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Firm performance and success of family businesses with emphasis on Indian women's role

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ABSTRACT

In this paper we investigate the role of Indian women on firm performance and success of family Business. In order to assessing the factors that affecting firm performance in family base businesses, a multiple choice questionnaire was designed and were sent to the experts of the family base businesses. In order to assessing Reliability of questionnaire, Cronbach's alpha coefficient was applied and validity of questionnaire was assessed by experts and finally for data analyzing, LISREL software were used. Results indicate that in the confidence level of 95%, all of the relationships between the model variables are confirmed.

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INTRODUCTION

The family business literature is sparse on this topic and in the past very few contributions were based on empirical research [19]. Women family members are one category of stakeholders with a vested interest in the viability of the business, next to owners and employees [7] and they can have an important impact on the business. While women tend to enhance their presence as female entrepreneurs, research on women in family businesses has suggested that the majority of women continued to remain in the background, staying invisible' contradicting the level of feminism. However, for some authors [9,11] occupying a subdued role has provided them with a unique vantage point allowing a rich understanding of the prevailing issues and relationship dynamics where they might make a highly valuable input to the efficient conduct of the business and the management of relationships among family members. Sharma (2004) even says that, if used astutely, wives observations, intuition and emotional capital can make a difference between the success and failure of a family firm. Chua et al [6] illustrate factors that are critical for the family business. They find that 12 factors can be grouped in four categories of factors. These are the incumbent level, the successor level, the other family member level and the firm level.

Literature Review:

In the field of family business studies, interest in this topic was kindled when two sets of scholars – Gómez-Mejia et al. [10] and Schulze et al. – began to question the applicability of the central tenets of agency theory in the context of family firms. As their works received acceptance in mainstream journals of organizational studies, they attracted immediate and widespread attention in the field, leading to a number of subsequent conceptual developments and empirical studies [4,5,10]. Built on the central tenets proposed by Berle and Means [3], and Max Weber agency theory was conceived and popularized in organizational studies by Jensen and Meckling. It is based on the idea that the separation of ownership and management in firms leads to a principal–agent relationship in which the managers (agents) may not make decisions that are in the best interest of owners (principals). Thus, suggestions were made to develop mechanisms to align these interests. It was expected that an alignment of ownership and management within a family would alleviate the agency problems in family firms because individual family members would engage in altruistic behaviors wherein they subjugate their self-interests for the collective good of the family. Two different perspectives exist on the reasoning that motivates family members to engage in other-regarding behavior as opposed to self-regarding acts. The economist perspective is that 'altruism is self-reinforcing and motivated by self-interest because it allows the individual to

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simultaneously satisfy altruistic (other-regarding) preferences and egotistic (self-regarding) preferences'. From this perspective, family members are viewed as utility maximizes who are rooted in economic rationality. Research related to majority and minority family member shareholders points toward examples of family members who may be motivated partially or exclusively by their selfinterests rather than other-regarding family-oriented behavior [16,17]. However, an alternate viewpoint, rooted in theological perspective, is offered by stewardship theory [7]. Following the views of McGregor [13], Maslow [12], and Argyris [2], this theory uses a humanistic and self-actualizing model of humankind, wherein an individual views himself or herself as a 'steward whose behavior is ordered such that pro-organizational collectivistic behaviors have higher utility than individualistic, self-serving behaviors' [7]. From this viewpoint, the other regarding or selfless behavior exhibited by controlling family business owners is motivated by their collectivistic rationality that there is greater utility in cooperative behavior. Regardless of the reasoning underlying the other-regarding behavior in family firms, these views led to a belief that there was no need for a formal governance mechanism in such instances of aligned management and ownership, as it would be an unnecessary expense that would deter firm's financial performance. Scholars working in the context of family firms argue that while the agency costs caused by the separation of ownership and management may be reduced to some extent in family firms, other types of problems arise, revealing darker implications of altruism [10]. When dealing with members of one's own family, problems of 'myopic altruism' may arise, wherein controlling owners may experience a lack of self-control due to which they have difficulty restraining their impulse to gratify every need and wish of their family. In other instances, being boundedly rational, these owners may not be award of the behaviors that would lead to highest expected outcomes for their children. Ling argues that even when parents attempt to engage in self-control, their fundamental ideological beliefs and values will constrain and determine the governance choices made by them. All these underlying causes may lead to adverse selection or entrenchment in family firms, leading to placing family members in positions forwhich they are not best qualified [4]. Moreover, family members may engage in shirking or free-riding behaviors to the detriment of firm performance [10]. Steier has argued that variants of agency contracts among family members occur within a continuum of positivealtruistic and economically-oriented rationalities among family members. As both positive and negative aspects of altruism have received some empirical support, it is being suggested that family firm leaders engage in selfcontrol and adopt governance mechanisms that would aid in curbing the negative tendencies of altruism even when owners and managers belong to the same family [10]. This research stream has been successful in elaborating the boundary conditions of agency theory and extending its theoretical range. Although the major focus of this research has been on relationships between family members who are owners and family employees, Chrisman et al. [5] observe that it has opened rich avenues for scholarly examination of agency relationships among various internal and external stakeholder groups of family firms. Some of these relationships have received previous scholarly attention. For example, Morck et al. [17] and Morck and Yeung [16] have documented the potential agency costs to minority shareholders in firms that have an entrenched dominant shareholding, while Myers [18] focus on agency costs in owner-lender relationships. The literature on venture capital financing can be informative in further developing an understanding of this latter relationship.

