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EFFECTS OF ORGANIZATIONAL STRUCTURES OF FAMILY BUSINESSES ON GROWTH STRATEGIES

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Abstract

This research is conducted among textile firms which are currently operating in İstanbul, Turkey for the understanding of effects of organizational structures of family businesses on growth strategies. In the research, assessable data is obtained from 217 managers. The data is obtained by survey method and the scales used in the research are the ones that were used in previous researches. Moreover, the scales are tested again in there because of the seek of validity and reliability. At the end of the research, the outcome of "Organizational structures of family businesses affect their growth strategies." is obtained. Beside this, it is found that "planning, taking decisions and lack of planning" factors related to organizational structures affects strategies related to existing markets and new markets which are under the growth strategies. And the findings say that the factors of barriers in delegation of authority, work experience of the manager, barriers in the decision-making process, and structural problems do not have effect upon growth strategies.

Keywords: Family businesses, organizational structure, growth strategies.

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1. Introduction

Family business can be described as the business managed by the same family at least for two generations. Family members have the right to speak on business policies with respect to their own interests, and manage the business with mutual interaction. Examples of the distinctions between family businesses and the other ordinary business is that the founder is the general manager or the CEO or in a position of similar nature of the company and recruitment of family members happens often. Founder executive board members are chosen from usually people come up through the ranks, in other words, people with practicing experience even if they do not have the necessary educational background. With this study, how organizational structures of family business affects the growth strategies at the times of family businesses with their ongoing importance and increasing strength and potential with the economies of scale is researched.

2. Literature Review and Hypothesis

2.1. Organizational Structure of Family Businesses

The broadest definition of family businesses is that: "The businesses which are owned by a family, managed by that family and the management is passed down, strategic decisions are taken by the family, and the management belongs to a family or the management is directly affected by the family" (Yolaç & Doğan, 2008, p. 85). Even if there is not a mutual evaluation on family businesses, it can be explained that the businesses that are founded by members of a family. Structural differences between family businesses, the type of founding of the businesses, characteristics of the entrepreneur of the family businesses, the cultural characteristics of the families and the markets the businesses operate in affect the structures of the family businesses (Çetin et al., 2010, p. 15) and determine their development processes.

It is crucial to build a partnership structure which must be the most efficient way and be in line with the family business's own future and past for family businesses. To build a partnership structure like mentioned above, it is important to make the necessary conversations clearly and to come to an agreement about the characteristics of the possible partners, the shares of possible partners, who will be in the management and in which role, and who will have a role other than the management and what will be his/her role (Kaba, 2007, pp. 12-13).

The reasons of the implementation of corporate governance principles are to ensure the quality of assessments of professionals who are in line with the interests of the company, and to sustain the contributions of these professionals to the company. With these professionals who direct the company strategies, family members who are not involved in management should have right to speak about corporate actions, profit distribution, delegation of authority, borrowing, common expenses and so on for effective management. In this way, the expectations like transparency and determining the rules of recruitment of family members are met and conflict of interests which could cause damage to the company may be avoided (TKYD, 2013, pp. 20-24).

There are two types of structures in organizations which are physical structure and social structure. Both construct the structure of the organization or the business. The physical structure contains physical assets like the building, machines, the site of establishment, the office location, and the relationships among these assets. The social structure contains social assets like employees, positions, divisions, and

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the relationships among these assets (Ülgen & Mirze, 2004, p. 343). Structural elements such as division of labor and specialization, scalar relationship, degree of centralization, line-staff relations, control area, the degree of formalization and separating into divisions are effective to determine the social structure of organizations (Ülgen & Mirze, 2004, p. 344; Timur, 2008, pp. 28-29).

2.2. Growth Strategies

The strategy is a plan which assist to achieve the objectives and identify the interaction with the environment (Pearce, John, & Robinson, 2015, p. 4). The strategy in a business, is a managerial practice which takes decisions about future actions of the business with respect to growth and profitability, manages the portfolio of works or the portfolio of products, keeps financial objectives, and thus directs all types of work in the business (Akdemir, 2016, p. 152).

Growth, which provides development technically and administratively, could be separated into two parts: qualitative and quantitative. Quantitative growth contains range of products and outputs, sales revenues, the number of sources, the number of employees, the amount of sales and so on, while qualitative growth expresses the development in the work quality. Growth strategies could be separated into two parts: internal growth (organic growth) and external growth. The strategy of internal growth is that the businesses seek new investments and expand their existed operations only with their own means. The strategy of external growth is the businesses keep growing with other domestic or foreign businesses. Mergers and acquisitions could be within the scope of the strategy of external growth (Akdemir, 2016, pp.152-155).

