Organizational Behavior and Management in Family Businesses

Edited by

Omer Yazici

Organizational Behavior and Management in Family Businesses

Organizational Behavior and Management in Family Businesses

Edited by

Omer Yazici

Cambridge Scholars Publishing

Organizational Behavior and Management in Family Businesses

Edited by Omer Yazici

This book first published 2022

Cambridge Scholars Publishing

Lady Stephenson Library, Newcastle upon Tyne, NE6 2PA, UK

British Library Cataloguing in Publication Data
A catalogue record for this book is available from the British Library

ISBN (10): 1-5275-8004-0
ISBN (13): 978-1-5275-8004-6

TABLE OF CONTENTS

Foreword vii

Chapter 1 1
Socially Responsible Human Resource Management Practices
in Family Firms
Abdulkadir Altınsoy & Mert Öner

Chapter 2 17
Institutionalization in Family Businesses: A Model Proposal
Erhan Polat

Chapter 3 36
Institutionalization of Family Businesses and Corporate Entrepreneurship
Kerem Kaptangil

Chapter 4 51
Attitudes Against Institutionalization in Family Businesses
and the Perspectives of the New Generation
Nuran Varişli

Chapter 5 63
Professionalization Problems in Family Businesses
Mursel Guler & Isik Altunal

Chapter 6 79
The Importance of the Family Constitution in the Institutionalization
of Family Businesses
Gülbeniz Akduman & Zeynep Hatipoğlu

Chapter 7 110
Culture of Change in the Institutionalization of Family Firms
Münevver Bayar

Chapter 8 123
The Role of the Financial Management Department in Family Businesses
Meziyet Sema Erdem

Chapter 9 142
External Financing Solutions for Family Firms
Hüseyin Öcal

Chapter 10 159
Social Media Management in Family Businesses
Osman Özdemir & Kadir Özdemir

Chapter 11 175
Family Businesses from Marketing Perspectives
Ismail Simsir & Ilhan Sag

Chapter 12 192
Innovation Management Strategies in Family Firms
Özgür Çark

Chapter 13 209
Talent Management Strategıes in Famıly Fırms
Ahmet Kaya

Chapter 14 226
Women's Entrepreneurship as Corporate Culture in Turkish Family
Businesses and its Development Process in Turkey
Ahmet Turan Öztürk

FOREWORD

Family firms are considered as inferior in some cases and superior in other cases. Hence, exploring, analyzing, and publishing about these firms are necessary for literature and academia. Following the same logic, there are books and articles about these firms that are showing good and bad ways of family firms. Hence this proposed book is valuable and supportive for the literature and academia. Bringing scholars who have published in multiple research areas to write about family firms is the value of this proposed book.

Another value of this book is being a collection of essays that emphasizes multiple management functions from an academic perspective. Furthermore, this book is prepared to explore the family business-related management and organizational behavior topics from the perspectives of Turkish Scholars. The content of the book will provide a comprehensive analysis of the management functions that are applied in family businesses. Important topics such as talent management, financial management, marketing management, innovation, professional management, change management, and leadership will be explored.

Readers of this book will have thorough details of each managerial problems that are specific to family firms. Each chapter will take the reader to next level of understanding how family firms operate. Furthermore, in addition to understanding how family firm owners run the business, readers also will realize how the employees of family firms face different organizational behavior issues.

Family firms constitute more than 80% of the businesses and employ 60% of the workforce worldwide. This book presents valuable insights about how these firms operate and how their employees feel. Starting from management philosophy, this book covers topics like institutionalization, financial management, talent management, social media management, HR management and commitment.

Studies shows that family firms have strong familial ties therefore should have strong commitment and strong human resources, but on the other hand, due to these ties, family firms lack of fair and just human resource policies, resulting dissatisfied workforce. There are chapters dedicated to HR and commitment issues in this book. Furthermore, family integration is a source of competitive advantage and one of the advantages of this integration is strong financial support. Family firms are hesitant to take risky decisions and bear lower financial debts than nonfamily firms. Chapters dedicated to finance of family firms of this book explores the financial management practices of family firms.

Family firms rarely live up to third generation due to lack of professional management practices. Professionalization and institutionalization are important transformations that family firms have to take in order to survive more than third generation. Hence importance of this topic is explored in multiple chapters of this book. Readers will find barriers on the path of professional management practices in these chapters.

In summary, family firms have strengths that make them competitive and strong compared to nonfamily firms. But there are some weaknesses come with family integration as well. Readers will find multiple perspectives of positive and negative aspects of being a family firm in between pages of this book. Suggestions for family firms to live longer, manage better and be better are placed among the chapters of this book. Happy readings.

Family firms constitute more than 80% of the businesses and employ 60% of the workforce worldwide. Nevertheless, there is a limited number of researchers and research focused on how competitive and how problematic these firms are. Family firms are considered as inferior in some cases and superior in other cases. These organizations rarely live up to third-generation due to a lack of professional management practices. Therefore, books, such as this one, helps academics and practitioners to discover good and bad ways of family firms. This results in increased efficiency and performance along with increased academic rigor. Bringing scholars who have published in multiple research areas to write about family firms is the key value of this book. The chapters in this book are selected to answer the needs of both practitioners and researchers. The content of the book provides a comprehensive analysis of the management functions that are applied in family businesses. Important topics such as talent management, financial management, marketing management, innovation, professional management, change management, and leadership are explored in the chapters. Each chapter will take the reader to next level of understanding how family firms operate. Furthermore, in addition to understanding how family firm owners run the business, readers also will realize how the employees of family firms face different organizational behavior issues.

Studies shows that family firms have strong familial ties, therefore, should have strong commitment and strong human resources, but on the other hand, due to these ties, family firms lack fair and just human resource policies, resulting in a dissatisfied workforce. There are chapters dedicated to HR issues in this book. Furthermore, family integration is a source of competitive advantage and one of the advantages of this integration is strong financial support. Family firms are hesitant to take risky decisions and bear lower financial debts than nonfamily firms. Chapters dedicated to finance of family firms of this book explores the financial management practices of family firms. Third generation family firms are uncommon because of a lack of professional management practices. Professionalization and institutionalization are important transformations that family firms must take to survive more than the third generation. Hence the importance of this topic is explored in multiple chapters of this book. Chapters about institutionalization and professional management practices provide new approaches to state-of-the-art problems of family firms. Readers will find barriers on the path of professional management practices in these chapters.

The chapters that discuss the formalization of the family firms include change management and family constitution. Change management and family constitution are two main processes that must be managed to survive multiple generations. Readers will find details about how and why these are important and what are the key points to survive in these processes. Some important and sensitive managerial functions are also represented in the book. Financial management, marketing management, innovation management, and HR management are these management functions. Family firms are strong with financial support that is received from the family itself. On the other hand, there are cases where family members can't apply the financial restrictions and cause unstable finances. Readers will find what to pay attention to in financing and where to find appropriate financing. Mostly it is a small business problem, but marketing is also a big family firm's problem as well. The marketing management chapter explores the specifics of family firm marketing. Family firms are notorious for HR problems and not being able to keep talented employees in the firm. Chapters exploring HR and talent management will provide details about how and why these firms are facing such problems. The chapter focused on socially responsible HR management could show a good way to clear the name of family businesses.

Chapter about women in family firms explore the ups and downs of being a woman in family firms. Being a daughter, wife, or daughter-in-law in a family firm has its merits as well as its disadvantages. Readers will find what it means to be a woman entrepreneur in family firms. Family firms have strengths that make them competitive and strong compared to nonfamily firms. But there are some weaknesses that come with family integration as well. There are multiple perspectives of positive and negative aspects of being a family firm in between pages of this book. Suggestions for family firms to live longer, manage better and be better are placed among the chapters of this book.

Another value of this book is being a collection of essays that emphasizes multiple management functions from an academic perspective. Furthermore, this book is prepared to explore the family business-related management and organizational behavior topics from the perspectives of Turkish Scholars. The perspective of Turkish scholars will reflect the view and understanding of academics from developing countries. Developing country perspective gives a second evaluation of the theories and findings in the family business literature. Theoretical and empirical studies in this chapter would reflect an initially set global perspective along with the developing country perspective. The content of the book will provide a comprehensive analysis of the management functions that are applied in family businesses. Hence this book will be beneficial to any family business manager or owner. Students and scholars of business management in general and family business management in specific, would benefit from this book the most. Not just this book proposes a comprehensive analysis of the managerial issues in family businesses, it also provides state-of-the-art literature and findings on these issues. Therefore, scholars and students will benefit from it at any point of study or research.

In summary, family firms have strengths that make them competitive and strong compared to nonfamily firms. But there are some weaknesses that come with family integration as well. Readers will find multiple perspectives of positive and negative aspects of being a family firm in between pages of this book. Suggestions for family firms to live longer, manage better and be better are among the pages of the book.

Omer Yazici, Ph.D.

CHAPTER 1

SOCIALLY RESPONSIBLE HUMAN RESOURCE MANAGEMENT PRACTICES IN FAMILY FIRMS

ABDULKADIR ALTINSOY & MERT ÖNER

Introduction

Social responsibility awareness is one of the practical tools in ensuring and sharing the welfare of society, and contributes to developing policies on fundamental human rights and environmental awareness beyond the law. Businesses have taken responsibility for economic, legal, ethical and volunteering issues by social responsibility awareness. Fenwick and Bierema (2008) defined the social responsibility concept as being "[It is] a complex process of promoting the ethical workplace; respecting human rights, dignity and values; balancing human and economic concerns; harmonizing the benefit of the organization and society; and managing tensions between work-life balance and individual rights".

Besides that, human resource management (HRM) ensures the most effective use of human resources following legal issues taking into account the benefit of the environment and society. Human resource management contributes to implementing effective corporate social responsibility policies by fulfilling its responsibilities towards the employees as the firms' stakeholders (Cooke & Baxter, 2010; Mees & Bonham, 2004). At the same time, HR plays a vital role via recruitment and training functions that directly support corporate social responsibility values in CSR policy development and implementation of CSR practices (Weaver, 2004).

The meaning of HRM described above overlaps with the fundamental functions of social responsibility. Garavan and McGuire (2010) examined socially responsible human resource management within the scope of sustainability, ethical behavior and social responsibility. Shen and Zhu (2011) grouped socially responsible human resources management in three dimensions: legal compliance HRM policies, employee-oriented HRM policies, and general CSR facilitation HRM policies. In this context, socially responsible human resources management is at the center of corporate social responsibility practices. Carroll (1991) stated that corporate social responsibility contributes to outcomes of positive organizational employee behavior. Shen and Zhu (2011) stated that corporate social responsibility practices positively affect the attitudes, behaviors, and performance of employees.

This study is important in terms of determining the critical success factors of the socially responsible human resource management system (SRHRM). Determining the critical success factors of the SRHRM system shows that the practices of SRHRM are important to implement for family businesses. From this point, the research question is; what are the critical success factors to implement SRHRM by expert opinion? Depending on this research question, this study has three objectives:

(i). To present critical success factors of SRHRM categorized by Shen and Zhu (2011)

(ii). To conduct a research to determine critical success factors of SRHRM from Turkish family businesses manager's perspective

In this paper, a decision-making trial and evaluation laboratory (DEMATEL) method is adapted to construct a network structure of interdependent factors of SRHRM. This paper is organized as; Section 2 reviews the literature on socially responsible human resource management. Section 3 presents the DEMATEL method. The findings of this study are presented in section 4. Section 5 presents conclusion.

Socially Responsible Human Resource Management

The idea of SRHRM takes its roots from corporate social responsibility and human resources management theories. The role of businesses in social, environmental, and financial problems in recent decades has been shown in the literature, and to prevent these problems corporate social responsibility has received attention from scholars and managers (Bergamaschi & Randerson, 2016: 54). On the one hand, businesses have an economic role in society; and on the other hand, they have responsibilities for developing social issues and human rights for internal and external stakeholders who are affected by operational activities.

Corporate social responsibility is generally defined as “the responsibilities integrated in the company embracing legal, ethic, economic and philanthropic expectations that the society expects from organizations” (Carrol, 1979: 499). To meet these expectations, businesses must sustain their operation economically, comply with legal issues, and behave ethically to society

(Lopez-Gonzalez et al., 2019: 1045). Businesses need to internalize CSR policies in their organizational strategy to perform social organizational outcomes. To develop and enact CSR policies and develop CSR understanding for employees, HRM plays a vital role in businesses (Voegtlin & Greenwood, 2016: 181). HRM utilizes employees as strategic stakeholders and the voice of the company to implement CSR policies and be a social and ethical firm.

While CSR and HRM studies have gained attention for large organizations, family businesses have also faced social, environmental and economic problems and felt a lack of financial and human resources to be socially responsible firms. Despite this, family businesses have unique features such as relationships with employees and society to implement CSR practices (Uhlaner et al., 2004: 187), unpredictable of the external conditions and intricacy of the internal environment for HRM practices (Flamini et al., 2020). Employees are the most strategic stakeholders and they significantly impact an organization's CSR performance (Inyang et. al., 2011; 119). Family businesses don't have enough talented family members to perform successfully at any time; which is why they always need qualified non-family employees. It is therefore crucial to find and retain talented non-family employees in family businesses (Chrisman et al., 2003: 470). While non-family employees have a lower perception of job satisfaction than others, this causes employees to have the intention to quit (Block et al., 2015: 189). Family businesses must realize that what employees have qualifies and what employees' require from the organization, because employees as stakeholders have a crucial role in SRHRM practices.

HRM practices enhance employee behaviors and attitudes for coherent superior employee performance and organizational performance. To make these performances socially responsible, HRM generally focuses on complying with laws for employees and CSR concerns in the broader range of HRM matters and beyond legal issues. Shen and Zhu (2011: 3022) defined socially responsible human resource management as "HRM practices that serve the execution of social responsibility practices of the organization". In line with this definition, Castejon and Lopez (2016: 25) stated that due to a lack of economic and communication resources, family businesses must emphasize SRHRM policies and practices in human resources.

Shen and Zhu (2011: 3022) categorized three major components of the SRHRM system. These are; "legal compliance HRM", "employee-oriented HRM", and "general CSR facilitation HRM".

Legal Compliance HRM Policies

Legal compliance HRM policies in SRHM involve local laws and international labor standards such as equality, health and safety regulations, working hours, wages and non-forced labor, etc. (Shen, 2011: 1654). Legal compliance HRM requires the abidance of local labor laws to meet the international standards set by the ILO (Shen & Zhu, 2011: 3022).

-Equality on HR Practices

CSR is a strategic tool to implement HRM activities effectively, and also, there is a mutual influence relationship between the two concepts (Voegtlin & Greenwood, 2016: 187). While HRM promotes CSR values in the organization, CSR helps HRM to implement HRM practices such as recruitment and selection, appraisal and motivation, the compensation and reward system, and training and development. Businesses that behave equally on recruitment and selection procedures, have employees with higher morale, engagement perception and productivity (Inyang et al., 2011: 123).