Future research on this topic would benefit from taking into consideration the conceptualization of success prevailing in a family firm. For example, if maintenance of performance on family dimensions is important, it may be in the long-term strategic interest to keep members of one generation (even if they are underperformers) engaged in a business, with the hope of improving the training and fostering the interest of future generations in the business. In other words, some generations may primarily act as bridge – or connector – generations, maintaining family harmony and financial performance at par or subpar levels until more competent or prepared family members become available. Clearly, the time horizons under consideration in this instance are significantly longer than in cases discussed currently in agency theory. Perhaps systematic study of dynastic family firms may be informative in understanding how these firms have sustained through multiple generations with varying levels of alignment of skills, abilities, and interests of family members of different generations with tasks undertaken by the firm. As the field engages in this inquiry, it would be fruitful to examine the differences between explicit and psychological contracts among the different stakeholders [1], and take into consideration the role of the family's culture, beliefs, and value systems on the nature and effectiveness of contracts among different stakeholder groups in family firms.

Research Methodology:

This research is an applied and quantitative research. In order to estimating the factors that affecting firm performance in family base businesses, a questionnaire was used. The statistical sample size among the experts of the family base businesses was chosen and according to Cochran formula is calculated equal to 384. After collecting data, due to structural equation model of research, LISREL software was applied. Interview with experts are utilized for assessing the validity of questionnaire and Cronbach's alpha coefficient is applied to identify the reliability of questionnaire.

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Table 1: Reliability of Statistics for questionnaire

Cronbach's Alpha	N of Items
0.810	9

Result:

normality test:

In this research first of all, the Normality of data were examined, for do this, Kolmogorov-Smirnov test is applied. The result of test is illustrated in below table:

Table 2: Kolmogorov-Smirnov test

Variable	Kolmogorov-Smirnov Z
Firm performance	1.391
Perceived success	1.163
Family factor	1.107
Business factor	.628

According to the result, at the confidence level of 95%, the normality distribution of data is acceptable.

Structural equation model:

According to the research model, Structural Equation Model and LISREL software was applied to analyzing. Output of the software was illustrated in figure 1 and 2:

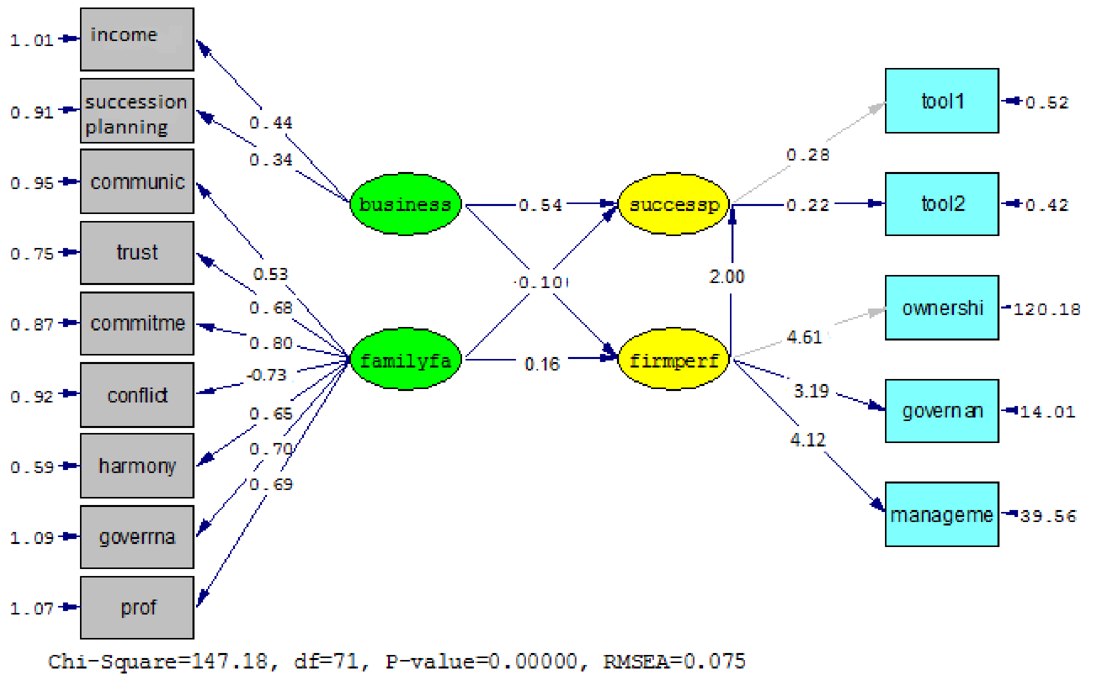

Fig. 1: standardized coefficients of model

Figures 1 show the structural equation modeling in estimation of standard coefficients. All variables of this model are converted into the latent and observed groups. The overt or observed variable (rectangular) is directly measured by researcher, while the latent or unobserved variable is not directly measured, but it is deduced based on the relationships or correlations between the measured variables. The latent variables indicate a series of theoretical structures such as the abstract concepts, which are not directly observable and are built and observed by other observed variables. The latent variables are classified into the endogenous or downstream variables and the exogenous or upstream variables. Each variable in the structural equation model can also be considered either as an endogenous or exogenous variable. The endogenous variable is influenced by other variables in the model. In contrast, the exogenous variable is never affected by other available variables in the model, but it affects the others.

In this diagram, the numbers or coefficients are classified into two categories. First, the measurement equations which indicate the relationship between the latent variables (oval) and observed variables; these equations are called the loading factors. Second, the structural equations which refer to the relationship between the latent and latent variables and they are utilized for hypothesis test. These coefficients are called the path coefficients.

Based on the loading factors, the index with the maximum loading factor has the higher contribution in measuring the relevant variable, but the index with smaller coefficient, has the lower contribution in measuring the relevant structure.

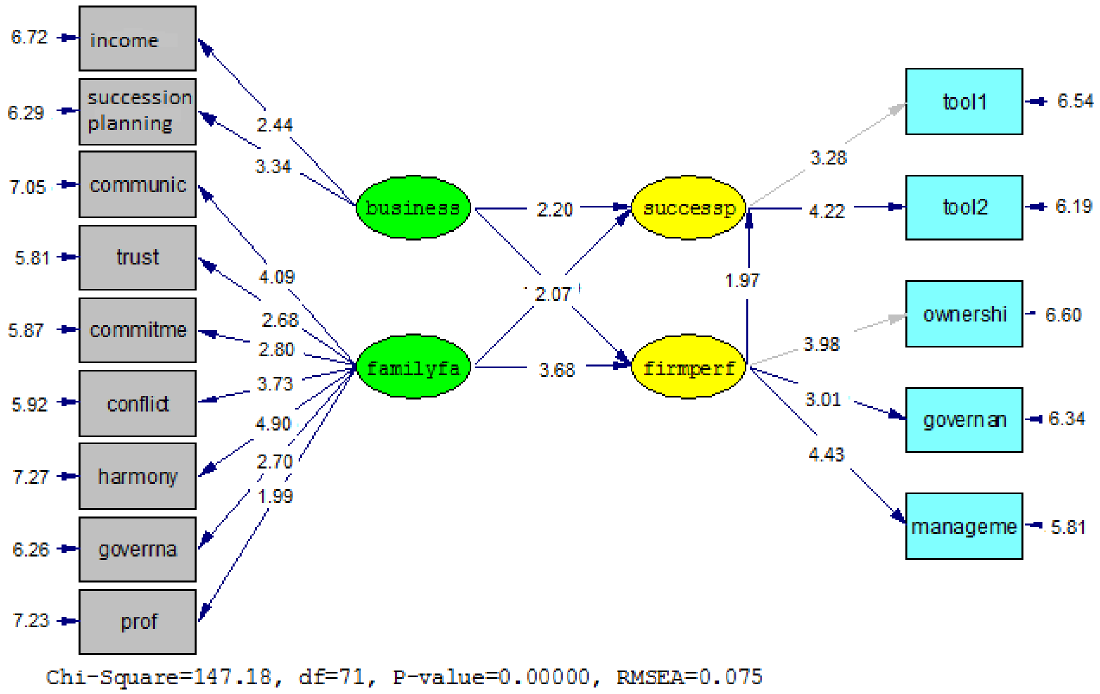

Fig. 2: t-test of the model

Figures 2 show the structural equation model of research at the significance level of coefficients (t-value). In fact, this model examines all measurement equations (loading factors) and structural equations through t statistic. According to this model, all path coefficients and loading factors are significant in standard mode at the confidence level of 95%. The calculated t-value for each loading factor per index with its latent structure or variable is over 1.96. Therefore, the questions of questionnaire have valid consistency for measuring the concepts at this stage. Therefore, we can invoke the relationship between the latent structures or variables. The fit indices should be studied in order to indicate to what extent these values are consistent with the existing reality in model.

Fitness indexes of the Model:

Table 3: Explanation of Structural equation modeling for India's data

index	Estimations of model	Allowable limit
(chi-square)/DF	2.072	Less than 3
GFI	0.90	More than 0.9
RMSEA	0.075	Less than 0.09
CFI	0.98	More than 0.9
NFI	0.93	More than 0.9
NNFI	0.97	More than 0.9
IFI	0.98	More than 0.9

In general, each obtained index in LISREL software does not merely show the certainty of model fit, and the value below 3 is acceptable for ratio of Chi-square to its degree of freedom. This value is obtained equal to 2.072 and 1.946 in model of this research. The GFI refers to a rate of relative amount of variances and covariance explained by model. This criterion ranges from zero to one and the more it converges to 1, the more the goodness of fit for model is increased with observed data. The reported GFI values for model is 0.92. The square root of mean square of residuals refers to the difference between the elements of observed matrix in sample group and the elements of predicted or estimated matrixes assuming the accuracy of model. The Normed fit index (NFI), the Non-normed fit index (NNFI), the incremental fit index (IFI), and Comparative Fit Index

(CFI) are utilized to investigate whether a particular model has good performance than other possible models in terms of explaining a set of observed data. The values above 0.9 for these indices indicate more appropriate fit for designed model than other possible models. Finally, the powerful index, namely, the root mean square error of approximation (RMSEA) is utilized to investigate how the target model combines the fit and saving. Index, RMSEA refers to the root mean square error of approximation. It is estimated equal to 0.075 and 0.065 for research model.

According to the characteristics of fit in model the above table, the data of this research has proper fit with factor structure and theoretical infrastructure of research and this indicates the consistency of questions with theoretical structures.

Analysis of research hypotheses:

Another type of relationship between the latent variables in structural equations modeling has the direct effect. The obtained results of the model are as follows:

- There is a significant relationship between business factors and firm performance at the 95% of confidence level.
- There is a significant relationship between family factors and firm performance at the 95% of confidence level.
- At the confidence level of 95%, there is a meaningful relationship between family factors and firm performance.
- At the confidence level of 95%, there is a meaningful relationship between business factors and firm performance.
- Firm performance has a direct and meaningful effect on Perceived success of family business at the level of 95%.

Conclusion and suggestion:

The present study was an exploratory one specifically dealing with the family business situation in India; Therefore, it is desirable to pursue further studies on a larger scale. As the prevailing roles of Indian women in the family and society are comparable to those of many other developing and underdeveloped countries, research in this direction could help international policymakers and organizations to design more coherent and internationally applicable policies towards women in the family business. The effort has produced a model that can form the basis for future research on this topic. As well, we believe that the model of impediments to perceived success provides useful insights toward a better appreciation of related topics. We hope this effort will stimulate further investigations along these and other lines.

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