2.3. The Relation Between Organizational Structure and Growth Strategies

Nowadays, one of the most important factors of growth and development of family businesses is strategic planning (Çavuş, 2005, p. 155). Businesses prefer different types of organizational structures to reach their strategic goals (Miller, 1998, p. 350). According to Mintzberg, there are five different types of organizational structures. These are simple/entrepreneurial structure, machine bureaucracy, professional bureaucracy, divisionalized form and adhocracy/innovative organizations. In each type of structure, the type of determining the strategy and the role of top management which is effective to determine the strategy are different from others (Mintzberg, 2014; Daft, 2015, pp. 27-28).

Family businesses had to formulate corporate strategies about vision and mission of the business, determining objectives, goals, and values that the business should have, the relationships among the family members and employees, and organizational structure with the help of a professional team. With the formulation of effective strategies, the model of change management could be constructed and the transition from family-oriented management to corporate management could be done more easily (Alayoğlu, 2003; Çavuş, 2005, p. 160).

Strategic management is not a process bounded with the strategy formulation in different levels. A successful strategy implementation is as essential as the strategy formulation. One of the international consulting firm, McKinsey, identifies 7-S Model which contains seven factors that should be in harmony with each other to ensure the success of the organizations. These are strategy, system, style, shared values (culture), staff, skills, and organizational structure (Peter, 2011, p. 7).

When we look from the perspective of strategic management, families have sources and

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constraints. In that case, different types of business strategies should be formulated for different types of family businesses. The main objective of the different types of strategies is to guarantee development and continuity of the family businesses and most efficient usage of existed resources. Recent researches prove that there is a mutual link between strategy formulation in family businesses and the success of these businesses (Çavuş, 2005, p. 161).

The hypothesis and research model developed based on the literature findings stated above are explained below in Figure 01.

H1: Organizational structures in family businesses directly affects growth strategies.

Figure 01. Organizational Structure - Growth Strategies Introduction Model

3. Method

3.1. The Objective of The Research

The objective of this study is to search the effects of organizational structures of family businesses on growth strategies.

3.2. Sample and Data Collection

The population of the research consists of family businesses operating in textile industry and the branches of it such as ready wear, weave, and fabric, in İstanbul, Turkey. The data is collected from 217 people from 87 businesses with convenience sampling method. Survey method is also used in data collection.

With the reference of textile industry, a survey is prepared for the evaluation of organizational structures of family businesses and growth strategies and a random sample is constructed. Then the questions about the factors that affect their management strategies are asked to the sample with online participation and face-to-face meetings. Survey questions are prepared with respect to the findings of literature review (Gümüştekin, 2005; Acar, 2004) and transmitted to target group which is formed upon references. Survey participants are asked to answer and to submit their answers online or written in two days. Out of 87 businesses, the participation rate is 90%. Survey results are classified with respect to their scope and content. Findings are associated with rational results.

3.3. Analysis

SPSS (Statistical Package for Social Sciences) for Windows 22.0 is used for explanatory factor analysis and regression modelling of findings of the research. Statistical evaluation is made upon numbers, percentages, mean and standard deviation. The findings are evaluated at 95% confidence interval and 5% significance level.

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3.4. Scales of the Research

The information about growth strategies and organizational structure scales that is used in the research is given.

3.4.1. Growth Strategies Scale

Growth strategies scale is taken from an M.A. thesis by Acar (2004) called "The Link Between Organizational Skills of Businesses Which Follows Growth Strategies and The Performance of The Business". The scale consists of 12 questions under two factors. To check the reliability of 12 questions in growth strategies scale, the internal consistency coefficient, "Cronbach Alpha", is calculated. The scale's general reliability is calculated as alpha=0.923, which is too high. To show the construct validity of the scale, explanatory factor analysis is used. As a result of Barlett Test, (p=0.000<0.05) a relation among variables in the factor analysis is found. As a result of the test, (KMO=0.924>0,60) sample size is suitable to use the factor analysis. In factor analysis, varimax method is chosen to keep the structure of the relation among the factors. At the end of the factor analysis, variables are gathered under two factors which have the total variance of 63.765%. It is found that growth strategies scale is valid and reliable tool with respect to alpha related to reliability and variance value. The factor structure of the scale could be seen below. In evaluation of factor analysis of growth strategies scale, factors with eigenvalues that are bigger than one, factor loads which show the weight of variables in the factor to be high, the difference between factor loads for the same variable to be high are underlined. Factor scores of the scale is calculated by arithmetic mean, in other words, the elements of the factor are summed up and divided by the number of elements. Factor structure of growth strategies scale is shown below in Table 01.

Table 01. Factor Structure of Growth Strategies Scale

Dimension	Questions	Factor Loads	Variance	Cronbach's Alpha
Strategies related to existing markets (Eigenvalue=6.524)	8. To capture the market share with high profit	0,811	33,125	0,863
	9. To capture a bigger market share	0,760		
	12. To assess new business and market opportunities	0,742		
	10. To pioneer in technology with R&D operations and to capture promising markets	0,729		
	11. To answer the needs of customers in different markets	0,695		
	6. To reduce the production costs to sustain the competitive power	0,513		
Strategies related to new markets (Eigenvalue=1.128)	3. To improve the skills of product design technology and process of production	0,848	30,640	0,893
	1. Innovations and frequency of products/services offered in market	0,836		
	2. To be the first in introducing new brands and products	0,782		
	5. To improve and enhance continuously the existed products/services in the market	0,662		
	4. Existence of high quality products of the business in the market	0,637		
	7. To have active sales and distribution channels	0,528		
Total Variance 63.765%				

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3.4.2. Organizational Structure Scale

Organizational structure scale is taken from the study by Gümüştekin (2005) which is called "Managerial and Organizational Problems of SME-like Family Businesses: The Example of Kütahya Ceramics Industry". Organizational structure scale consists of 38 questions under 7 factors. The analysis of reliability and validity are applied for organizational structure scale. As a result of reliability and factor analysis, 12 questions which are inconsistent or have the same factor loads are removed. To check the reliability of 26 questions in organizational structure scale, the internal consistency coefficient, "Cronbach Alpha", is calculated. The scale's general reliability is calculated as alpha=0.869, which is too high. To show the construct validity of the scale, explanatory factor analysis is used. As a result of Barlett Test (p=0.000<0.05) a relation among variables in the factor analysis is found. Factor structure of organizational structure scale is shown below in Table 02.

Table 02. Factor Structure of Organizational Structure Scale

Dimension	Questions	Factor Loads	Variance	Cronbach's Alpha
Barriers in delegation of authority (Eigenvalue=6.627)	3. To not have a concept of professional management	0,830	19,609	0,899
	5. Lack of confidence to subordinates	0,812		
	4. The uncertainty of job descriptions	0,802		
	7. The wish of consumers to work with the founder manager	0,742		
	1. Inadequate professional knowledge and inexperience of subordinates	0,691		
	6. Fewer subordinates	0,676		
	8. The concern of not doing auditing process properly	0,650		
	2. Time pressure on decision making	0,629		
Planning (Eigenvalue=4.293)	2. Financial planning is made in business	0,878	12,246	0,881
	3. Production planning is made in business	0,840		
	1. Planning is made in all jobs	0,839		
	4. Marketing planning is made in business	0,787		
Decision making (Eigenvalue=1.849)	5. Opinions of family members are taken	0,738	9,393	0,749
	6. Behaviors of rivals are tracked	0,708		
	2. Experiences help to find the right way	0,694		
	1. The top management makes decisions	0,593		
Reasons of lack of planning (Eigenvalue=1.607)	4. Inappropriate structure of the business	0,793	7,463	0,739
	5. The sense of wasting time	0,621		
	1. Existed conditions	0,585		
Work experience of the manager (Eigenvalue=1.244)	4. Same sector, different business	0,741	7,037	0,586
	2. First experience in another sector	0,702		
	3. Common experiences are valuable	0,690		
Barriers in decision making (Eigenvalue=1.116)	4. Leads to miss the opportunities	0,792	6,633	0,752
	3. The biggest barrier is lack of knowledge	0,741		
Structural problems (Eigenvalue=0.983)	1. The uncertainty of authorization and duties	0,768	5,766	0,650
	2. Lack of division of labor and specialization	0,696		
Total Variance 68.147%				

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4. Findings

4.1 The Effects of Organizational Structure on Growth Strategies

Regression analysis which is done for the seek of cause and effect relationship between "barriers in delegation of authority, planning, decision making, reasons of lack of planning, work experience of the manager, barriers in decision making and structural problems" regarding to organizational structure of family businesses and strategies related to existing markets which is a factor of growth strategies is found statistically significant (F=13,082; p=0,000<0.05). The explanatory power of the model (R^2=0,281) is high. In this regression model (Model A), strategies related to existing markets level is affected positively by planning (ß=0,303) and decision making (ß=0,238) levels, negatively by reasons of lack of planning (ß=-0,118) (p<0,005). Barriers in delegation of authority, work experience of the manager, barriers in decision making and structural problems regarding to organizational structure affects strategies related to existing markets level (p>0.05).

Regression analysis which is done for the seek of cause and effect relationship between "barriers in delegation of authority, planning, decision making, reasons of lack of planning, work experience of the manager, barriers in decision making and structural problems" regarding to organizational structure of family businesses and strategies related to new markets which is a factor of growth strategies is found statistically significant (F=14,397; p=0,000<0.05). The explanatory power of the model (R^2=0,303) is high. In this regression model (Model B), strategies related to existing markets level is affected positively by planning (ß=0,372) and decision making (ß=0,172) levels, negatively by reasons of lack of planning (ß=-0,142) (p<0,005). Barriers in delegation of authority, work experience of the manager, barriers in decision making and structural problems regarding to organizational structure affects strategies related to existing markets level (p>0.05). Effects of organizational structures on growth strategies are shown below in Table 03.

Table 03. Effects of Organizational Structures on Growth Strategies

Reg. Model	Independent Variable	Dependent Variable	ß	t	p	F	Model (p)	R^2
A	Constant	**Strategies related to existing markets**	2,146	7,643	0,000	13,082	**0,000**	**0,281**
	Barriers in delegation of authority		0,084	1,465	0,144			
	Planning		**0,303**	5,028	**0,000**			
	Decision making		**0,238**	4,068	**0,000**			
	Reasons of lack of planning		**-0,118**	-2,437	**0,016**			
	Work experience of the manager		0,000	-0,001	0,999			
	Barriers in decision making		-0,077	-1,524	0,129			
	Structural problems		0,063	1,412	0,159			
B	Constant	**Strategies related to new markets**	2,167	7,763	0,000	14,397	**0,000**	**0,303**
	Barriers in delegation of authority		0,088	1,549	0,123			
	Planning		**0,372**	6,199	**0,000**			

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	Decision making		**0,172**	2,957	**0,003**			
	Reasons of lack of planning		**-0,142**	-2,947	**0,004**			
	Work experience of the manager		-0,006	-0,149	0,882			
	Barriers in decision making		-0,069	-1,356	0,177			
	Structural problems		0,068	1,528	0,128			
C	Constant	**General Growth Strategies**	3,180	12,617	0,000	17,487	**0,000**	**0,071**
	General organizational structure		**0,305**	4,182	**0,000**			

Regression analysis (Model C) which is done for the seek of cause and effect relationship between organizational structure of family businesses and general growth strategies is found statistically significant (F=17,487; p=0,000<0.05). The explanatory power of the model (R^2=0,071) is low. General organizational structure level of family businesses increases general growth strategies level (ß=0,305).

According to these results, the hypothesis of "Organizational structures of family businesses affects growth strategies." is accepted. Result model is given below in Figure 02.

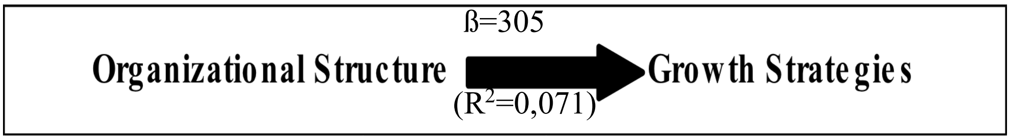

Figure 02. Organizational Structure - Growth Strategies Result Model

5. Results and Discussion

At the end of the research, the result that organizational structure of family businesses have an impact on their growth strategies. Besides this, it is seen that the factors of planning, decision making and reasons of lack of planning related to organizational structure affect strategies related to existing markets and strategies related to new markets under growth strategies. On the other hand, it is found that barriers in delegation of authority, work experience of the manager, barriers in decision making and structural problems regarding to organizational structure do not have an impact on growth strategies.

Demir and Sezgin (2014) stated that “the most important and most obvious power of family businesses are the tendency to growth and quick decision making” (p. 710), while Kaba (2007) stated that “top managements of family businesses think that decision making meetings which are necessary for professional life are factors that slow down their processes” (pp. 20-23). Demir and Sezgin (2014) expressed that “shared common past, values, mutual trust, and effective communication help decision making and implementation to be quick” (p. 211), while Ateş (2013), expressed that “it is essential to strengthen corporate structure in family businesses and to construct an effective executive board for acceleration of decision making processes” (p. 9).

This result shows that if a family business wishes to grow, it should build its organizational structure effectively. It had to remove lack of planning, had to give importance to strategic planning with respect to its vision and mission, and had to build effective decision-making mechanisms with professional management teams. Moreover, in the process of adaptation to changing trading dynamics and orientation to new markets, founding members of family businesses should not avoid delegating their authority, and should recruit managers who have higher education in strategic planning, broad vision, corporate culture, brand awareness and independent from variables such as age, gender, and marital status.

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