-Health And Safety Regulations

Occupational health and safety regulations, covering the social, mental and physical well-being of employees, are set by national legislation and international standards. Meanwhile, the well-being of employees is also a topic of corporate social responsibility practices. Montero et al. (2009: 1441) stated that occupational health and safety rules designed by a firm's CSR procedures are required more than regulations set by national law. While health and safety regulations focus on legislation and penalties, CSR elevates health and safety issues beyond the legal requirements (Hasle & Grenerud, 2011: 110).

-Fair Wages

In general, different wage policies are applied to family members in family businesses, and these wages are perceived as unfair by other employees (Samara & Arenas, 2017). Employees who receive an organizational message about fair wages in a company, have high performance at work.

-Compliance With Legal Issues

Socially responsible human resource management is interested in an organization's HRM practices which comply with national law regulations. Family businesses obey the working conditions set by the national constitution. Businesses must implement HR practices and comply with legal issues, such as working hours, minimum wages, union rights, etc. (Shen & Zhu, 2011: 3022). Besides this, corporate social responsibility initiatives and legal issues have a mutual relationship. CSR policies and practices may assist a government in fulfilling welfare state goals (Buhmann, 2006: 189).

Employee-oriented HRM Policies

SRHRM needs to go beyond legal compliances to retain socially responsible employees in the organization. Businesses' employee-oriented HRM policies involve union recognition, profit distribution, employee involvement, work and family balance, health and safety programs, etc. Employee-oriented HRM practices have been developed with work design applications by organizations (Shen, 2011: 1354). Employee-oriented HRM policies provide employees with organizational support and justice (Shen & Zhu, 2011: 3022).

-Work-Life Balance

Businesses must review employees' expectations of their work and life spheres respectively. Nowadays, employees spend more time at work and they also have family responsibilities. Corporate social responsibility practices allow firms to realize the demands of human resources for family responsibilities (Alvarez-Perez et al., 2020: 2779).

-Employee Involvement

A business needs employees' thoughts about CSR to achieve a successful performance of corporate social responsibility. Employees' perceptions about CSR initiatives reflect how employees participate in decisions. Employee participation in CSR practices is related in corporate volunteer programs and they can also suggest CSR policy (Kim et al., 2010: 559).

General CSR Facilitation HRM

General CSR practices helps businesses to obtain organizational legitimacy on social issues. General CSR issues involve, for example, reducing poverty, rewarding employees who have high performance and giving employment priority to local citizens and disadvantaged groups, etc. (Shen & Zhu, 2011: 3022). Firms that engage with general CSR issues meet society's expectations from firms and compensate for their activities harmful effects on society and the environment.

-Rewarding Social Performance

There is a paradigm shift of the corporate financial performance from corporate stock price success to social success. Businesses have also changed the incentive and reward system for employees who contribute to organizational social performance (Berrone & Gomez-Mejia, 2009: 960). Rewards and compensation are an extrinsic motivational resource for employees who work for capital. Besides this, rewarding employees for social performance motivates them externally and they perform well for organizational social performance (Khan et al., 2014: 71).

-Giving Employment Priority to Locals and Disadvantaged Groups

Family businesses are faced with pressures from local communities due to potential hazards exposed to the environment and the use of natural resources. Family businesses respond to these pressures by employing local candidates (Castejon & Lopez, 2016: 25). Besides this, family businesses have clarity in their stakeholders' eyes by employing disadvantaged groups such as the disabled, women, ethnic groups, etc.

Method

Critical Success Factors: The concept of critical success factors was used for the first time in the business literature on project management (Zhou et al., 2011: 49). Critical success factors are the basic areas where "things must go right" for the development of the business and for the managers to reach their goals (Bullen & Rockart, 1981: 7). Limited time and limited resources are the factors that need to be focused by managers and are critical for success (Bullen & Rockart, 1981: 12). Critical success factors are the factors that provide special and continuous attention by the managers to ensure high performance and ensure the current activities and future success of the enterprise (Boynton & Zmud, 1984: 17). In this direction, knowing the critical success factors of the socially responsible human resources management (SRHRM) system will directly affect the success of the system.

Sample: Socially responsible human resource management practices were identified as eight criteria (as seen in variables section). The questionnaire was developed based on these criteria and distributed to five family businesses that operate in the metal manufacturing sector in İzmit, Turkey. The managers of the businesses completed the forms by using a pair-wise comparison scale to evaluate the influence of each of the SRHRM factors. After obtaining data from the managers, the DEMATEL method procedures previously stated were applied.

Variables: Socially responsible human resource management practices were identified as eight criteria is identified by (Shen & Zu, 2011) as follows: "paying attention to HR issues such as equality (L1)"; "health and safety issues (L2)"; "fair wages (L3)"; "compliance with legal issues (L4)"; "work-life balance (E1)"; "employee involvement (E2)"; "rewarding employees' social performance (G1)"; and "employment of local candidates and disadvantaged groups (G2)".

The decision-making trial and evaluation laboratory (DEMATEL) is a multi-criteria decision-making (MCDM) method that is used for solving complex problems and for weight factors in a system. This was developed by Battelle Memorial Institute of Geneva (Lin & Wu, 2008: 207). DEMATEL is an effective method that presents the values of influential effects between each factor in a system (Tzeng et al., 2007: 1031). The DEMATEL method uses an influence causal diagram and a visual relationship map to divide factors into the cause group and the effect group. (Wu & Lee, 2007: 51).

The DEMATEL method uses a pair-wise comparison matrix to solve problems and the steps of the method are (Lin, 2013: 35):

i. Generate the direct-relation matrix: The relationship between criteria is measured by comparison scale form: 0 (no influence), 1 (very low influence), 2 (low influence), 3 (high influence) and 4 (very high influence). An initial direct relation matrix X is an *n x n* matrix obtained by pair-wise comparisons, in which Tij is denoted as the degree to which the criterion *i* affects the criterion *j*. $T = [t_{ij}]_{nxn}$

ii. Normalizing the direct relation matrix: On the base of the direct relation matrix X, the normalized direct relation matrix $\bar{X}$ can be obtained through the equation.

$$S = k\,x\ \bar{X} \qquad (1)$$

$$k = \frac{1}{\max\limits_{1 \le i \le n} \sum_{j=1}^{n} aij} \qquad (2)$$

iii. Attaining the total relation matrix: once the normalized direct relation matrix S is obtained, the total relation matrix I is denoted as the identity matrix

$$T = \bar{X}(I - X)^{-1} \qquad (3)$$

iv. Producing a casual diagram. The sum of rows and the sum of columns are separately denoted as vectors *D* and *R* within the total relation matrix *T*. A cause and effect graph can be acquired by mapping the dataset of (*D*+*R, D*-*R*). The horizontal axis vector (*D*+*R)* is named “Prominence”, which reveals the importance of the criterion. The vertical axis (*D*-*R*) named “Relation”, is made by subtracting *D* from *R*. If *D*-*R* is positive the factors are grouped as a cause group, and to the contrary if *D*-*R* is negative the factors are grouped as an effect group.

$$D = \left[\sum_{i=1}^{n} t_{ij}\right]_{1xn} = \left[t_j\right]_{nx1} \qquad (4)$$

$$R = \left[\sum_{i=1}^{n} t_{ij}\right]_{1xn} = \left[t_j\right]_{nx1} \quad (5)$$

Findings

The questionnaire distributed to five family businesses that operate in the metal manufacturing sector in İzmit, Turkey. The managers of the businesses completed the forms by using a pair-wise comparison scale to evaluate the influence of each of the SRHRM factors. After obtaining data from the managers, the DEMATEL method procedures previously stated were applied. The descriptions of the sample businesses are shown in Table 1.1.

Table 1.1: Descriptions of Family Businesses

	Foundation Year	Employee	Average Employee Tenure (years)	Disadvantaged Employee
Company A	1974	50	30	0
Company B	1997	122	8	3
Company C	2004	75	7	2
Company D	2006	68	6	3
Company E	2007	116	5	4

As shown in Table 1.1, the family businesses' organizational tenure is 23,4 years, the average employee number is 86,2, and the average employee tenure is 11,2. The method is based on the expert opinion of 5 family business managers. After the data were obtained from the managers, the DEMATEL method was applied by using equations (1-5).

- Step 1: Direct-Relation Matrix (X): Based on the expert opinion average, the direct relation matrix was generated and is shown in Table 1.2.

Table 1.2: Direct-Relation Matrix

	L1	L2	L3	L4	L5	L6	L7	L8
L1	0	3	2	2,4	3,4	3,8	2,8	1,6
L2	1,4	0	1,8	2	3,2	2,8	3	3
L3	3,2	3	0	2,8	3,2	3,6	3,6	3,4
L4	2	3	2,4	0	3,4	2,8	2,6	3,6
E1	1,4	2,4	1,6	1,4	0	1,8	2,2	3
E2	1,6	2,4	1,6	2	2,6	0	2,2	2,6
G1	1,6	1,4	1,6	1,4	2,2	1,8	0	2,6
G2	1,6	1,8	1,4	2	2,6	2,6	3	0

- Step 2: Normalized Direct-Relation Matrix: By using Eqs. 1 and 2, the direct-relation matrix was normalized and is shown in Table 1.3.

Table 1.3: Normalized Direct-Relation Matrix

	L1	L2	L3	L4	L5	L6	L7	L8
L1	0,00000	0,13158	0,08772	0,10526	0,14912	0,16667	0,12281	0,07018
L2	0,06140	0,00000	0,07895	0,08772	0,14035	0,12281	0,13158	0,13158
L3	0,14035	0,13158	0,00000	0,12281	0,14035	0,15789	0,15789	0,14912
L4	0,08772	0,13158	0,10526	0,00000	0,14912	0,12281	0,11404	0,15789
E1	0,06140	0,10526	0,07018	0,06140	0,00000	0,07895	0,09649	0,13158
E2	0,07018	0,10526	0,07018	0,08772	0,11404	0,00000	0,09649	0,11404
G1	0,07018	0,06140	0,07018	0,06140	0,09649	0,07895	0,00000	0,11404
G2	0,07018	0,07895	0,06140	0,08772	0,11404	0,11404	0,13158	0,00000

- Step 3: Total-Relation Matrix: By using Eq. 3, the total-relation matrix was generated from the normalized direct-relation matrix and is shown in Table 1.4.

Table 1.4: Total-Relation Matrix

	L1	L2	L3	L4	L5	L6	L7	L8
L1	0,21026	0,39288	0,28907	0,32543	0,46143	0,44998	0,42251	0,39132
L2	0,24743	0,24570	0,25967	0,28692	0,41974	0,38182	0,39925	0,40960
L3	0,37436	0,44249	0,24672	0,38324	0,51494	0,50019	0,51032	0,51391
L4	0,29971	0,40225	0,31112	0,23970	0,47407	0,42637	0,42976	0,47610
E1	0,21451	0,29802	0,21955	0,22965	0,24502	0,29981	0,32259	0,35806
E2	0,23485	0,31599	0,23299	0,26573	0,36808	0,24487	0,34105	0,36404
G1	0,21057	0,24668	0,20790	0,21657	0,31410	0,28265	0,21614	0,32468
G2	0,23269	0,29085	0,22359	0,26275	0,36400	0,34317	0,36590	0,25818

- Step 4: The Sum of Rows and Columns: By using Eqs. 4 and 5, the sum of rows and columns was generated from the total-relation matrix and is shown in Table 1.5. The sum of rows is shown as D and the sum of columns is shown as R.

Table 1.5: Sum of Rows and Columns

	D	R	D+R	D-R
L1	2,942885	2,024401	4,967286	0,918484
L2	2,650131	2,634857	5,284988	0,015273
L3	3,486176	1,990622	5,476799	1,495554
L4	3,059081	2,209998	5,26908	0,849083
E1	2,187215	3,161376	5,348591	-0,97416
E2	2,367594	2,928855	5,296449	-0,56126
G1	2,019294	3,007514	5,026808	-0,98822
G2	2,341142	3,095895	5,437038	-0,75475

- Step 5: Casual Influence Diagram: Based on the sum of rows and columns, the influence diagram was drawn and shown in Fig. 1.1. D+R is shown in the horizontal axis and D-R is shown in the vertical axis on the diagram. Eight SRHRM factors are depicted in Fig. 1.1 and the top factors in the diagram are called a cause group; on the other hand, factors at the bottom of the diagram are called an effect group.

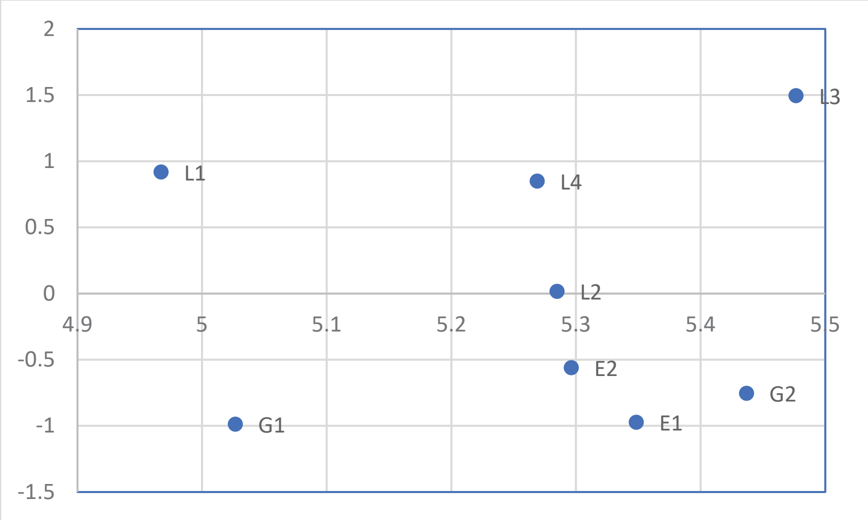

Figure 1.1: Casual Influence Diagram

Study findings from Table 1.5 and Fig. 1.1 generated by the sum of rows (D) and columns (R) are as follows; "paying attention to HR issues such as equality (L1)"; "health and safety issues (L2)"; "fair wages (L3)"; "compliance with legal issues (L4)" are cause groups, while "work-life balance (E1)"; "employee involvement (E2)"; "rewarding employees' social performance (G1)"; and "employment of local candidates and disadvantaged groups (G2)" are in the effect group. Cause factors are essential for a system because their performance impacts other factors to implement a successful SRHRM system and that's why cause factors should be paid more attention. The influence score of system factors is ranked, L3>L1>L4>L2>E2>G2>E1>G1, respectively.

Among cause factors, "fair wages (L3)" has a positive and the highest (D-R, 1,4955) score in the system and L3 has more impact on the other system factors. Besides that, L3 has the highest (D+R, 5,4767) score and L3 has more prominence in the whole system. The influence and prominence scores of L3 mean that it is the most influential factor in the system and that's why L3 needs to gets more attention in SRHRM practices. In this sense "fair wages (L3)" is a critical success factor for the SRHRM system.

"Paying attention to HR issues such as equality (L1)" also has a positive and high (D-R, 0,9184) score in the system so it is a cause factor. However, L1 has the lowest prominence (D+R, 4,9672) score in the system. Based on

D and R scores, L1 has a high impact on other factors (D), while the R score that impact receives from other factors is not high value. From these findings, L1 doesn't have an important impact on other factors so L1 isn't a critical success factor for SRHRM practices.

"Compliance with legal issues (L4)" is another cause factor. While L4 has a positive (D-R, 0,8490) score, it also has a low (D+R, 5,2690) score. Based on the D+R score, L4 has the sixth prominence position in the whole system, and a small impact on other SRHRM factors. That's why L4 is not a critical success factor. Besides that, "health and safety issues (L2)" also has a positive (D-R, 0,015) score but its impact score is the lowest of the cause factor scores and, L2 has the fifth prominence position in the whole system. So, the L2 factor is not a critical success factor because of its small impact on others factors.

Factors in the effect group of the SRHRM system are impacted easily by cause factors. Overall, when cause factors are improved, effect factors are also improved. On the whole, the effect factor, "employment of local candidates and disadvantaged groups (G2)" has the second-highest D+R (5,4370) score and it's an important factor for the SRHRM; however, G2 has a negative D-R (-0,7547) score and it's an effect factor. G2 has high influential impact (D) and a highly influenced impact (R), so it's important for the system. With the employment of local candidates and disadvantaged groups, the SRHRM system can achieve success via G2's importance. That's why "employment of local candidates and disadvantaged groups (G2)" is considered as a critical success factor.

"Work-life balance (E1)" is divided as an effect group factor. E1 has the third-highest D+R (5,3485) score and it's an important factor for the SRHRM system, and also E1 has a negative D-R (-09741) score similar to G2. While it's an effect factor, the SRHRM system needs a successful work-life balance. So E1 is a critical success factor in the SRHRM system.

"Employee involvement (E2)" and "rewarding employees' social performance (G1)" are other effect group factors in the SRHRM system. They both have negative D-R (-0,5612 and -09882) scores and their importance level in the system is low. That's why neither are critical success factors in the SRHRM system.

Conclusion

Given the fact that socially responsible HRM practices are essential for successful business social performance and employee retention, family businesses are also faced with pressure to implement these demands to be socially responsible businesses. Family businesses have limited financial and human resources to fulfill these demands. That's why family businesses have to know thatsocially responsible human resource management practices need to be implemented for success. This study conducted an expert opinion questionnaire form for applying the DEMATEL method to determine the critical success factors of socially responsible human resource management practices for family businesses.

The findings of this study show that, "paying attention to HR issues such as equality (L1)"; "health and safety issues (L2)"; "fair wages (L3)"; and "compliance with legal issues (L4)" are cause groups, while "work-life balance (E1)"; "employee involvement (E2)"; "rewarding employees' social performance (G1)"; and "employment of local candidates and disadvantaged groups (G2)" are effect groups. Critical success factors are essential for managers and businesses to reach their goals at limited time and resources. That's why they must focus these factors for organizational outcomes. Three critical success factors are identified from the findings of the study and they are follows; "fair wages (L3)", "employment of local candidates and disadvantaged groups (G2)", and "work-life balance (E1)". Family businesses need to implement these critical success factors to achieve social performance and retain socially responsible employees.

Keywords: *Socially responsible HRM, Family business, DEMATEL*

References

Alvarez-Perez, M. D., Carballo-Penela, A., & Rivera-Torres, P. (2020). Work-Life balance and corporate social responsibility: the evaluation of gender differences on the relationship between family-friendly psychological climate and altruistic behaviors at work. *Corporate Social Responsibility and Environmental Management*, 27, 2777-2792. DOI: 10.1002/csr.2001

Bergamaschi, M., & Randerson, K. (2016). The futures of family businesses and the development of corporate social responsibility. *Futures,* 75, 54-65. http://dx.doi.org/10.1016/j.futures.2015.10.006

Berrone, P., & Gomez-Meija, L. R. (2009). The pros and cons of rewarding social responsibility at the top. *Human Resource Management*, 48(6), 959-971

Block, J., Millan, J. M., Roman, C., & Zhou, H. (2015). Job satisfaction and wages of family employees. *Entrepreneurship Theory & Practice*, 39(2), 183 – 209

Boynton, A. C., & Zmud, R. W. (1984). An assessment of critical success factors. Sloan Management Review, Pre-1986, Summer, 25, 4.

Buhmann, K. (2006). Corporate social responsibility: What role for law? Some aspects of law and CSR. *Corporate Governance*, 6(2), 188-202. DOI 10.1108/14720700610655187

Bullen, C. V., & Rockart, J. F. (1981). A primer on critical success factors. Center for information systems research Sloan School of Management. Summer cisr no:69, Sloan WP no: 1220 – 81.

Carrol, A.B., 1979. A three-dimensional conceptual model of corporate performance. *Academic Management Review*. 4(4), 497-505.

Castejon, P. J. M., & Lopez, B. A. (2016). Corporate social responsibility in family SMEs: A comparative study. *European Journal of Family Business*, 6(1), 21-31. http://dx.doi.org/10.1016/j.ejfb.2016.05.002

Chrisman, J. J., Chua, J. H., & Litz, R. (2003). a unified systems perspective of family firm performance: an extension and integration. *Journal of Business Venturing*, 18(4), 467-472. https://doi.org/10.1016/S0883-9026(03)00055-7

Cooke, L. P., & Baxter, J. (2010). Families in international context: comparing institutional effects across western societies. *Journal of Marriage and Family*, 72, 516-536.

Fenwick, T., & Bierema, L. (2008). Corporate social responsibility: Issues for human resource development professionals. *International Journal of Training and Develeopment,* 12(1), 24-35.

Flamini, G., Gnan, L., & Pellegrini, M. M. (2020). Forty years of research on human resource management in family firms: Analyzing the past; preparing for the future. *Journal of Family Business Management*, https://doi.org/10.1108/JFBM-05-2020-0040

Garavan, T. N., & McGuire, D. (2010). Human resource development and society: Human resource develeopment's role in embedding corporate social responsibility, sustainability, and rthics in organization. *Advance in Developing Human Resources,* 12(5), 487-507.

Hasle, P., & Granerud, L. (2011). Social responsibility as an intermediary for health and safety in small firms. *International Journal of Workplace Health Management*, 4(2), 109-122. DOI 10.1108/17538351111143295

Inyang, B. J., Awa, H. O., Enuoh, R. O. (2011). CSR-HRM Nexus: Defining the role engagement of the human resources professionals. *International Journal of Business and Social Science*, 2(5), 118-126.

Khan, A., Latif, F., Jalal, W., Anjum, R., & Rizwan, M. (2014). The impact of rewards & corporate social responsibility (CSR) on employee motivation. *International Journal of Human Resource Studies*, 4(3). Doi:10.5296/ ijhrs.v4i3.5875

Kim, H., Lee, M., Lee, H., & Kim, N. (2010). Corporate social responsibility and employee-company identification. *Journal of Business Ethics*, 95(4), 557-569. DOI 10.1007/s10551-010-0440-2

Lin, C., & Wu, W. W. (2008). A causal analytical method for group decision-making under fuzzy environment. *Expert Systems with Applications*, 34, 205-213.

Lin, R. (2013). Using fuzzy DEMATEL to evaluate the green supply chain management practices. *Journal of Cleaner Production*, 40, 32-39.

Lopez-Gonzalez, E., Martinez-Ferrero, J., & Garcia-Meca, E. (2019). Corporate social responsibility in family firms: A contingency approach. *Journal of Cleaner Production*, 211, 1044-1064. https://doi.org/10.1016/j.jclepro.2018.11.251

Mees, A., & Bonham, J. (2004). Corporate social responsibility belongs with HR. *Canadian HR Reporter*, 17(7).

Montero, M. J., Araque, R. A., & Rey, J. M. (2009). Occupational health and safety in the framework of corporate social responsibility. *Safety Science,* 47(10), 1440 – 1145. doi:10.1016/j.ssci.2009.03.002

Samara, G., & Arenas, D. (2017). Practicing fairness in the family business workplace. *Business Horizons,* 60(5), 647-655.

Shen, J. (2011). Developing the concept of socially responsible international human resource management. *The International Journal of Human Resource Management*, 22(6), 1351-1363. DOI: 10.1080/09585192.2011.559104

Shen, J., & Zhu, C. J. (2011). Effects of socially responsible human resource management on employee organizational commitment. *The International Journal of Human Resource Management*, 22(15), 3020-3035. DOI: 10.1080/09585192.2011.599951

Tzeng, G., Chiang, C. H., & Li, C.W (2007). Evaluating intertwined effects in e-learning programs: a novel hybrid MCDM model based on factor analysis and DEMATEL. *Expert Systems with Application,* 32, 1028 – 1044.

Uhlaner, L. M., van Goor-Balk, H. J. M., & Masurel, E. (2004). Family business and corporate social responsibility in a sample of Dutch firms. *Journal of Small Business and Enterprise Development*, 11(2), 186-194. DOI 10.1108/14626000410537128

Voegtlin, C., & Greenwood, M. (2016). Corporate social responsibility and human resource management: A systematic review and conceptual analysis. *Human Resource Management Review*, 26(3), 181-197. http://dx.doi.org/10.1016/j.hrmr.2015.12.003

Weaver, G. (2004). Ethics and employees: making the connection. *Academy of Management Executive*, 18(2), 121-125.

Wu, W., & Lee, Y. T. (2007). Developing global managers' competencies using the fuzzy DEMATEL method. *Expert Systems with Applications*, 32, 499 – 507.

Zhou, Q., Huang W., & Zhang, Y. (2011). Identifying critical success factors in emergency management using a fuzzy DEMATEL method. Safety Science, 49, 243 - 252

Biographies

Abdulkadir Altınsoy, PhD, is an Assistant Professor in Labor Economics and Industrial Relations at Sakarya University, Faculty of Political Sciences. His research interests are social policy, labor economics and corporate social responsibility.

Mert Öner, PhD, is a Research Assistant in Labor Economics and Industrial Relation at Sakarya University, Faculty of Political Sciences. His research interests are human resource management, organizational psychology and green employee behavior.

CHAPTER 2

INSTITUTIONALIZATION IN FAMILY BUSINESSES: A MODEL PROPOSAL

ERHAN POLAT

Introduction

Ensuring sustainable growth in the economy depends on many factors such as public policies, economic policies, and internationalization movements. Among all of these, the sustainability of the economy is significantly related to the sustainability of companies. The share of family businesses among all companies worldwide is between 60% and 95%. The fact that family companies have a significant share in the economy indicates that ensuring the sustainability of such companies should also be taken seriously. The longevity of family businesses is based on institutionalization as well as being connected to the product or service produced.

The institutionalization of family businesses has been investigated in many ways. Studies have focused on the institutionalization of family relations and the institutionalization of the company separately. The institutionalization of family relations is generally based on the family constitution, family council, family assembly, succession plan and shareholder agreement. Suggestions are offered in areas such as formalization, professionalization, cultural power, and consistency in order to institutionalize the company. In this study, a model proposal is presented with corporate governance principles, corporate risk management, internal control systems and internal audit systems that will strengthen the relationship between the institutionalization of family relations and the institutionalization of the company.

Family Businesses

When the family business is mentioned, two concepts need to be explained first. The concept of family can be defined as the desire of two people to come together and live together. According to the Turkish Language Institution, family is defined as "*the smallest union in the society based on marriage and blood ties, formed by the relations between husband, wife, children, siblings*" (TDK, 2021). The concept of company can be said to be the prominent structure of a legal entity in economic affairs and transactions, rather than a real person. According to Otlu (2015), the concept of company is defined as "*a legal entity that emerges as a result of at least two or more persons coming together and combining their labor or goods with a contract for a common purpose*" (Otlu, 2015). In this context, the term family company mostly refers to the economic unit formed by the members of a family. The family business refers to the business environment established by members of a family. In such companies, family members appear to have a greater role in management, ownership of capital, and control. Family companies generally have the following features, with many criteria being classified (Fındıkçı, 2014);

- ✓ Family relations are strong in management, capital mostly belongs to family members,
- ✓ The management of the company is transferred between family members,
- ✓ The relationship between the family and work is effective, and
- ✓ Family members are more involved in decision-making.

One of the most important reasons for family companies featuring so much in the literature is the size of the share of such companies in the economy. It is stated that approximately 65-85% of companies in the world are family companies. Family companies employ 40-50% of the labor force in Europe and 63% in America (Özkul, 2016).

The size of the share of family companies in the economy and the longevity of such companies are important for the continuation of the country's resources (ASO, 2005). Considering the lifetime of family companies, the longest-lasting family company is Kongo Gumi, which was founded in Japan in 578 AD. The main activity of the company was temple restoration. It is stated that the main secret of its longevity is its success in adapting to conditions and focusing on its main business. The company was closed in 2006 (Polat, 2018). Table 2.1 shows the world's five long-lived companies.

Table 2.1: The top five longest-lived companies in the world

No	Company name	Year of foundation	Generation	Working Field	Country
1	Kongo Gumi	578	49	Construction	Japan
2	Hoshi	718	46	Han	Japan
3	Chaten De Goulaine	1000		Museum	France
4	Barone Ricasoli	1141		Wine/ Olive oil	Italy
5	Barovier & Toso	1295	20	Glass Production	Italy

Reference: Polat, 2018

Family businesses have many advantages. The first of these is to have a strong sense of trust which provides the ability to act quickly in the decisions to be taken. However, the desire to leave the dividends in the company and strong protectionism for the protection of assets provide financial and economic advantages. Respect for the company manager and the existence of strong communication channels increase the successful implementation of decisions taken. In family companies, the desire of the elder to head the company, the lack of consultation in the decisions taken and the desire to leave the dividends in the company disturb the partners after a certain period, and there may be generational conflicts, etc. There are also disadvantages. The problems caused by these disadvantages in family companies can be briefly listed as follows (Genç and Karcıoğlu, 2004);

- ✓ Generational conflict,
- ✓ Problems of influence,
- ✓ Conflicting roles,
- ✓ Continuation of old habits from the core of the business,
- ✓ Lack of future planning,
- ✓ Power struggles,
- ✓ Rumors,
- ✓ Unprofessionalization and high turnover rate, and
- ✓ (Lack of) Institutionalization.

Most family businesses close soon after they are founded. The lifespan of family businesses is usually defined by the generation that runs the company. In this framework, the rate of survivors in the second generation of family businesses is 30%, 10% in the third generation, and 4% in the fourth generation (Ward, 2002). In family companies, the founder of the company is the company head for a longer period of time. Decisions are made quickly during this period. This contributes to the sustainability of the company. In family businesses, the survival of the company is often more important than profit. For this reason, company shareholders tend to keep their dividends gained from the company within the company. With the transfer of the company to the second generation, children take over the business. In the second generation, the company starts to employ some professional employees. In this generation, there are movements towards bringing the company success and institutionalization efforts. However, problems may arise due to the older child's desire to lead. It is possible that the older brother does not allow his younger brother to take over the business even if he is more educated and talented. Second-generation businesses tend to strengthen their institutionalization efforts by establishing a board of directors made up of siblings. Depending on the legal personality of the company, it contributes to the tendency of institutionalization in some legal obligations. In third-generation family businesses, cousins tend to be shareholders or directors of the company. If family companies do not institutionalize the family business relationship before reaching this stage, it leads to the closure of most of them. Families at this stage have to set up their decision-making mechanisms to please a wider partnership structure.

In family businesses, things get even more complicated when brides and grooms join the family. The process leading to conflicts between cousins starts with brides and grooms who tend to join the company or are included in the company because of their skills. If these family members join the company, the need to organize wider relationships arises; for instance, dividend distributions, willingness to join the board of directors, willingness to work in managerial positions, etc. Many conflicts and problems are caused among other family members who make the same demands. At this point, the need emerges for the institutionalization of family relations. Some institutional structures are suggested for the institutionalization of such family relations which generally emerge in family companies, affecting the sustainability of the company, and are stated to be effective in the closure of 80% of family companies (Polat, 2018). These are; the family constitution, family council, shareholder agreement and succession plan (TAIDER, 2017).

- ✓ **Family Constitution:** This is defined as an atypical contract signed between family members of a company, which regulates many important issues such as the expenditures of family members, the relations between family members and professionals, the selection of a successor, the formation of the family council, and the interaction of board structures and members with each other.

- ✓ **Family Council:** This structure, which is formed by family members who are partners of the company, is created to ensure that differences of opinion between partners are handled primarily in the family council and the possible effects on the company are discussed.
- ✓ **Shareholder Agreement:** This is the agreement that regulates the relations between shareholders and the relations that cannot be included in the articles of association of the company. With this agreement, it is desired to bring the relations between the partners to an institutional level.
- ✓ **Succession Plan:** This is a solution agreement between generations to eliminate possible problems that may arise during management periods. In this context, it can be defined as handover planning regarding to whom and how/when the management will be transferred.

Corporate Management

Corporate governance, in a narrow sense, is the rules that regulate the relations between the company management and the groups that want to gain profit from the company (Aktan, 2013). The successful survival of the company amidst conflicts of interest or interests between the internal and external environment of the institution can be achieved with corporate governance (Polat, 2018). According to the World Bank, corporate governance can be defined as;
all kinds of laws, regulations, codes and practices that allow an institution to attract human and financial capital, operate effectively and thus create value for its partners in the long term while respecting the values of the society to which it belongs (Topal et al., 2016).

As understood from the definition, corporate governance benefits not only the company but also the society in which it is located. When considered in this context, the implementation of corporate governance is essentially following the rules that provide national and international benefits to the company in general. The corporate governance practices of a company or institution also spread to its employees and interest groups within the framework of organizational culture. Thus, corporate governance reaches not only the area where it finds application, but also the life of every group affected by these practices.

It is possible to see approaches to the level of institutionalization from different perspectives. Regulating relations with stakeholders is one of the top priorities for companies; for instance, stakeholders are shareholders, employees, customers, government, creditors, unions, competitors, those who want to be partners, international investors and creditors and society (Aktan, 2013).

The concept of corporate governance is a more important point for family companies. The main reason for this is to ensure that the relationship between shareholders in family companies is sustainable. While the most important reference for institutionalized companies is the concept of profit, in family companies it is mostly the reputation of the company. Fındıkçı (2014) stated that the longevity of companies is the work of the companies, the retention rate of the brand they produce, the market conditions, and the knowledge, skills and leadership capacities of the individuals at the beginning of the business; but besides all these, the most important thing is the level of institutionalization.

Due to the identification of the concepts of family and company in family companies, not only financial difficulties but also managerial problems are experienced. The fact that family members take part in the board of directors and have the authority to intervene in decisions taken by the professionals makes corporate governance practices more important (İlter, 2001). Such relationships present companies with many risks.

One of the most important benefits of institutionalization is that it increases the success of companies in dealing with risk. In this regard, the World Bank states that companies that implement corporate governance will have lower financial and non-financial risks (Worldbank, 2017).

While corporate governance covers the concepts of fairness, transparency, responsibility and accountability in a narrow sense, it is broadly expressed as good corporate governance. For good company management, the application of corporate governance principles is not satisfied, but strategic management, etc., applications are also required.

Although studies on corporate governance practices started in the 1980s, the economic crisis surrounding Southeast Asia and subsequently Russia and Brazil necessitated the creation of new codes. In this context, the Organization for Economic Cooperation and Development (OECD) has initiated studies to evaluate and develop the legal, institutional and regulatory framework regarding corporate governance principles (Doğan, 2017).

It is stated that with the implementation of corporate governance principles, performances of companies can be positively affected, risks can be limited and decisions will be better. However, it can strengthen the company's reputation with investors, creditors, company employees and industry executives. It is stated that corporate governance principles contribute to the prevention or resolution of problems that may arise in companies, such as corruption, the informal economy, economic stability and ensuring competitive equality. Studies have shown that companies with a healthier corporate governance structure show higher financial performance in the medium and long term. According to a study conducted in 2003, it was determined that the share price of companies that were successful in corporate governance practices was 18% higher at the end of the first three years and 78.4% higher at the end of at the end of the first five years compared to other companies (TKYD, 2017).

Internal Control System

In the United States, the Public Accounting Reform and Investor Protection Act was enacted in 2002. It is also known as the SOX or Sarbanes-Oxley Act, as it was brought up by Senator Paul Sarbanes and Member of the House of Representatives Michael Oxley, who proposed to pass the law. This law has three main purposes: accuracy, reliability and responsibility concepts. The most basic feature of the law is the evaluations it brings to the internal control system. After the SOX law, the internal control standards of the Committee of Sponsoring Organizations (COSO) are used (Hazar, 2014).

The internal control system is a process created by an organization's top managers and all employees to achieve the goals of the organization. It offers reasonable assurance in compliance with legal regulations and the policies set by the top management of the institution. The benefits offered to the institutions where the internal control system is applied can be listed as follows (Derici, 2015);

- ✓ Ensures the achievement of objectives set by the management,
- ✓ Strengthens compliance with laws,
- ✓ Ensures the protection of corporate assets,
- ✓ Prevents mistakes and cheating,
- ✓ Ensures that records are kept complete and reliable, and
- ✓ Ensures that the reporting is timely and reliable.

Internal control systems have emerged as different models in terms of usage purposes. Studies were conducted on internal control methods and procedures such as "CoCo" in Canada, the "Turnbull Report" in England, the "King Report" in South Africa, Kontrag in Germany, and the "Vienot

Report" in France. The most commonly used models are listed as follows (Dabbaoğlu, 2009).

a) Internal Control Integrated Framework: This model, developed by COSO, puts the responsibility for establishing the system on top managers. The system is the most widely used model worldwide and aims to provide reasonable assurance in reliable financial reporting, effective and efficient operation in corporate activities and compliance with the laws that the institution faces.

b) Control Objectives for Information Technology – Cobit: The main purpose of this system is to prevent the risks arising from information technologies used by the relevant institution and therefore to ensure efficiency in financial reporting, compliance with the law, confidentiality of information and corporate activities.

c) Electronic System Assurance and Control – eSAC: The main purpose of the system is to prevent risks arising from e-commerce.

d) System Security (SysTrust): This control system ensures the reliability of information produced in the digital environment.

According to Demirbaş (2005), the internal control system contributes to the formation of a performance-based management model. Thus, while ensuring the protection of the institution's assets, it also plays an important role in preventing fraud. The internal control system ensures the reliability of companies' financial reports. It contributes to efficiency and productivity in activities. It facilitates compliance with the law. The internal control system provides reasonable assurance rather than absolute assurance. The effectiveness of internal control systems depends on the commitment of top managers to practices.

Many definitions have been made regarding the internal control system. Expectations from the internal control system have also led to the constant updating of the definition. The internal control system is defined as follows according to the COSO model (Adiloğlu, 2011);

> *Internal control is the set of systems established and controlled by the top management of the institutions that provide reasonable assurance regarding the reliability of financial statements, the effectiveness and efficiency of activities and transactions, and the compliance of activities with laws and policies.*

According to the definition, the success of the internal control system depends on the approach of the top management. In addition, establishing internal control by including financial and non-financial events, which are affected by employees, will increase the expected effect from the system. The COSO model first appeared in 1992. However, the problems encountered in achieving the expected success from the system and the differences in current practices have led to the differentiation and updating of the system. According to the COSO model, the internal control system consists of five basic components. These are (Türedi, 2016);

a) Control Environment: This includes the behavior, attitudes, management principles, and organizational infrastructure of the enterprise, the rules and methods to be followed in the distribution of authority and responsibilities, and personnel policies regarding the internal control structure of the enterprise management and employees. This element also guides the shaping of other components such as the basic framework of the internal control system.

b) Risk Evaluation: This component covers the identification and examination of risks that may arise in the realization of commercial activities by the management.

c) Control Activities: Activities aiming to reduce the likelihood of risk and the negative effects of risk within the framework of risk management policies and procedures to be established as a result of risk assessment of enterprises can be considered as control activities.

d) Information and Communication: This component provides the establishment of communication between the other four components. While it refers to the horizontal and vertical communication network within the enterprise, it covers all the processes of transmitting the information flow by appropriate means to those outside the enterprise who want to obtain information about the enterprise.

e) Monitoring: With this component, the management tries to determine whether it can achieve what it expects from the control system within the framework of its objectives, the ability of the controls required within the framework of risk management to predict the risks and whether the controls are implemented. It is also a set of studies aimed at determining whether the applications related to the communication network are realized or not.

Businesses actually gain many benefits by establishing an internal control system. However, an important point should be noted. There must be a balance between the expected target to be achieved and the cost to be incurred by establishing the internal control system within the company. Many errors inherent in companies can be reduced to a reasonable level by installing the system. However, it can be briefly stated as follows that these benefits come to the fore (Öndeş, 2000):

- ✓ The compliance of employees with the policies and procedures determined by the management,

- ✓ The provision of a source for obtaining reliable information,
- ✓ The minimization of wastage in production enterprises, and
- ✓ The provision of resources to prevent risk such as theft, loss and misuse of assets.

According to Aktaş (2005), the internal control system is described as a "harm prevention method" in businesses. Indeed, if companies organize their internal control systems well, they can prevent losses and demonstrate a successful business management. In this case, it will not be necessary to increase sales to cover losses, or the increased sales will bring profit to the business rather than the elimination of losses. At this point, it is stated that the internal control system has become a necessity for the sustainability of the enterprise and for the benefit of the management, shareholders, and auditors and therefore the society (Akbulut, 2012).

In the light of all these evaluations, in today's world, it is a reality that success can only be achieved with the effectiveness of the internal control system in all processes applied for the realization of business activities in the success of businesses. In this sense, an effective internal control system forms the basis for risk management (Türedi, 2016). The internal control system also contributes to the implementation of corporate governance principles in companies. In this respect, the implementation of corporate governance principles may be possible with an effective internal control system (Usul et al., 2011).

Corporate Risk Management

One of the issues that significantly affect the sustainability of companies is risk. In general, the success of plans or the possibility of making wrong decisions or a loss can be expressed as risk (Bolak, 2016). However, risk management means not only taking the necessary precautions against risks, but also managing opportunities that can have a positive impact on targets. On the other hand, Liu (2011) writes that it was Knight who first defined the concept of risk. According to him, risk is "*usually the probability that something undesirable will occur*." On the other hand, risk management is "*all the activities to measure the effects of risks such as foreign exchange, interest rates, share values, raw material prices that a company may carry in its financial structure due to its commercial activities on the performance of the company and to develop various tools and processes in order to control these risks*" (Bolak, 2016).

In recent years, enterprise risk management models have been developed. Instead of the "silo" approach of traditional risk management, enterprise risk management aims to manage the risks faced by companies throughout the enterprise. Studies have found that corporate risk management increases the value of companies, reduces borrowing costs, creates synergy and benefits companies (Miccolis and Shah, 2000; Cumming and Hirtle, 2001; Lam, 2001; Meulbroek, 2002; Beasley, Pagach and Warr, 2008: as cited in Hoyt and Liebenberg, 2011)

Company risks are classified differently by authors. Company risks in general (Bolak, 2016) are:

- ✓ Internal and external risks,
- ✓ Manageable-unmanageable risks,
- ✓ Systemic-systematic-non systematic risks,
- ✓ Financial-nonfinancial risks, and
- ✓ Fixed income securities risks.

The benefits expected to be obtained by companies in general as a result of corporate risk management practices can be listed as follows (Bakkal et al., 2016);

- ✓ They ensure that risks are taken with an integrated method instead of a silo approach,
- ✓ They contribute to transparency,
- ✓ They increase the effectiveness of corporate governance practices,
- ✓ They contribute to the creation and implementation of strategies,
- ✓ They reduce operational risks,
- ✓ They provide an opportunity to prevent threats from risks and to benefit from their opportunities,
- ✓ They increase the satisfaction level of interest groups, and
- ✓ They contribute to the correct decision-making of managers.

When processes such as a sense of privacy, a high-risk appetite, and nepotism in family companies are observed in terms of the benefits of corporate risk management practices, it can be said that family companies may be more affected.

Risk management includes measures taken against disruptions that occur within the company as well as during natural disasters. Very important accounting scandals have emerged in the world. The most important of these are the cases of Olympus, Enron, WorldCom, Satyam, and Parmalat. In addition, the Siemens scandal, which created significant financial problems due to world-famous bribery scandals, can be given as an example. It is stated that the basis of these problems is the lack of corporate governance practices and effective risk management (OECD, 2014).

A number of models have emerged for enterprise risk management. These are Australia and New Zealand (As/NZS 4360), the UK (BS 31100), ISO 31000, and Canada and America (COSO) models. Among these models, the COSO model is commonly used together with ISO 31000.

The COSO model was first published in 2004 as the Enterprise Risk Management – Integrated Framework. There were eight components in the 2004 risk management framework. These are internal environment, goal setting, incident determination, risk assessment, control activities, information, communication and monitoring. However, as the components used in this model and the components used in the internal control system are similar, this has led to discussions that cause confusion. For this reason, COSO ERM was updated in 2017, emphasizing the relationship between strategy, risk and performance. In renewed enterprise risk management, five components, namely governance and culture, strategy and objective-setting, performance, review and revision, information, communication and reporting, and 20 related principles have been identified (COSO 2017).

Internal Control

It has been determined that audit practices of companies operating in modern economic systems lead to more successful results in their institutionalization efforts. However, the legal processes applied in the regulation of working life have increased the importance of auditing. The expectations of interest groups from financial statements have further increased the need for auditing (Hazar, 2014: 23). The concept of auditing is defined as follows, by the Audit Concepts Committee (Güredin, 2010: 11).

> *Auditing is a systematic process that impartially collects and evaluates evidence in order to investigate the degree of compliance of claims regarding economic activities and events with predetermined criteria and to report the results to those who are interested.*

In general, audit activity is examined under three separate headings: audits of financial statements, compliance audits and operational audits. The audit performed to determine the compliance of financial statements with predetermined criteria is the audit of financial statements. The control of rules that must be followed by the managers or legislators in the company is the compliance audit. The operational audit refers to the audit of business departments, the internal control system and work flows. The implementation of operational audits is mostly done by internal auditors. Roles and responsibilities of internal auditors in corporate governance can be listed as follows (Hazar, 2014: 29);

- ✓ Internal auditors act independently from management,
- ✓ They report to the audit committee,
- ✓ Auditors have professional knowledge and skills in risk assessment and detection of fraud and take preventive measures in the case that institutions are faced with these,
- ✓ Internal auditors carry out a series of activities to determine the corporate ethical understanding of companies,
- ✓ The internal auditor ensures that suspicions of fraud, abuse of power and collusion are revealed.

The concept of internal auditing has been defined as follows by the Institute of Internal Auditors (IIA).

> *Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations* (Aslan, 2010).

The basic values revealed by the definition are that internal auditing is independent of top management, an assurance service and a consulting activity. Internal audit activities deal with all financial and non-financial processes in achieving the objectives of the organization. Thus, they evaluate the effectiveness of the internal control system and the activities for corporate risk management studies. Disruptions in processes are reported to the senior management and consultancy services are provided within the framework of improvement studies.

The assurance activity of the internal audit is basically related to the effectiveness of the internal control and risk management processes (Tufan and Gören, 2013). On the other hand, the consultancy activity refers to the reporting and suggestions made for the improvement of the corporate governance, internal control system and corporate risk management processes of the institution.

Information obtained from audit activities provides some benefits to business management, partners, creditors, the state and those who want to invest (Güredin, 2010: 25).

- ✓ Confidence in financial statements increases,
- ✓ Cheating is prevented,
- ✓ Credit opportunities increase due to the confidence in financial statements,
- ✓ Support is provided to the decision processes of lending institutions,
- ✓ The sense of trust increases between buyers and sellers,
- ✓ Confidence in tax reporting increases,
- ✓ Guidance is provided in determining the policies of the firm's top management.

Increasing institutional capacity and creating effective and efficient quality processes in institutions depend on corporate governance practices. These are carried out with corporate risk management, the internal control system and internal audit units that report the effectiveness of these processes. With risk management, there are measures to be taken to identify the risks that the institution may face, to take precautions and to achieve the objectives. With the internal control system, it is aimed to ensure that the resources of the institution are used in order to achieve the policies determined by the corporate management effectively and efficiently. With the internal audit, the activity, compliance and performance audits of this entire process are carried out and reported.

A Model Suggestion for Family Businesses

In order to ensure the sustainability of family businesses, there are two basic pillars that require institutionalization; these are family relations and the company. A family constitution, family council, succession plan, and shareholder agreement are recommended for the institutionalization of family relations. The institutionalization dimension of the company can be created with four basic pillars which are corporate governance principles, corporate risk management, an internal control system and internal audit factors. In this context, a model proposal for family companies is shown in Figure 2.1.

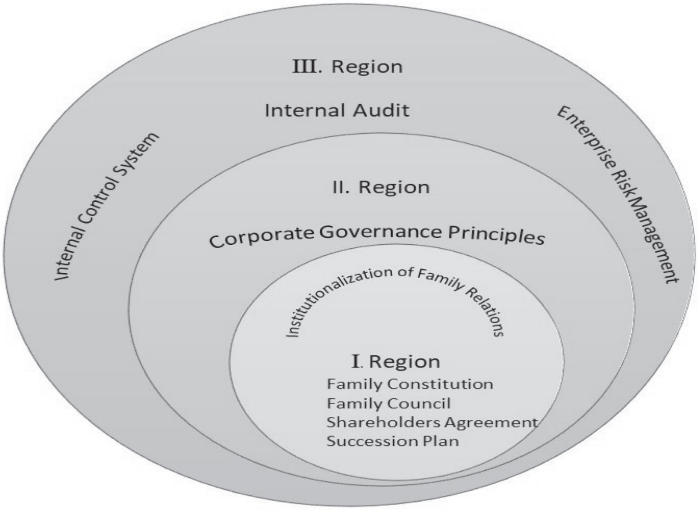

Figure 2.1: A Model for Family Businesses

Sections in the figure,

1. **Section:** In order to institutionalize family relations in this section, a family constitution, family council (council), succession plan and shareholder agreement are implemented.
2. **Section:** Policies regarding the principles of fairness, responsibility, transparency and accountability required for the institutionalization of the company in this section are determined and implemented.
3. **Section:** An internal control system and corporate risk management practices are carried out in this section. In addition, there is also an internal audit unit, which will monitor the success of this process and provide support.

The important thing in this model offered for family businesses is that all three sections must be owned by the top management and be determined to implement it. The details in these applications can be increased/decreased depending on the economic scale of the company. However, it is important to apply all the titles in the model for the institutionalization of the company.

Conclusion

The large number of family companies around the world increases the importance of their sustainability. This excess number of family businesses also causes them to be effective on GDP and employment. When family companies that have been closed are examined, it is stated that family relations are mostly due to the negative consequences on the company (Polat, 2008).

Institutionalization is discussed with new concepts and theories appearing every day. The economic crises that have occurred in the last thirty years have increased the interest in institutionalization. International trade actors such as the World Bank and the OECD suggest some common practices to companies in this regard. These include a family constitution, family council, succession plan and shareholder agreement for the institutionalization of family relations. In terms of the institutionalization of the company, proposed by the OECD; fairness, responsibility, transparency and accountability are corporate governance principles.

Processes such as asset losses faced by companies in their institutionalization, financial losses caused by fraud and errors, and obtaining evidence that financial statements contain reliable information have led to some applications. Although such applications are in different models, the most widely used models are the COSO models that emerged in the USA. The COSO internal control integrated framework and corporate risk management models are constantly renewed and revised according to current conditions.

As a result, in order for family businesses to be sustainable, family relations and the company must be institutionalized at the same time. Otherwise, deficiencies on one side will create problems on the other side. For this reason, it is recommended that family companies together apply the components and sub-factors in the model presented in this study.

Keywords: Family companies, institutionalization, internal control, risk management.

References

Aktan, C. C. (2013). Kurumsal Şirket Yönetimi [Corporate Governance: An Introduction]. *Organizasyon ve Yönetim Bilimleri Dergisi*, 5(1), 151-191.

Ankara Sanayi Odası (ASO). (2005). *Aile Şirketleri: Değişim ve Süreklilik [Family Businesses: Change and Continuity].* Ankara Sanayi Odası Yayınları.

Aslan.B. (2010). Bir Yönetim Fonksiyonu Olarak İç Denetim [Internal Audit as a Management Function], *Sayıştay Dergisi*, 77, 63-86.

Akbulut, E., (2012). İşletmelerde İç Kontrol Sisteminin Etkinliğinin İncelenmesi ve Trakya Bölgesinde Ayçiçek Yağı Sektöründe Bir Araştırma [Investigation of the Efficiency of Internal Control System in Enterprises and a Research on Sunflower Oil Sector in Trakya Region]. *Electronic Journal of Vacetional Colleges*, 174-187.

Bolak, M. (2016). *Risk ve Yönetimi [Risk and it's Management]* (2nd ed.). İstanbul Birsen Yayınevi.

Corporate Governance. (http://www.worldbank.org/en/topic/financialsector/brief/corporategovernance, 20.5.2021).

Dabbaoğlu, K. (2009). İç Kontrol Sistemi [Internal Control System], *Journal of Qafqaz University*, Number 26. s: 109-115.

Demirbaş, M. (2005). İç Kontrol ve İç Denetim Faaliyetlerinin Kapsamında Meydana Gelen Değişimler [Changes in the Scope of Internal Control and Internal Audit Activities]. *İstanbul Ticaret Üniversitesi Sosyal Bilimler Dergisi,* 4(7), 167-188.

Doğan, M. (2007). *Kurumsal Yönetim [Corporate Governance]* (1st ed.). Ankara Siyasal Yayınevi.

Esteban, R. B., & Kryssia, M., & Bernardo, R. (2011). Corporate Governance and Family Business Performance. *Journal of Business Research*, 64, 280-285.

Fındıkçı, İ. (2014). *Aile Şirketlerinde Yönetim ve Kurumsallaşma [Management and Institutionalization in Family Companies]* (5th ed.). İstanbul Alfa Basım Yayım ve Dağıtım.

Genç, N., & Karcıoglu, F. (2004). Aile İşletmelerinin Karşılaştıkları Sorunlar ve Çözüm Önerileri – Bir Uygulama [Problems Encountered by Family Businesses and Solution Suggestions - An Application]. *1. Aile İşletmeleri Kongresi*, İstanbul Kültür Üniversitesi Yayınları, 20-32.

Güleş, H, K., et al., (2013). *Ali Akkanat İle Aile İşletmeleri Üzerine Söyleşi [Interview with Ali Akkanat on Family Businesses]* (1st ed.). Ankara Gazi Kitabevi.

Güleş, H. K. et al., (2013). *Ali Akkanat İle Aile İşletmeleri Üzerine Söyleşi [Interview with Ali Akkanat on Family Businesses]* (1st ed.). Ankara Gazi Kitabevi.

Hazar. B. H., (2014). *Sürekli Denetim [Continuous Audit]*. İstanbul Maliye Hesap Uzmanları Derneği Yayını.

Hoyt, E. R., & Liebenberg, A. P. (2011). The Value of Enterprise Risk Management. *Journal of Risk and Insurance*, 78(4), 795-822.

İlter, M. H. (2001). *Aile Şirketlerin'de Kurumsallaşma ve KOBİ'lerin Yönetim Sorunları [Institutionalization in Family Businesses and Management Problems of SMEs].* İstanbul Ticaret Odası Yayınları, (19).

Liu, X. (2011). A Holistic Perspective Of Enterprise Risk Management, *Washington State Unıversity College of Business.*

OECD, (2004). "OECD Principles of Corporate Governance", (01.02.2018).

Otlu, F. (2015). *Şirketler Muhasebesi [Corporate Accounting]* (11th ed.). Malatya SMMMO Yayınları.

Özkul, İ. (2016). *Aile Şirketleri ve Profesyonel Yöneticiler [Family Businesses and Professional Managers]* (1st ed.). İstanbul Bulut Yayınları.

Polat, E. (2018). *Aile Şirketlerinde Kurumsal Yönetim İlkeleri Çerçevesinde, Kurumsal Risk Yönetimi ve İç Kontrol sistemi: TRC3 Bölgesi Uygulaması [Enterprise Risk Management and Internal Control System within the Framework of Corporate Governance Principles in Family Companies: TRC3 Region Application].* İnönü Üniversitesi, Sosyal Bilimler Üniversitesi, Yayımlanmış Doktora Tezi, Malatya.

TAİDER, (2017). *Aile Şirketleri İçin Sürdürülebilir Başarının Anahtarları Araştırması [Research for Keys to Sustainable Success for Family Businesses]*. (www.taider.org.tr. 12.04.2021).

TKYD, (2017). *Türkiye Kurumsal Yönetim Haritası [Turkey Corporate Governance Map]*. (http://www.tkyd.org/files/downloads/faaliyet_alanlari/yayinlarimiz/tkyd_yayinlari/bcgraporweb.pdf, 10.05.2021).

Topal, A., & Artantaş, E., & Sipahi, E., & Gürçay, G. (2016). *Kurumsal Yönetim İlke Analizleri [Corporate Governance Policy Analysis]*. İstanbul Çatı Kitapları.

Türedi, H., & Karakaya, G. (2015). Coso İç Kontrol Modeli ve Kontrol Ortamı [Coso Internal Control Model and Control Environment]. *Finans Politik ve Ekonomik Yorumlar Dergisi*, 52(602), 65-74.

Türk Dil Kurumu (TDK) (http://www.tdk.gov.tr/index.php?, 15.05.2021).

Ward, J. (2014). *Aile Şirketinde Başarının 3 Koşulu [3 Conditions for Success in Family Business]*. (www.capital.com.tr/yonetim/liderlik/aile-sirketinde-basarinin-3-kosulu, 14.05.2021).

COSO, *Internal Control – Integrated Framework*. (https://www.coso.org/documents/coso-crowe-coso-internal-control-integrated-framework.pdf., 17.05.2021).

Biography

Erhan POLAT serves as Dr. in the department of Business Administration, Mardin Artuklu University, Republic of Turkey. He teaches courses on accounting and law at associate, undergraduate and post graduate levels. He presented or partnered with 4 research articles, 4 book chapters, 3 research projects, 1 book and 10 international symposiums.

CHAPTER 3

INSTITUTIONALIZATION OF FAMILY BUSINESSES AND CORPORATE ENTREPRENEURSHIP

KEREM KAPTANGIL

Introduction

Institutionalization is a dynamic process that develops as a result of the sensitivity of the enterprise to environmental change and is formed by efforts to adapt to this change. On the other hand, corporate entrepreneurship, is the process of establishing a different structure within the business, encouraging the entrepreneurial spirit of the employees and directing the organization toward change and innovation. These two concepts are seen as activities that will ensure the continuity and efficiency of family businesses that have a large share in the world economy.

Since about 80% of the world's businesses are family businesses, institutionalization of them is seen as the most important key to the stable growth of global economies. However, the concepts of institutionalization and corporate entrepreneurship manifest themselves in studies in which dimensions related to different concepts are examined in the literature. While institutionalization is mostly considered as a problem of family companies, corporate entrepreneurship has been examined especially in terms of its effect on organizational performance. Corporate entrepreneurship has emerged as a concept that has rapidly increased in importance in recent years and facilitates organizational renewal and growth within the company. Especially, institutionalized enterprises aim to gain an entrepreneurial identity in order to gain competitive advantage and to take advantage of opportunities in competitive environments. As a result, the concept of corporate entrepreneurship has become a valuable research and study subject in the field of management sciences. One of the reasons that this concept is so popular is that it allows organizations to use the innovative talents of their employees and managers in their work. The concepts of institutionalization and corporate entrepreneurship in family businesses, which are attempted to be explained in relation to them, constitute a roadmap in terms of gaining the corporate identity of family businesses that have a large-scale economic power and thus the sustainability of their assets.

Corporate Entrepreneurship

Corporate entrepreneurship is a management approach that has been preferred to eliminate many problems that have arisen in the process of family businesses especially in recent years. In general, the institutionalization approach has been determined as a preferred form of organizational behavior in order to convert certain opportunities into added value. It is seen that the concept of corporate entrepreneurship is widely used in the international literature to express company-based entrepreneurship activities carried out at the organizational level, without discrimination of scale (Erkocaoğlan and Özgen, 2005). Therefore, as stated in many studies (Schollhammer, 1981; Jones and Butler, 1992; Sharma and Chrisman, 1999; Bulut and others, 2008; Guth and Ginsberg, 1990; Wiklund and Shepherd, 2005; Hayton and Kelley, 2006) the concept of corporate entrepreneurship is used to describe entrepreneurial activities at the organizational level. Miller's research named "The Correlates of Entrepreneurship in Three Types of Firms" (1983) is considered to be the beginning of the field of corporate entrepreneurship. In this research, Miller examined the entrepreneurship understanding of companies and environmental and organizational variables and as a result, he stated that the components that businesses need are innovation, risk-taking and creating new opportunities. On the components of corporate entrepreneurship, Pinchot (1985) highlighted new ideas and suggestions, Peters and Hisrich (1985) highlighted new investments and inventions, and Kuratko and Zahra (2002) highlighted organizational profitability and strategic innovations. Studies on corporate entrepreneurship in the literature indicate that the field of corporate entrepreneurship develops around three main streams (Antoncic and Hisrich, 2003). The first trend focused on individuals who direct creative and innovative activities and made inferences on the relationship between individual characteristics and entrepreneurial understanding. In the second stream, researchers worked on the creation of corporate entrepreneurship conditions, and conduct research on the conditions for the creation of an innovative environment in enterprises. In the third trend, corporate entrepreneurship has been accepted as a managerial strategy and focuses on innovative tasks determined as new jobs.

Institutional entrepreneurship levels in family businesses generally suffer serious damages during generational transition, and often turn into structures that cannot last into third generations (Pazarcık, 2004). The results of the studies conducted in the literature have reached a common point that argues that the continuity of family businesses can be achieving through institutionalization. The most basic formula for this is to ensure continuity by attempting to implement certain standards and procedures to be achieved through institutionalization in family businesses, thus eliminating nepotism, role ambiguities and role confusion. In the studies carried out on institutional entrepreneurship, it has been associated with many factors and information has been obtained that will provide significant input to businesses. Zahra (1996) revealed that management and property significantly affect entrepreneurship and this effect varies within the framework of technological opportunities. Birkinshaw (1997) determined that internal and external entrepreneurship has a serious impact on creating competitive advantage. Barringer and Bluedorn (1999) examined the concepts of corporate entrepreneurship and strategic management in the USA and reported that the productivity of these two concepts had significant effects; Lassen (2006) suggests that when corporate entrepreneurship is applied together with radical innovations, innovations lead to various opportunities; Holt (2007) states that corporate entrepreneurship plays an intermediary role between processes and personal characteristics, as well as performance and job satisfaction; Alpkan (2005) argues that when the innovation trend is evaluated together with corporate entrepreneurship, it provides serious benefits in creating a competitive advantage; Danişman and Erkocaoğlu (2007) propose that proactive, risk-taking and innovation dimensions of corporate entrepreneurship affect performance positively; Fiş and Çetindamar (2009) state that corporate entrepreneurship and performance have a significant relationship and that strategic renewal affects performance positively; and Altuntaş and Dönmez (2010) argue that the positive effects of profitability, growth and liquidity on performance and the positive effects of innovation can be achieved through institutionalization.

Components of Corporate Entrepreneurship

Corporate entrepreneurship, which is a very important method in the field of institutionalization, has been created by a number of components. The realization of corporate entrepreneurship, the most fundamental element of which is innovation, is possible with the efficient combination of eight components. These components can be listed as follows;

New Initiatives: In today's global competitive environment, organizations must have a set of innovation-oriented strategies and an organizational structure suitable for these strategies in order to catch up and survive (Damanpour, 1991; Dougherty and Hardy, 1996; Barringer and Bluedorn, 1999). The new business venture component can be explained as creating a new business, redefining the products and services within the business, and thus developing for new markets (Antoncic and Hisrich, 2001). To survive in the long term and maintain competitive advantage the business management must listen to innovative ideas, and support such projects (Zahra, 1993; Antoncic and Hisrich, 2004; Bulut and Alpkan, 2006). The emergence of innovative ideas and projects is from employees and dependent on the character, beliefs, values and vision of the business management in place (Guth and Ginsberg, 1990; Schein, 1992). The subjects of the innovation tendency may be in the form of a new product, service, process, or management system or combinations of these that will provide commercial value or added value to the firm (Damanpour, 1991; Dess and Lumpkin, 2005).

New Jobs: The new jobs component is to head towards new business areas within the existing structure without creating a new business within the business. On the other hand, a new organizational element is formed in the new enterprise component. This dimension is one of the most striking features of corporate entrepreneurship as it may result in the development of new markets and the creation of a new business (Antoncic and Hisrich, 2001).

Product Innovation: Product innovation is the revealing of goods and services that are modified according to their important features or areas of use (Kendir, 2010). This situation reveals the innovation factor. On the other hand, innovativeness refers to creativity and experimentation in introducing new products, new product varieties, being a leader in technology, and a willingness to support research and development in the development of new processes (Lumpkin and Dess, 2001).

Process Innovation: Process innovation is the realization of a new or significantly improved production or delivery method. In other words, process innovations can be defined as tools, devices and information technology that are new for an industry, organization or department and used to transform inputs into outputs (Kendir, 2010; Seyrek, Akgün, and Özer, 2007). This component of corporate entrepreneurship is of great importance as it provides companies with competitive advantage.

Self-renewal: The reformulation of strategies, reorganization of the organization, and regeneration of core capabilities (key ideas) along with organizational change are regarded as "self-renewal or strategic renewal"

(Antoncic and Hisrich, 2001; Sharma and Chrisman, 1999; Guth and Ginsberg; 1990). The creation of a core skill and its implementation in the organization increase efficiency and performance, while bringing dependency and inertia.

Risk-taking: Risk, defined as the possibility of loss, is seen as an integral part of the innovation behavior of existing organizations, their tendency to start new ventures, and their assertive or proactive actions. The risk component, which also refers to risk taking, effective monitoring of opportunities and focusing on resources and bold steps, is the most important element of corporate entrepreneurship (Hisrich and Peters, 2002; Lumpkin and Dess, 1996). Theoretically, the concept of entrepreneurship is integrated with the concept of risk. Cantillon (1755) has written on the nature of trade and considered the birth of the concept of entrepreneur as an entrepreneur in the experiment, as a risk taker in order to gain a profit as a result of his activity. In the conceptual development of entrepreneurship, risk-taking behavior is merely making a profit.

Proactivity: According to Lumpkin and Dess (1996), proactivity means that the organization explores the opportunities created by the changes and developments in its environment, to make predictions for future periods, to develop new products and processes, and to compete by innovating. In another definition, proactivity is defined as the fact that organizations present new products, technologies and management techniques before their competitors in their main fields of activity and capture market leadership (Covin and Slevin, 1989; Antoncic and Hisrich, 2001).

Competitive Aggression: Competitive aggression is the tendency of the organization to challenge its competitors on entering the market or strengthening its current position. The aim of the organization, which adopts an aggressive attitude, is to neutralize its competitors in the market and to make a difference by getting stronger. Examples include competitive methods of aggression, focusing on the weaknesses of competitors, and turning to high value-added products. Competitive aggression, which means competing head-to-head to gain competitive advantage, is an important dimension of corporate entrepreneurship (Lumpkin and Dess, 1996. Especially, in an environment where the market growth rate is slow, and there is a race to take advantage of limited opportunities, competition naturally turns into antagonism.

Strategic Renewal: In this component of corporate entrepreneurship, the company is exploring how to change its style of competition. In this way, while focusing on renewing the strategies it uses to adapt to the external environment, it also changes the structure of competition with its competitors. This situation will usually be possible by changing a fundamental strategic understanding that requires courage but cannot be easily applied.

Application Types of Corporate Entrepreneurship

There are four types of corporate entrepreneurship practices that aim to revitalize, redefine or initiate innovation in order to gain competitive advantage and to adopt corporate entrepreneurship (Covin and Miles, 1999). It is possible to list these types as follows:

- Sustainable renewal
- Organizational renewal
- Strategic renewal
- Redefining the field of activity.

Sustainable Renewal: Companies that have turned toward continuous renewal regularly offer new products to the market or enter new markets. While these companies fulfill the criteria of being a learning organization, they do not hesitate to fight their competitors in order to increase their market share by favoring change. Continuous innovation allows the company to explore idle or underdeveloped markets.

Organizational Renewal: The goals of organizational renewal include internal processes, organizational structures and organizational skills. As one type of corporate entrepreneurship, the enterprise at the stage of organizational renewal stands out due to the innovations it realizes in its processes and managerial structure rather than its product innovations. One or more of the activities of the company must be renewed in order to be able to say that organizational renewal efforts are successful. This renewal can be seen in primary activities such as internal logistics and manufacturing, as well as secondary activities such as purchasing and human resources.

Strategic Renewal: In this type of corporate entrepreneurship, a company is exploring how to change the style of competition. In this way, while focusing on renewing the strategies it uses to adapt to the external environment, it also changes the structure of competition with competitors. Different methods can be followed to ensure competitive advantage, which is the most important element of discretionary management. In this case, what needs to be done is to analyze the external environment and the action areas of the competitors in the future plans.

Redefining the Field of Activity: In this type of corporate entrepreneurship, a company aims to gain the advantage of being the first to enter the market by entering a market area unrealized by others and discovering other possible opportunities rather than the existing opportunities in the market (Covin and Morgan, 1999). The business that first enters the market can benefit by maximizing its profitability with the advantage of offering new products. There are many entrepreneurs who have the advantage of being the first to introduce a new product to the market. For example, for a long time many entrepreneurs such as Motorola, the company that produced the first mobile phone, and Carrier, the inventor of the air conditioner, have contributed to their development by using the advantage of being the first in the market.

Family Business and Corporate Entrepreneurship

Family businesses generally have a significant growth momentum depending on the developing conditions, including a process starting from its establishment, and they are obliged to make serious innovations on some issues and to make changes at many points by considering the continuity of this growth momentum. However, due to the fear and hesitation as to whether the success of the family businesses may disappear with the innovations considered in addition to the business processes and the need for new employees, they show resistance against institutionalization moves (Uçkun and Yüksel, 2007). Family businesses in Turkey have a large market share among businesses in general. On the other hand, although a large number of family businesses have adopted a professional management approach, unfortunately they have focused on the familiar and more classical structures and organizations that are far from being institutionalized. Accordingly, the ability of family businesses to compete weakens and the performances of family businesses are negatively affected (Tutar, 2012). This situation has a compelling effect on businesses in the process, and in order to ensure continuity, institutionalization has become an imperative for handing over family businesses to future generations (Erdoğmuş, 2007). When the studies conducted were generally examined, it was revealed that among the establishment aims of family businesses are providing job opportunities for the children of the family, maintaining the values considered as a family heirloom, keeping the family together, ensuring the financial continuity of the assets and organizing activities for the benefit of the society (Vera and Dean, 2005). On the other hand, family businesses that have important advantages in terms of business activities carried out in order to achieve these goals can form a much more robust structure than other companies in terms of making decisions quickly, the flexibility to take risky actions in decisions, and establishing and maintaining a high level of obedience and respect within the enterprise (Curimbaba, 2002; Hatch, 1997).

The most important difference between family businesses and other businesses is their special structure that requires the concepts of family and business to be maintained together. However, when these two elements are analyzed, the concepts of family and business appear as structures which have different social, cultural and economic goals. While the aim in family relations is the socialization of family members, ensuring the continuation of family cultures and traditions for generations, the sense of kinship in the family system and the dynamics related to it, businesses are rather based on rational variables. These rational variables manifest themselves as elements such as productivity, profitability and efficiency. In addition to these elements, many researches have been carried out to reveal the elements that distinguish family businesses from other businesses. The differences that come to the fore among these are related to the determination of vision, the organization of areas to be audited and audit mechanisms, and the provision of resources for these (Chrisman, 2003; Habbershon, 2003). In addition to those who think that family businesses are different from other businesses, whether in the same or different fields of activity, the main reason that a number of researchers (Sharma, 2004; Litz, 1997) tried to draw attention to the fact that discussions related to the subject could not just go beyond difference regarding description was that research on family businesses was very limited up until the 1980s in the literature. However, along with the magazine “The Family Business Review” published in 1988, reviews and research on family businesses were diversified (Astrachan, 2003).

The generation experiencing the biggest problem during the institutionalization process in family businesses is those family members who have the leader position in the family and have played an important role in the founding of the business. These individuals, the founders of the business, have strategic importance in terms of both family and business, and also act with a dominant cultural perception to ensure the continuity of the structure. The intellectual inferences and thoughts of these people regarding different situations are of vital importance in order to preserve the structure of the established family business, and this understanding should not be abandoned. However, the subsequent generations' attitudes and behaviors towards institutionalization reveal that the family business could open up to the outside world and the adopted ideas could be changed. The institutionalization processes of deep-rooted family businesses are generally possible thanks to new generations that gain a voice in the business later (Kobal and Yıldırım, 2016).

The process of institutionalization in family businesses is achieved through a series of restructuring and harmonization of the different elements that have been uncovered in order for the existing processes to function better within the family business. This restructuring process can involve creating a family constitution, determining a family council, a management transfer plan, sharing powers and responsibilities and using professional managers and consultants. When this is analyzed in terms of the institutionalization of family businesses, it is necessary to reconsider many elements that are deemed necessary as a process, and serious arrangements should be made in order to be able to achieve certain initiatives and/or changes. At this point, when the institutional entrepreneurship and institutionalization of family businesses are evaluated together, it turns out that younger generations are an important force in turning the closed system in family businesses into an open structure because they are more courageous and at the same time more open to innovation. When the weight of family businesses in the economies of countries is considered, their weight of 75% to 95% in the overall economy is determined to be 90% in the United States, 75% in the United Kingdom, 80% in Spain, and 95% in Italy, while this rate in Turkey is 95% (Genç and Karcıoğlu, 2004).

Conclusion

When the global economic movements and capital structures are examined, the importance of family businesses can be clearly observed. However, the biggest obstacle to institutionalization and corporate entrepreneurship in family businesses arises from the transfer of management to other generations and the short life expectancy of businesses. Many academic studies on family businesses (Barringer and Bluedorn, 1999; Lassen, 2006; Holt, 2007; Alpkan, 2005; Danişman and Erkocaoğlu, 2007; Fiş and Çetindamar, 2009; Altuntaş and Dönmez, 2010) reveal the importance of continuity and institutionalization for these important structures. Institutionalization helps family businesses to adapt to changing environmental conditions, and to ensure that harmony can be maintained. It is possible for family businesses to achieve this by adopting an understanding of corporate entrepreneurship and adapting it to the business structure and, as a natural consequence, by eliminating nepotism, role ambiguities and managerial separations. However, the realization of these situations in the process will be possible by strengthening corporate entrepreneurship activities in family businesses. The realization of corporate entrepreneurship depends on the use of innovative skills of employees and managers and their encouragement in this regard (Sharma and Chrisman, 1999; Thomson and

McNamara, 2001). In addition to employees, family business owners and professional managers also need to improve themselves institutionally and increase their knowledge and skills in all areas of management. In this way, it will be possible to resolve the problems experienced regarding the transfer of authority, management decisions, areas of responsibility and institutionalization requirements. So, the employees will have a reasonable risk-taking tendency and commitment to innovation for the firm's proactive breakthroughs. The support given by the senior management of the enterprise should be accepted by the employees. It is imperative that they show both their continuity and determination on this matter. The reward and penalty system should encourage risk-taking. Its acquisition and implementation will not only benefit the shareholders and the future of the business, but also bring with it the possibility of damage.

They will understand and adopt the necessary benefits for themselves and the companies. The current status of a company's strategic orientation is based on an environmental analysis that highlights opportunities and strengths rather than protects them; and strategic plans should focus more on innovative and proactive growth targets. This is especially achieved by inviting innovative business members to strategic planning processes, listening to their opinions and owning the in-house entrepreneurship motivation and goals. The allocation of resources should encourage in-house entrepreneurs. It is very important for personnel to provide the time, space, financial resources and equipment necessary for new ideas and projects. Even if all the physical resources are allocated, if the necessary free working time is not allocated to the in-house entrepreneurs, it is likely to experience problems in the progress and conclusion of the venture. However, encouraging the use of idle corporate resources within the organization will save on innovation initiative costs.

An effective implementation of corporate entrepreneurship understanding, which is the basis of institutionalization, should be based on the principle of protecting family unity. The implementation of corporate entrepreneurship in situations that may threaten family unity is an important factor that hinders the success of family businesses. The effective execution of this process will indirectly have an increasing effect on business performance. At the point of revealing the benefits of corporate entrepreneurship activities to family businesses, they should first raise their level of corporate entrepreneurship. As the management style is carried out, an objective perspective should be adopted by getting rid of subjectivity. A more dynamic management approach should be adopted by encouraging corporate entrepreneurship activities. It should be ensured that the idea that the capital owner should be effective in management, which is adopted in family businesses, is abandoned within the framework of corporate entrepreneurship understanding.

Keywords: Corporate Entrepreneurship, Family Businesses, Institutionalization

References

Antoncic, B. and Hisrich, R. D. (2000). Intrapreneurship Modelling in Transition Economies: A Comparison of Slovenia and The United States. *Journal of Developmental Entrepreneurship,* 5(1), 21–40.

Alpkan, L, Ergün, E, Bulut, C. and Yilmaz, C. (2005). Şirket Girişimciliğinin Şirket Performansına Etkileri [The Effects of Company Entrepreneurship on Company Performance]. *Journal of Dogus University*, 6(2), 175-189.

Altuntaş, G. and Dömez, D. (2010). Girişimcilik Yönelimi ve Örgütsel Performans İlişkisi: Çanakkale Bölgesinde Faaliyet Gösteren Otel İşletmelerinde Bir Araştırma [Entrepreneurship Orientation and Organizational Performance Relationship: A Study in Hotel Enterprises Operating in the Canakkale Region]. *Istanbul University Journal of The School of Business Administration*, 39(1), 50-74.

Astrachan, J. H. (2003). Commentary on The Special Issue: The Emergence of a Field. *Journal of Business Venturing*, 18(5), 567-572.

Barringer, B. and Bluedorn, A. (1999). The Relationship Between Corporate Entrepreneurship and Strategic Management. *Strategic Management Journal*, 20(5), 421-444.

Birkinshaw, J. (1997). Entrepreneurship in Multinational Corporations: The Characteristics of Subsidiary Initiatives. *Strategic Management Journal*, 18(3), 207-229.

Blumentritt, T. Keyt, A. and Astrachan, J. (2007). Creating an Environment for Successful Nonfamily CEOs: An Exploratory Study of Good Principals. *Family Business Review*, 20(4), 321-335.

Bulut Ç., Fiş, A., Aktan, B. and Yılmaz, S. (2008). Kurumsal Girişimcilik: Kavramsal Yapı Üzerine Bir Tartışma [Corporate Entrepreneurship: A Discussion on Conceptual Structure]. *Journal of Yasar University,* 3 (10), 1389–1416.

Chrisman, J. J., Chua, J. H., and Litz, R. A. (2003) Commentary: A Unified Perspective of Family Firm Performance: An Extension and Integration. *Journal of Business Venturing*, 18(4), 467–472.

Covin, J. and Morgan M. (1999). Corporate Entrepreneurship and the Pursuit of Competitive Advantage. *Entrepreneurship Theory and Practice,* 23(3), 47-63

Curımbaba, F. (2002). The Dynamics of Women's Roles as Family Business Manager. *Family Business Review*, 15(3), 239-252.

Damanpour, F. (1991). Organizational Innovation: A Meta-Analysis of Effects of Determinants and Moderators. *Academy of Management Journal,* 34, 555-590.

Danişman, A and Erkocaoğlan, E. (2007). Kurumsal Girişimcilik ve Firma Performansı: İmkb'de İşlem Gören Firmalar Üzerinde Bir Araştırma [Corporate Entrepreneurship and Firm Performance: A Research on Firms Traded in ISE]. *Economics, Business and Finance*, 22(260), 80-101.

Dougherty, D and Hardy. C. (1996). Sustained Product Innovation in Large, Mature Organizations: Overcoming Innovation-To-Organization Problems. *Academy of Management Journal,* 39(5), 1120–1153.

Erdoğmuş, N. (2007). *Aile İşletmeleri: Yönetim Devri ve İkinci Kuşağın Yetiştirilmesi* [Family Businesses: The Transfer of Management and Raising the Second Generation]. Igiad Publishing.

Erkocaoğlan, E. and Özgen, H. (2009). Kurumsal Girişimcilik ile Örgüt Yapisi Arasindaki İlişki [The Relationship Between Corporate Entrepreneurship and Organizational Structure]. *C.U. Journal of the Institute of Social Sciences,* 18(1), 203–214.

Fis, A. M. and Cetindamar, D. (2009). Unlocking the relationship between corporate entrepreneurship and performance. In PICMET'09-2009 Portland International Conference on Management of Engineering and Technology, pp. 1819-1830.

Genç, N., Güzel A. and Pamukoğlu E. (2006). Aile İşletmelerinde Dış Kaynak Kullanımında Sahip Yönetici Profesyonel Yönetici Arasındaki Tutum Farkları [Differences in Attitude Between Manager Professional and Outsourcing Family Businesses]. *2nd Family Business Congress Book*, 571–584. Istanbul Culture University.

Guth, W. D. and Ginsberg, A. (1990). Guest Editors Introduction: Corporate Entrepreneurship. *Strategic Management Journal,* 11 (5), 5–15.

Habbershon, T. G., Williams, M. L. and Macmillan, I. A Unified Systems Perspective of Family Firm Performance. *Journal of Business Venturing*, 18(4), 451–465.

Hayton, J. C. and Kelley, D. J. (2006). A Competency-Based Framework for Promoting Corporate Entrepreneurship, *Human Resource Management,* 45(3), 407–427.

Hatch, M.J. (1997). *Organization Theory*, Oxford University Press, Inc.

Hisrich, R. D. and Peters, M. P. (2002). *Entrepreneurship,* (5'th Ed.), McGraw- Hill/Irwin.

Holt, D., Rutherford, M. and Clohessy, G. (2007). Corporate Entrepreneurship: An Empirical Look at Individual Characteristics, Context, And Process. *Journal of Leadership and Organizational Studies*, 13(4), 40-54.

Jones, R. and Butler J. (1992). Managing Internal Corporate Entrepreneurship: An Agency Theory Perspective. *Journal of Management,* 18(4), 733-749.

Karcioğlu, F. (2010). *Aile İşletmelerinde Kurumsallaşma* [Institutionalization in Family Businesses]. Ekev Publishing.

Kobal, K. E. and Yıldırım, O. (2016), Aile İşletmelerinin Kurumsallaşma Sürecinde İkinci Kuşağın Yaşadığı Sorunlar Üzerine Bir Araştırma [A Research on the Problems of the Second Generation in the Institutionalization Process of Family Businesses]. *Marmara University Journal of Oneri*, 12(46), 97-120.

Kuratko, D. and Zahra, A. (2002). Middle Managers' Perception of the Internal Environment for Corporate Entrepreneurship: Assessing a Measurement Scale. *Journal of Business Venturing* 17(3), 253-273.

Lassen, A. Gertsen, F. and Riis, J. (2006). The Nexus of Corporate Entrepreneurship and Radical Innovation. *Creativity and Innovation Management*, 15(4), 359-372.

Lumpkin, G. T. and Dess, G. G. (2001). Linking Two Dimensions of Entrepreneurial Orientation to Firm Performance: The Moderating Role of Environment and Industry Life Cycle. *Journal of Business Venturing,* 16(5), 429–451.

Miller, D. L. S. (2003). Lost in Time Intergenerational Succession, Change, and Failure in Family Business. *Journal of Business Venturing,* 18 (4), 513–531.

Nordqvist, M., Sharma, P. and Chirico, F. (2014). Family Firm Heterogeneity and Governance: A Configuration Approach. *Journal of Small Business Management*, 52(2), 192-209.

Özer, B. S. (2007). Küçük ve Orta Ölçekli İşletmelerde Kurumsallaşma Düzeyinin İncelenmesi: Mersin İli Örneği [Investigation of Institutionalization Level in Small and Medium Sized Enterprises: The Case of Mersin Province]. Master *Thesis, Mersin University*

Pazarcık, O. (2004). Aile İşletmelerinin Tanımı Kurumsallaşması ve Yönetişimi [Definition of Family Businesses Institutionalization and Governance]. *1st Family Business Congress*, Istanbul Kültür University.

Peters P. M. and Hisrich, R. (1985). *Entrepreneurship: Starting, Developing and Managing A New Enterprise* (3'nd Ed.), Richard D. Irvin Inc.

Pinchot, G. (1985). *Intrapreneuring,* Harper and Row.

Schollhammer, H. (1981). The Efficacy of Internal Corporate Entrepreneurship Strategies. *Frontiers of Entrepreneurship Research*, 45,1-6.

Seyrek, İ. H., Akgün A. E. and Özer, G. (2007). Süreç Yeniliği Yapan Takımların Öğrenmesine Etki Eden Faktörler Ve Yenilik Çalışmasının Başarısına Etkileri [Factors Affecting the Learning of Process Innovative Teams and Their Effects on Success of Innovation Work]. *Gaziantep University Journal of Social Sciences,* 6(1), 17–31.

Sharma, P. and Chrisman, J. J. (1999). Toward A Reconciliation of the Definitional Issues in The Field of Corporate Entrepreneurship, *Entrepreneurship Theory and Practice*, 23(3), 11–27.

Thomson, N. and Mcnamara, P. (2001). Achieving Post-Acquisition Success: The Role of Corporate Entrepreneurship. *Long Range Planning*, 34 (6), 669-697.

Tutar, H., Yildiz, G. and Yilmazer, A. (2012). Aile İşletmelerinde Aile Değerleri Kurumsallaşmayı Engeller Mi? [Does Family Values Interfere with Institutionalization in Family Firms?]. *Journal of Çukurova University College of Business*, 16(1), 119-134.

Uçkun, C. G. and Yüksel, A. (2007). Aile Şirketlerinin Performansının Arttırılmasında Bir Strateji: Dış Kaynaklardan Yararlanma [A Strategy for Increasing the Performance of Family Businesses: Outsourcing]. *Selcuk University Karaman İ.İ.B.F. Journal,* 2007(3) 25-39

Vera, C. F. and Dean M. A. (2005). An Examination of The Challenges Daughters Face in Family Business Succession. *Family Business Review*, 18(4), 321-345.

Wiklund, J. and Shepherd, D. (2005). Entrepreneurial Orientation and Small Business Performance: A Configurational Approach. *Journal of Business Venturing,* 20(1), 71–91.

Yazıcıoğlu, İ. and Koç, H. (2009). Aile İşletmelerinin Kurumsallaşma Düzeylerinin Belirlenmesine Yönelik Karşılaştırmalı Bir Araştırma [A Comparative Research to Determine the Institutionalization Levels of Family Businesses]. *Selçuk University Journal of Social Sciences Institute,* 21, 497-507.

Zahra, S. (1996). Governance, Ownership and Corporate Entrepreneurship: The Moderating Impact of Industry Technological Opportunities. *Academy of Management Journal*, 39(6), 1713-1735.

Biography

Kerem Kaptangil is an Asst. Professor of the School of Tourism and Hotel Management at Sinop University, Turkey. He completed his PhD in the Faculty of Politics at Ankara University and studied post-doctorate at the

Business Faculty of Manchester University. He has taken part in many projects led by Emerald and Rockefeller. As his field of research, he studies business administration, economy and human research management. He has authored or co-authored around 25 research articles, 2 books and 5 book chapters. He is also a referee in many academic journals.

Chapter 4

Attitudes Against Institutionalization in Family Businesses and the Perspectives of the New Generation

Nuran Varişli

Introduction

With the effect of developments in information and communication technologies, the acceleration in the globalization process reveals new understandings in the business environment and creates a fiercely competitive environment. A nearly 85% share of family businesses in total businesses has brought them to an important place in the economy in the world. However, it is very difficult to ensure continuity in family businesses. Family businesses have difficulties in meeting the requirements of variable conditions due to the acceleration of changes in their environment and the increased complexity of business activities. The most important method of eliminating the difficulties is institutionalization and the attitude of the second generation. However, this situation is not easy.

Family companies also have a large share in Turkey's economy. Family businesses with such a large share experience major problems in terms of permanence. Family businesses, which are frequently observed on the basis of small- and medium-sized businesses, have some difficulties in achieving continuity. The most important source of these problems is the lack of institutionalization. On the other hand, it is seen that businesses that cannot take the path of institutionalization cannot grow economically; they stagnate and even tend to disappear. Businesses can be as institutional as possible so they can meet the requirements of the level of institutionalization, and they are as large and permanent as possible so they can meet these criteria. Institutionalization is an order and discipline for businesses.

When examining the literature on family businesses, the concept has many definitions. The common point of these definitions of family companies is that the family is placed at the base of the business (Fındıkçı, 2005). Definitions address the issue from different angles. For example, some definitions emphasize the family aspect of the family business and the founding personalities, while others attach importance to actively managing the business. In some definitions, the person to whom the property belongs is emphasized, and in others, how the management of the business is mainly handled (Kıran, 2007).

In companies that can achieve institutionalization, the entrepreneur transfers all their knowledge and experience to the company management and transforms their own knowledge and experience into the knowledge of the organization, so the business is not adversely affected when the entrepreneur dies; the business continues its life. Businesses that succeed in institutionalization continue without interruption, regardless of their position, even if any employee leaves their job. In these enterprises, jobs and job descriptions are clearly delineated; limits of authority and responsibility have been determined and all business processes have been put in writing. Therefore, even if the first investor in a corporate business die, the business continues to survive. In this context, it can be concluded that the life span of the enterprises that provide institutionalization, that is, their participation in the institutionalization level criteria, is not limited to the life of the founder.

The Relationship Between the Institutionalization of the Family and the Institutionalization of Family Businesses

The institutionalization of family companies achieves good communication between company employees, the prevention of conflicts of interest, the emergence of participatory management approaches and company profitability. In order to reduce the danger of disintegration after its establishment, the family company can be saved from risk by preparing transfer principles regarding the family constitution. The main problems for family companies are the failure to ensure continuity, placing importance on short-term planning, the founder's inability to give up their personal authority, and problems of transfer. The future owners of the family company should be open to innovation and the requirements of institutionalization, ensuring a fair management transfer and the sharing of management, increasing solidarity between family members, and harmonizing the transfer of authority with planned changes, also being open to professional management and consultancy support, intergenerational cohesion, and market conditions. In order to ensure harmony and the continuity of the company from generation to generation, it is necessary to know the attitudes of the new generation of family business owners towards change (Karpuzoğlu, 2004).

In Turkey, there are some problems in family companies that are the reason for their resistance to change and institutionalization. The aforementioned problems are as follows: resistance to using foreign resources, nepotism, an inability to demarcate family and work relations and role conflict, fear of losing authority, patriarchy, complacency, conservatism, family members seeing each other as rivals, the work-family balance, job descriptions not being created, family interests being different from company interests, technological developments not being followed sufficiently, the domination of the family culture over the corporate culture, unplanned management transfers, the resistance of the new generation in family businesses to emerging and unavoidable changes over time, an unwillingness of family business managers to work with professional managers, the family firm's unwillingness to consult, and the resistance to handing over the family business from generation to generation (Onay & Muter, 2005).

One of the important matters in terms of family businesses is the long life of the company and the transfer process occurring without incident. In family businesses, the most important issue that eases intergenerational transfer is the waiver of authority from the family manager. In addition, important problems that can negatively affect the life course of the company are financing, intergenerational competition, nepotic attitudes, and all conflicts within the family. The new-generation family managers who resist institutionalization and adopt an authoritarian and centralized understanding can be constant obstacles to change. The new-generation family business managers particularly ensure that decisions are mostly free from the family culture. In the upcoming process, with the effect of institutionalization, businesses can overcome the disintegration process by transferring to future generations under more favorable conditions (Özgener, 2003). Many business-related decisions, including delegation decisions, are not limited to the powers of the new-generation leader in the family, and those who have a positive attitude towards institutionalization in the business can easily enter the process of growth and sustainability without encountering barricades of resistance.

If the relations between the enterprises, which are a holistic structure of complex relations, and the subsystems of which they are formed, are not built, development and change are not possible. Family businesses, created by the labor of the founding generation, can survive as long as they care about institutionalization and professionalization. Family businesses that do not provide this care, harm society and individuals with the untimely death of companies and the death of well-equipped people (Öztürk, 2008).

Most Turkish entrepreneurs, who see companies that have been established with great devotion and attained a certain scale, as a "family business structure" rather than an "institutional structure", do not institutionalize the company and reflect the struggles within the family on the work. As a result, family businesses may collapse and disappear as a result of the death of the founding manager of the company or their resignation in some way (Mustakallio et al., 2002). In a differentiated world order, companies may think that success can be achieved again with the same strategy and tactics. This is one of the most significant threats in the context of the sustainability of businesses.

When it comes to institutionalization, it is generally understood that the boss has withdrawn from the company and left the job entirely to professionals (Erdoğan, 2008). Institutionalization is very important in all social structures and in this context, it is an important concept for family companies as well (Darman, 2011). The concept of institutionalization of the family is related to the written determination of the structure that shows the position that family members should have today, tomorrow and in the future. The success of institutionalization is directly related to the correct placement of the system (Yıldırım, 2007).

Management Obstacles to Institutionalization

Shareholders who do not have management experience, do not evaluate the return of new investments, and do not take an active role in the company can effectively prevent the family business from working (Öcal, 2020).

Issues preventing institutionalization in terms of the functional aspect of planning: Planning, which is one of the most important functions in terms of management, is the determination of the work to be done in the future of the company, the determination of the principles and working rules and the determination of the activity priorities. In light of this explanation, planning factors related to the problems that the company may encounter are as follows (Karasu, 2012).

- The failure to fully and systematically implement the strategic management planning approach,
- Plans of vital importance in the context of businesses being created only by the company owner,

- Plans being made to save the day instead of planning for the future,
- Family thoughts and plans being ignored, and making plans only on behalf of the company,
- A one-sided view of the event and lack of vision,
- Short-term future goals,
- Lack of clarification of duties in the business and family, and
- The incompatibility of duties in the business and family.

In the context of the organization of companies, obstacles to institutionalization are the organization of other managerial functions. The barriers to institutionalization in organizations as a combination of human factors for a certain purpose are listed below (Karpuzoğlu, 2004).

- The habit of acting very fast among entrepreneurs,
- The violation of the principle of hierarchy and the superior-subordinate relationship,
- Senior managers and entrepreneurs having a wide area of control,
- Not clearly identifying the sought-after features of recruits,
- Family members violating the rules arbitrarily,
- Negligence and violation of areas of responsibility and authority, and
- An entrepreneur-centered company structure that focuses only on the entrepreneur.

Company managers, who see the organizational process as unnecessary and a waste of time, may encounter blockages that will arise in the existing organizational structures as a result of growth, and they are insufficient in meeting customer demands and expectations.

Institutionalization barriers in the executive function: Institutionalization obstacles arising from the executive function that makes the institution dynamic are as follows:

+ The establishment of a board of directors within the company and the board's discussion of the decisions to be made about the company are not settled as an understanding,
+ Not paying attention to board meetings and sometimes these not being held at all,
+ The lack of a system that enables the discussion of the issues on the agenda in a democratic environment,
+ The family avoiding the delegation of authority to professionals for fear of loss of authority,

+ Acting with the thought of equal management rights in the family,
+ Top-level managers and entrepreneurs caring too much about close supervision,
+ The entrepreneur taking vital decisions about the company without consulting,
+ An increase in the number of family members willing to work in the institution due to the growth and progress of the company and its increasing profitability,
+ The quarrels of family members who are considered to be general managers,
+ Remuneration by family members without considering market conditions and performance results,
+ In human resources, policies such as promotions, appointments, career planning, hiring, and not giving importance to merit while considering family blood ties and kinship,
+ Not giving the necessary value to professional managers and personnel,
+ Reliability alone being considered sufficient in financing,
+ Lack of a properly structured performance evaluation and measurement system,
+ Different perspectives of active and passive owners towards dividends, and
+ Family members' expenses being ignored in spending control.

Obstacles faced by the coordination function in institutionalization: The tools required for businesses to carry out their business and work in a regular manner, and the institutionalization obstacles to the coordination function, which means ensuring order and harmony between departments and employees, are listed below (Taşhan, 2010):

➢ Negativities arising from conflicts between family members,
➢ Family members not trusting managers outside the family,
➢ Family members working like a boss,
➢ The authority and responsibilities of family members not being clearly defined,
➢ Professional managers not being invited to meetings by family members, and
➢ Family members making business decisions in non-business conversations rather than scheduled meetings.

Barriers experienced by the control function in institutionalization: The barriers to institutionalization related to the control function, which expresses the success of the planned decisions, are as follows (Taşkın, 2014):

- ✓ Considering internal audit mechanisms to be unimportant and worthless,
- ✓ Not creating an implementation/planning/control cycle,
- ✓ Lack of a control system that measures the impact and contribution of the work done in the institution, reveals possible deviations from the standard, and controls the work done without interruption,
- ✓ Lack of an appropriate performance evaluation and measurement system,
- ✓ Not drawing the workflow clearly and unambiguously,
- ✓ Lack of a healthy and valid reporting system,
- ✓ Lack of a system that determines critical control points, and
- ✓ Operating in the discipline system, involving only professionals.

The New Generations' Perspective on Institutionalization

If there are people selected on the basis of expertise and talent in business management, there is professional management (Koçel, 2010). The next generation after the founder can learn the job by participating in work for certain periods in the company and taking in-company training. In addition, the entrepreneur may want to encourage his/her children to undertake theoretical education in subjects parallel to his/her interests and to include the children in the company after their education. In this framework, although the entrepreneur is fully authorized, the management in the company becomes more complicated when the children are included. In this context, a child who will most likely become a manager at the head of the company may be less successful than a manager who will undertake the same task from outside the company (Carney, 2005).

A family business is a structure predominantly owned by family members that business managements perceive as a "family business". The question to be asked in this context is, “Is there a clear difference in the managerial understanding between the first generation and the second generation in family businesses?” (Arslan, 2006).

In order for companies to be successful, they need to have knowledge of their environment, existing structures, conditions and factors. The changes and developments that will occur in the external environment of the companies affect the company performance significantly. It is very important to understand the importance of these changes and developments in the survival of businesses. For this reason, companies need to observe the opportunities and potential difficulties that may arise and adapt to the changes in their environment. Changes in the roles of work and family members are included in the environmental changes and developments that affect companies today.

Aligning and organizing work and family roles is a dynamic process. It may not be possible to determine and carry out the process in question with traditional family values and business policies. Companies are experiencing a process of change in which their workplaces are reorganized (Gök, 2006). Today, costs are not the only determinants of competitive advantage. Many factors are much more important than costs, such as the speed of responding to market needs, the shortening of product life, product and service quality, design, new product and service development, producing products and services in line with customer demand, and new management and organizational models. The new-generation family business managers must both adapt to this change and have the ability to manage the company according to the conditions of the day. The new generation needs to know all the subtleties of the work in order to establish the balance. In most cases, due to their educational experience, the new generation cannot learn the intricacies of the work done, and therefore cannot take the necessary responsibilities (Elçi, 2006).

Family businesses are not open to the public, and the valuation method used in the sale of shares among their shareholders can be determined as an article in the family constitution. Company valuations are required in order to regularly execute share purchases and sale agreements between shareholders. Conducting regular valuations aids in pruning the family tree again, keeping loyal partners in the business and allowing shareholders with different purposes to leave (Öcal, 2020). The next generation must reach a level that can reflect the dominant role played by human capital in creating wealth in the global economy. Due to the fact that the economically powerful family members are generally educated in communities that have entered a new economic development process and have little educated manpower, the costs of such management are low and they are applied especially in small and simple organizations at the level of small industrialization, retailers and wholesalers. However, the progress of economic development and changing environmental conditions with modernization have increased the complexity and organizations in business activities, so the family management consisting of new generations has not been able to fulfill the requirements of these new conditions and has become an obstacle to economic development.

However, increasing competition, globalization, the necessity of institutionalization and being an international business bring companies with a strong entrepreneurial spirit to the fore. Family companies have a strong entrepreneurial aspect. For this reason, it is necessary to examine the characteristics, success conditions and problems of family companies.

Conclusion

The establishment phases of family companies formally begin with the determination of one of the commercial titles in the list of commercial laws and registration with the chamber of commerce. The type of family company to be established (joint stock, limited) is effective in providing institutionalization. The companies in question are suitable for institutionalization as they have different legal entities, the assets of the stakeholders and the company can be separated and the shares of their stakeholders can be transferred without affecting the company structure. Family companies should be institutionalized in a formal sense, the necessary units should be found in these companies and the regulations to be followed should be determined. However, among the factors that are effective in institutionalization are the willingness and determination of the management to institutionalize. Among the necessary elements in institutionalization are a leader who is willing and able to direct the subject, a corporate culture that has been settled for a long time, the creation of an organizational structure, and education, planning and supervision for the future. Relationships between family members are also of great importance in terms of institutionalization and their future in companies. Family relationships are determined according to the operation and structure of the company. Especially creating a "family constitution" is the first step towards institutionalization.

In terms of family companies, institutionalization is handled in two different dimensions. The first of these is “corporate institutionalization”; in other words, creating an organizational structure suitable for the purpose; creating job and job descriptions; and preparing company regulations including the adoption of a professional management approach by distributing authority and responsibilities. In the second dimension, there is institutionalization in family relations.

Businesses see themselves in a highly “institutionalized” dimension. In the majority of family businesses, for example, there is only an "accounting" unit, while there is no human resources unit. Purchasing is the job of the "accounting" unit. Although every job seems to be done with scientific methods, the methods in question are not fully known. Although it is thought that "professional testing techniques" are used in personnel selection, it is actually applied as a method of benefiting from the past experience of the manager. Although it is constantly stated that education is given, the logic that university graduates do not need education is observed as a common behavior.

Apart from this, it is seen that the wage policies are limited to the "minimum wage", the training on occupational health and safety is only "warnings", and the necessity of raising awareness of business owners in many different ways in our country on "institutionalization" has emerged. This can be carried out not only by business owners, but also by decisions to be taken together with local governments and industrial zone managers.

Today, in the face of growing competition with globalization, the new generation in family businesses should look positively to the need for institutionalization and adapt to changes and developments.

Keywords: Family Businesses, Institutionalization, New Generation

References

Arslan, E. T. (2006). *Aile Şirketlerinde Profesyonel Yöneticinin İkilemleri* [In Family Business Professional Manager's Dilemma] [Master's thesis, Süleyman Demirel Üniversitesi]. Süleyman Demirel University Open Access System. https://acikerisim.sdu.edu.tr/handle/123456789/31983

Carney, M. (2005). Corporate Governance and Competitive in Family Controlled Firms. *Entrepreneurship Theory and Practice*, 29(3), 249-265.

Darman, G. M. (2011). *Aile Şirketlerinde Kurumsallaşma Kılavuzu* [Institutionalization Guide in Family Businesses] (4th ed.). CGS Center.

Elçi, Ş. (2006). *İnovasyon Kalkınmanın ve Rekabetin Anahtarı* [Innovation: The Key to Development and Competitiveness] (5th ed.). Ankara Türk Bilişim Derneği Yayınevi.

Erdoğan, D. D. (2008). *Stratejik Yönetim ve Kurumsallaşma Üzerindeki Etkisi: Bankacılık Alanında Bir Uygulama* [Strategic Management and Its Effects on Institutionalization: An Application in Banking Field] [Master's thesis, Gazi Üniversitesi]. Gazi University Open Access System. https://dspace.gazi.edu.tr/handle/20.500.12602/176125

Fındıkçı, İ. (2005). *Aile Şirketleri* [Family Businesses] (6th ed.). Alfa Yayınları.

Gök, S. (2006). *21. Yüzyılda İnsan Kaynakları Yönetimi* [Human Resource Management in the 21st Century] (1st ed.). Beta Yayınevi.

Karasu, M. A. (2012). Büyükşehir Belediyelerinde Stratejik Planlama: Karşılaştırmalı Bir Analiz [Strategic Plan in Greater City Municipalities: A Comparative Analysis]. *Int. Journal of Management Economics and Business,* 8(16), 160-180.

Karpuzoğlu, E. (2004). *Büyüyen ve Gelişen Aile Şirketlerinde Kurumsallaşma* [Institutionalization in Growing and Developing Family Companies] (4th ed.). Hayat Yayınları.

Kıran, C. (2007). *Aile Şirketlerinde Kurumsallaşma Sendromu ve İstanbul OSD'deki Aile Şirketleri Üzerine Bir Araştırma* [Institutionalization Syndrome in Family Business and A Study on Family Companies in İstanbul İOSB] [Master's thesis, Dokuz Eylül Üniversitesi]. Dokuz Eylül University Open Access System. https://acikerisim.deu.edu.tr/xmlui/handle/20.500.12397/11569

Koçel, T. (2010). *İşletme Yöneticiliği* [Business Management] (18th ed.). Beta Yayınevi.

Mustakallio, M. (2002). Relations and Concractual Governance in Family Firms: Effects on Strategic Decision Making. *Family Business Review*, 15(3), 205-222.

Onay, M., & Muter, C. (2005). Aile Şirketlerinde Kurumsallaşma ve İkinci Kuşağın Kurumsallaşma Konusuna Bakış Açısı [Institutionalization in Family Businesses and Perspective of the Second Generation on Institutionalization]. *Dokuz Eylül Üniversitesi İktisadi İdari Bilimler Fakültesi Dergisi*, 21(1), 109-126.

Öcal, H. (2020). Aile İşletmelerinde Şirket Değerlemesinin Önemi ve Sık Kullanılan Yöntemler: Örnek Bir Uygulama [The Importance of Company Valuation in Family Businesses and Commonly Used Methods: A Case Study]. In O. Yılmaz, & S. Balı, (Eds.), *Aile İşletmelerinde Muhasebe, Finans ve Denetim* (pp. 69-90). Kriter Basım Yayın.

Öcal, H. (2020). Aile Şirketi Hissedarlarına Yönelik Finansal Okuryazarlık: Bir Örnek Uygulama [Financial Literacy for Family Business Shareholders: A Case Study]. In D. