flow measures in the Danes et al. study means that careful attention should be paid to the type of measure used for family capital. One implication is that the assumption that capital available will be used is not safe. Also, nonuse of family capital does not mean that it is not available.

This relatively small body of quantitative research reinforces some of the conclusions drawn from qualitative research on family interpersonal processes earlier in this chapter. Data from multiple perspectives or using multiple dependent variables yields more reliable conclusions. For example, in their analysis of family capital flows over time, Danes, Stafford, Haynes and Amarapurkar (2009) found that family capital accounted for more variance in business gross revenue in the long run, but more variance in owner perceived success in the short run. When comparing contributions of family capital within each time period, in both short and long run, family capital accounted for more variance in gross revenue than in owner perceived success.

The Danes et al. (2009) study findings demonstrated that when business owners assess the short run use of family capital as making a constructive contribution to the business, that dynamic creates a synergistic multiplier effect in management behavior. Management synergy grows out of the psychic energy created from effective contributions of family capital, whether through formal or informal channels and fuels deeper commitment and continuity motivation that is exhibited in measurable outcomes such as gross revenue in the long-term.

For some owners business gross revenue and perceived success move together, while for others they do not. The authors initially believed that business gross revenue was an objective measure of success and owner's perception was a subjective measure of success. However, as the authors collected data from the same owners over time, they found that the two measures did not even reliably move in the same direction. It is possible that just as Hedburg and Danes (2012) found that couples whose power dynamics when together were confirmed through individual and confidential statements and whose power was distributed equitably owned businesses that did better, so we might find that the businesses of owners whose perceptions of success more closely tracked objective measures would do better. More research needs to be done with simultaneous multiple indicators of family processes. More research is also needed that focuses on family business decision team dynamics with individual confirmations or refutations when not within the group setting. Group dynamics and individual members' perceptions about what they actually think occurs can match the group dynamics or be quite different; with the latter, scarce resources tend to be diverted from business goals and vision.

Danes et al. also found that the picture of family business processes is slightly different when based on data from a single period and when based on data from multiple time periods. This phenomenon is well known to economists, but the familiarity of the phenomenon has not meant that we know better how to predict the long run from short run data. That is due to the need for much more research on family processes related to capital flows both within the business and between the business and the family and the recognition of not only formal power of family members working within the business but also the informal power of those members who are committed to the family business but do not have formal business titles.

Referring to the two key points in studying and observing family processes, use of various dimensions of the family capital bundle (human, social, and financial) (Danes et al., 2009) are observable family behaviors. In assessing size and shape of the underlying family processes (fuel for the entrepreneurial engine), one needs to then observe the effects of the use of family capital over time from multiple perspectives (e.g. perceived firm success and gross revenues). True firm success in family businesses is not just a function of financial gains but also of healthy family functioning (Danes et al., 2008; Danes & Brewton, 2012). Strong families beget strong family businesses. Using metaphors, family processes can either be the sturdy foundation for successful family businesses or the quicksand that siphons energies and resources from the core goals of the family business, draining its entrepreneurial fuel.

Long-Run and Short-Run Family Processes

Gudmunson and Danes (2013) analyzed family social capital use processes over time, and their study illustrates the difference between family processes at one point in time and over time. In other words, family processes are not immutable; they are time dependent. They used data collection at three points in time to investigate the direction of effects in associations between family functional strength and business-related tension as related to firm continuation status. Family resilience capacity is embodied in family functional strength and business-related tensions represented business system demands and stresses on family functional strength. The resilience processes of drawing on family functional strength to solve problems around the demands and stresses of business-related tensions occur at the family and business interface. Bubolz (2001) indicates that social capital is a latent resource typically consumed when needed and when it is consumed, it facilitates action and creates value facilitating productivity.

Findings provide an in-depth window into the contribution of family processes to family firm continuity. Only longitudinal data with repeated measures can provide such insight along with following businesses that survive and close over time. Using quantitative structural equation modeling and panel data collected by phone interviews at three points in time, these authors contributed to family process research by: 1) investigating continuity and crossover effects between family functional strength and business-related tensions over time, 2) examining coefficients for multiple group differences, and 3) revealing correlates that retain significance while controlling for past effects of family functioning strength and business-related tension on these same measures. These procedures allowed an investigation of differences in the family functioning strength and business-related tension relationship for family businesses that survived over time and those that did not.

Gudmunson and Danes (2013) assessed the family processes over a three-year period while both groups of family businesses were operating. Continuity status was assessed seven years later.

Downloaded By: 10.2.97.136 At: 08:17 27 Mar 2023; For: 9781315688053, chapter21, 10.4324/9781315688053.ch21

Downloaded By: 10.2.97.136 At: 08:17 27 Mar 2023; For: 9781315688053, chapter21, 10.4324/9781315688053.ch21

For the businesses that remained in operation, there was a buffering effect of family functional strength on business-related tensions over time and strong cross-sectional association within each year. For the group of still existing businesses, family processes were part of a pattern of enduring processes that demonstrated the cumulative effect of social capital development over time. For the businesses that were closed seven years later, the relationships between family functional strengths and business-related tensions were the lead-up period to discontinuation of ownership. Family processes for this discontinued group of family businesses indicated that stress evolved when resources were threatened, lost or believed to be unstable or family members could not see a path to fostering or protecting resources through individual or joint efforts (Hobfoll, 2001).

This study's findings tell us that business tensions that do not subside tend to spill over into the family context; they have a stress pile-up effect over time. Ignoring the problem issues does not make them go away. The danger here, however, is that people tend to personalize these issues without delving into or communicating about the root causes of the tension. A neutral third party who understands family process may be needed to negotiate some of the more deep-seeded family concerns, but often a family member who is committed to the business but is not directly impacted by the business issue causing the tension may be able to visualize alternatives. Scenario-building exercises often allow for a more neutral problem-solving atmosphere.

Discussion

At this point, we hope that we have convinced you that family processes are relevant to firm outcomes - firm achievements in the short-term and sustainability in the long-term. We all readily accept the proposition that without processes, we are left with only potential. We less readily accept that processes within the family affect business outcomes. We have endeavored in this chapter to convince you of the latter. In doing so, we have addressed both observable interpersonal and resource transactions and processes that reflect the unseen patterns created, sustained and modified by the owning families. In other words, both the observable behaviors and the unseen family patterns affect family firm outcomes. Evidence for effects of both aspects of family processes is plentiful and growing.

There is evidence that adjustment processes invoked during periods of peak demand in either the family or the firm have greater effects on business outcomes than do routine processes invoked during lulls or relatively stable periods. Having said this, you should not wait until peak demand periods or a crisis to ask about these processes or to give attention to them. Consequently, these family adjustment strategies are a good place to start inquiring about family processes and establishing a desired comfort level. All families have these adjustment processes and our research experience tells us family members can readily tell you about them when asked. Think about and ask yourself or others, "What do you do?"; that approach is much easier than asking about feelings.

For educators, consultants and owners alike, the fact that family processes affect business achievements and sustainability should be viewed as good news because processes are much easier and quicker to change than family structure, roles, and rules. Changing family structure entails such major decisions as marriage and divorce decisions or decisions to have a child. Family structure is also affected by aspects over which we have little or no control such as aging and death. Family roles and rules also can be affected substantially by aspects of life over which we have no control such as ethnicity, gender, age, and birth order. By contrast, members of owning families have much more control over their family processes

Downloaded By: 10.2.97.136 At: 08:17 27 Mar 2023; For: 9781315688053, chapter21, 10.4324/9781315688053.ch21

within the constraints imposed by their resources and environment. In other words, attending to family processes can have a relatively quick beneficial effect on family business achievements and sustainability. Having now convinced you of the benefits of attending to family processes as well as structure, roles and rules, it is imperative that more efforts are spent on collecting data on those processes. Students studying business need to study about family processes as well as business management. Family business consulting teams need to be composed of people who understand family processes and human behavior as well as business management principles.

Useful data on family processes can be obtained via both interview and observation. Both means of obtaining information on family processes have advantages and disadvantages. Interviews, whether oral or written, rely on interviewee honesty and awareness of themselves and others, but can address past and present behavior and future intentions. Observation is more viable with small groups and is limited to the current time period. Unlike interviews, observation does not require subject honesty and self-awareness. Observation does not even require verbal responses. Both data collection methods work very well. The choice of method depends on your purpose, access to the owning family and availability of analytical expertise.

Observation has the advantage of being able to note both verbal and nonverbal responses, and it also enables you to obtain data on interpersonal interactions. However, observation consumes a lot of time and is expensive. Of course, owners also find it difficult to observe themselves. These days, technology has facilitated data collection by observation. Ubiquitous cell phones with cameras have made it easier to record interactions without changing the nature of the interaction itself. They have also made it faster to record a transaction process and then review it. Selfie boom sticks even make it possible to record group interactions with a recorder participant. It is more important than ever before to understand the expertise of business consulting teams because if consultants do not understand more than basic dynamics of human behavior and family processes, they can make disastrous recommendations that could affect not only business success but the healthy functioning of the owning family.

Interview data are more viable when time and expense are issues. These interviews might be for research but they also might be to gather information about owning family members when doing consulting with families. Interviews can be structured and responses precoded. Interviews give you the opportunity to rehearse and pretest questions and their wording. To understand how important this can be, all we have to do is recall a recent news story about an opinion survey in which a question was asked two different ways and the responses changed from the majority in favor to the majority against. The ground-breaking research in heuristics for which a Nobel Prize in Economics was awarded documented the potentially large effects on decisions of small differences in wording. Closer to home, in one of our surveys we asked owners if they had sought help from a list of government agencies. Very few said yes, yet we knew in some cases that they were agency clients. We had made the mistake of using the "H" word (help) instead of a more neutral word such as advice. Interviews allow dress rehearsals and "do overs" that observation does not.

Here is just one example of where information about family processes could be obtained by either observation or interview. An enterprising couple with young children had a growing business; they were expanding the building that housed the business. Before the expansion, the couple had their offices in the same room. During the day, they constantly communicated about business issues and the child care and school decisions simultaneously as the day progressed. A business consultant stated that they needed to totally separate business and family as they grew the firm and recommended having separate offices on opposite ends of the

Downloaded By: 10.2.97.136 At: 08:17 27 Mar 2023; For: 9781315688053, chapter21, 10.4324/9781315688053.ch21

building, which is what they did. However, what eventually happened with this total work/family separation was a level of couple stress that led to couple tensions that grew to the point of discussion of divorce. It wasn't until they hired a different business consultant that was knowledgeable about family processes that they recognized where they potentially went wrong; they then decided to rearrange the business office space so they could more efficiently organize their family and work responsibilities. By ignoring the measurable couple behavior and the underlying family processes in this example, the first business consultant created a disastrous result. Strong family businesses are based on healthy, strong families. That means paying attention to family processes and business management because of their reciprocal relationship.

Whether you obtain data via observation or interview, we propose you follow a few rules of thumb. Obtain data from more than one source. Talk to more than one family member if possible. Obtain more than one type of data. For example, this might entail obtaining objective *and* subjective measures of achievements, or qualitative *and* quantitative measures of the nature of family conversations. Also, use as many multiple item indicators as possible. For example, we suggest using an indicator such as the Family APGAR to assess family integrity. The assessment is based on responses to five questions, instead of the response to a single question. Direct measures of family processes work better than indirect measures, so if possible, use direct measures. Examples of direct measures would be actions taken and resources used for a particular purpose. An example of an indirect measure would be capital available. Just because capital is available does not mean that it is used. Direct measures assess whether the capital is actually being used in the most efficient and effective manner. More recent processes should be a higher priority when inquiring about family processes. Research results indicate that the further away from the current time period questions refer to, the less reliable the answers unless you provide an event to use as a reference point such as the opening of the first store or the youngest daughter's marriage. Also, the further in the past a process occurred, the smaller the effect is likely to be on current and future achievements and sustainability.

Attending to family processes offers the potential for improving family business achievements and sustainability relatively quickly at relatively little financial cost. Take advantage of the opportunities you have to think about and obtain information about family processes. Start a conversation. Observe and listen. Raise your awareness level. Then you can start to formulate questions. There are good examples of ways to effectively word questions available online, so you do not have to start from scratch. Remember, even poor measures are usually better than none. The emotional cost may be relatively larger than the financial cost. The fundamental justification for incurring this emotional cost is the increase in human and social capital for the family that will pay dividends far into the future.

Attending to family processes offers the potential for improving family business achievements and sustainability relatively quickly at relatively little financial cost. Do not let the perfect be the enemy of the good. In other words, some progress in attending to family processes is better than the current state of ignoring them. In this chapter, we have presented some potential ways that have been used to measure and assess family processes. They may not yet be perfect ways to do so but they are a beginning. More work on family process assessment is needed in the future. But meanwhile, take advantage of the opportunities you have to think about and obtain information about family processes. Start a conversation. Observe and listen. Raise your awareness level. Then you can start to formulate questions. There are good examples of ways to effectively word questions available online, so you do not have to start from scratch. Remember, even poor measures are usually better than none. The emotional cost may be relatively larger than the financial cost. The fundamental justification for incurring this emotional cost is the increase in human and

Downloaded By: 10.2.97.136 At: 08:17 27 Mar 2023; For: 9781315688053, chapter21, 10.4324/9781315688053.ch21

social capital for the family that will pay dividends within the family business far into the future. In other words, family business experts, owning families and their businesses can all benefit from knowing more about family processes and their effects on the family's business.

References

Berscheid, E. (1994). Interpersonal relationships. *Annual Review of Psychology*, Vol. 4, pp. 29–79.

Bubolz, M. (2001). Family as source, user, and builder of social capital. *Journal of Socio-Economics*, *30*, 129–131.

Danes, S.M. (2014). The future of family business research through the family scientist's lens (Chapter 31; pp. 611–619). In *Handbook of Family Business*, Melin, L., Nordqvist, M., & Sharma, P. (Eds.), Sage: NY, NY.

Danes, S.M. & Brewton, K.E. (2012). Follow the Capital: Benefits of Tracking Family Capital across Family and Business Systems (Chapter 14, pp. 227–250). In Alan Carsrud & Malin Brannback (Eds.), *Understanding Family Businesses: Undiscovered Approaches, Unique Perspectives, and Neglected Topics*. Springer.

Danes, S.M., J. Lee, K. Stafford, and R. K. Z. Heck, (2008). The effects of ethnicity, families and culture on entrepreneurial experience: An extension of sustainable family business theory. Invited article for *Journal of Developmental Entrepreneurship, Special Issue* titled Empirical Research on Ethnicity and Entrepreneurship in the U.S., *13*(3), 229–268.

Danes, S.M., Matzek, A. E. and Werbel, J. D. (2010), Spousal context during the venture creation process, in Katz, J. A. and Lumpkin, G. T. (Eds.), *Advances in Entrepreneurship, Firm Emergence and Growth*: Vol. 12, Emerald, New Milford, CT, pp. 113–162.

Danes, S.M. & Stafford, K. (2011). Family social capital as family business resilience capacity. In Richard Sorenson (Ed.), *Family Business and Social Capital* (pp. 79–105, Chapter 7). Edward Elgar: UK.

Danes, S.M., Stafford, K., Haynes, G., & Amarapurkar, S. (2009). Family capital of family firms: Bridging human, Social, and financial capital. *Family Business Review, 22*(3), 199–215.

Denzin, N.K. & Lincoln, Y.S. (2000). *Handbook of Qualitative Research* (2nd Ed.). Thousand Oaks, CA; Sage.

Dimov, D. (2007), 'Beyond the single-person, single-insight attribution in understanding entrepreneurial opportunities,' *Entrepreneurship, Theory, and Practice,* pp. 713–731.

Dyer, W.G. Jr. & Dyer, W.J. (2009). Putting the family into family business research. *Family Business Review*, 22 (1), 216–219.

Edmondson, A. (1999). Psychological safety and learning behavior in work teams. *Administrative Science Quarterly, 44*(4), 350–383.

Edmundson, A., Roberto, A., & Watkins, M. (2003). A dynamic model of top management tam effectiveness: Managing unstructured task streams. *The Leadership Quarterly, 14*, 297–325.

Ensley, M., Hmieleski, K., & Pearce, C. (2006). The importance of vertical and shared leadership within new venture top management teams: Implications for the performance of startups. *The Leadership Quarterly*, *17*(3), 217–231.

Ensley, M., & Pearson, A. (2005). An exploratory comparison of the behavioral dynamics of top management teams in family and nonfamily new ventures: Cohesion, conflict, potency, and consensus. *Entrepreneurship Theory and Practice*, *29*(3), 267–284.

Gilgun, J. (2001). Grounded theory and other inductive research methods. In Bruce A. Thyer (Ed.), *The Handbook of Social Work Research Methods* (pp. 345–364). Thousand Oaks, CA: Sage.

Gudmunson, C.G. & Danes, S.M. (2013). Family social capital in family businesses; A stocks and flows investigation. *Family Relation*, *62*, 399–414. DOI:10.111/fare.12017.

Gudmunson, C.G., Danes, S.M., Loy, J.T., & Werbel, J.D. (2009). Spousal support and work/family balance in launching a family business. *Journal of Family Issues*, *30*(8), 1098–1121.

Hedberg, P.R. & Danes, S.M. (2012). Explorations of dynamic power processes within copreneurial couples: *Journal of Family Business Strategy*, *3*, 228–238.

Helmle, J., Seibold, D., & Afifi, T. (2011). Work & family in copreneurial family businesses. In C. Salmon (Ed.), *Communication Yearbook 35* (pp. 51–91). New York and London: Routledge.

Hobfoll, S. E. (1989). Conservation of resources: A new attempt at conceptualizing stress. *American Psychologist*, *44*, 513–524.

Hobfoll, S. E. (2001). The influence of culture, community, and the nested-self in the stress process: Advancing conservation of resources theory. *Applied Psychology: An International Review, 50,* 337–421.

Melby, J.N. & Conger, R.D. (2001). The Iowa Family Interaction Rating Scales: Instrument summary. In P. Kerig and K. Lindahl (Eds.), *Family Observational Coding Systems: Resources for Systematic Research*, (pp. 33–58). Mahwah, NJ: Erlbaum.

Shepherd, D., & Krueger, N. (2002). An intentions-based model of entrepreneurial teams' social cognition. *Entrepreneurial Theory and Practice*, *27*(2), 167–185.

Van Auken, H. and Werbel, J. (2006), Family dynamic and family business financial performance: Spousal commitment, *Family Business Review,* Vol. 19, pp. 49–63.

West, G. (2007). Collective cognition: When entrepreneurial teams, not individuals, make decisions. *Entrepreneurship Theory and Practice*, *31*(1), 77–102.

Downloaded By: 10.2.97.136 At: 08:17 27 Mar 2023; For: 9781315688053, chapter21, 10.4324/9781315688053.ch21