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The Family Business in Collectivist Societies: Traits and Implications

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Traits and Implications

The way a family business functions is greatly influenced by the structure of the society it originates from. A wide range of literature has recently attempted to emphasise that it is, therefore, not possible to create global family business theories without taking into consideration the remarkable differences that cultural and traditional context can make. Our attention is drawn to the role that collectivism plays in influencing family culture and the way in which it manifests in entrepreneurial activity throughout family generations. Collectivist societies and the family culture experienced by its individuals can have an important influence on the family business and the entrepreneurship it fosters. The term “collectivist society” describes how individuals often behave while following imposed sets of social patterns. On a smaller scale the same paradigm applies to family businesses where the family and the business life cycles complete each other. Hamza El Fasiki, Head of Research and Studies at the Moroccan Center for Innovation and Social Entrepreneurship, describes the impact of the collectivist society on the family business paradigm and explores how organisational and family culture become one, and the power hierarchy that ensures.

On Collectivist Societies

Culture is a significant determinant in how the interaction between individuals and groups is regulated. We here define the term “collectivist society” as a society in which individuals are part of a group, which often controls them through imposed social rules and patterns. Collectivist societies are naturally based on extended families. In turn, family culture produces collective

knowledge whereby certain aspects of cultural knowledge and experiences become true for everyone in the family. For example, a family may observe certain holidays every year and follow traditions that have been established for many generations, and while these habits come naturally to each individual family member they are originally inherent to their society. Collectivism is defined by an emphasis on in-group needs; on collective social behaviours; on common beliefs; and on group collaboration. Examples of collectivist societies include North African, Middle Eastern, and Far Asiatic cultures. These cultures, however, are heterogeneous in their generational consideration and ethnic/national formations. This makes each culture unique.

The Family Business in the Collectivist Society

The intentions behind establishing a family business often stem from the desire to maintain the social and psychological norms of the family and to sustain them through cultural traditions and stability in business activities. Succession has a direct influence on maintaining the business and entrepreneurial activity in the family business. Successful transgenerational processes indicate that family members are able to continuously endorse both ownership and management of the family business¹.

In order to examine the influence of collectivism on family firms, we first need to examine the multifaceted communication that influences the way obligations through family values shape the business culture. The family business concept can be narrowly defined as the willingness to transmit the business ownership to the next generation through procedures that the owners set up². To understand the application of this willingness, research has focused on the role of the extended family and its impact on shaping the concept of family firms³. To a great extent,

¹ Carsrud, A. & Brännback, M., (2012), *Understanding Family Businesses: Undiscovered Approaches, Unique Perspectives, and Neglected Topics*, New York: Springer.

² Churchill, N.C. & Hatten, K. J., (1987), "Non-Market-Based Transfers of Wealth and Power: A Research Framework for Family Business", *American Journal of Small Business*, vol. 11, n° 3

³ Colette, H., et al, (2003), *Entrepreneurship Education and Training*, Burlington: Ashgate.

this can be explained by the transgenerational entrepreneurship theory. According to this theory, the process of ownership and how it is transferred from one generation to the next is greatly determined by the extent in which the extended family has a role to play. In transgenerational entrepreneurship, the family and the business life cycles intersect at different levels⁴. The intersections between these two separate orbs can be traced in three stages:

- ①. **The Entrepreneurial Stage** where the founder starts up the business and grows the family at the same time
- ②. **The Running Stage** where the founder transmits the family business values to the next generation so as to assure a successful succession.
- ③. **The Testing Stage** where the founder examines the extent to which the transition of values from family members to employees has been completed.

These stages can influence extended families in different ways: They can both generate an appropriate atmosphere for succession and generate collective understanding among the family members.

From Family to Organisational Culture

Organisational culture is often built within firms for different reasons among which effective communication and deeply rooted trust can be mentioned. In collectivist societies, the family culture can dominate over both the arbitrarily assembled personal culture and the systematically built organisational culture. In fact, the organisational culture is often entirely based on or can be replaced by the family culture. Since this is collectively accepted, family culture can become the sole organisational guideline for all involved in the business. As such, family culture can equal organisational culture in terms of its leading role to share values between family generations. In most collectivist societies, the family and the organisation can operate smoothly together due to their respective natures; yet, even in a

⁴ Paisner, M. B., (1999), *Sustaining The Family Business*. New York: Perseus Books.

group-dominated culture it should not be underestimated that each family member is also subject to a culture of his or her own and that generally the family firm should invest enough time in understanding the individual. Of course, if a family firm is regulated by its family culture, it has to be careful of its external stakeholders; partners, suppliers, and others.

The Aftermath of Succession in Family Businesses of Collectivist Societies

Studies have argued that managers and owners of family firms in collective societies are aware of their different types of behaviour and that even employees, family members, recognise that they are controlled by the family culture and that their lives and future careers are subject to it⁵. The family business in a collectivist society experiences different types of internal managerial control patterns which originate from family life; e.g.: the parent-child relationship. Applying this to the family business suggests that the power hierarchy between managers and their subordinates varies from culture to culture. In countries, with hierarchical traits such as that of Middle Eastern cultures, family enterprises tend to centralise power on the founder or principal owner. Accordingly, family and non-family employees are supposed to accept this power distribution and mostly try to maintain what their superior commands. This notion of hierarchy, explains that even when the family business is properly managed by successors, in collectivist societies the founder often holds on to authority. This may be explained, as indicated in several studies, that collectivist societies tend to respect a steep hierarchy⁶ defining “the extent to which less powerful members of institutions and organisations within a country expect and accept that power is distributed unequally”⁷. As a result, the

⁵ McCollom, M., et al, (1997), *Generation to Generation: Life Cycles of the Family Business*, Harvard Business School Press.

⁶ Goodall, S., et al, (2010), *Business and Professional Communication in the Global Workplace*, London: Wadsworth.

⁷ Hofstede, G., (1991), *Cultures and Organizations: Software of the Mind, Intercultural Cooperation and its Importance for Survival*, London: McGraw Hill. p.28

inequality between the founder and the rest of the family business members - employees, is based on a conventional hierarchy that comes from the family structure and its society at large. When this distance is high, subordinates learn how to fear and internalise their disagreement with their superiors; that is to say the founder⁸.

Conclusion

This article draws our attention to the role played by collectivism in influencing family culture and the way in which it manifests in entrepreneurial activity. Many are the intentions behind launching a family business, which are based on the fusion between the desire to preserve family norms and the drive to create wealth through the family business. We attempt to represent the extent to which the family business in collectivist societies generates an inheritance from one generation to another. The term “collectivist society” describes how individuals often behave while following imposed sets of social patterns. This paradigm also applies to family businesses where the family life cycles and the business life cycles complete each other. As shown, family culture can lead to a novel organisational culture especially when the cultural context enforces it. We suggest that for many collectivist cultures, the family and the organisation can function efficiently while acquiring a better understanding of their internal members’ culture. The consequence of this, however, also manifests itself in a time old problem for the family business: Even when the family business is transferred successfully by its heirs, the founding entrepreneurs still tends to hold on to their authority. It is to be desired that in collectivist societies where family and organisational culture are more likely to become one, the individual’s culture is not underestimated and that power hierarchy flattens over time, allowing each family generation to make its own contribution to the family business legacy.

⁸ *Ibid*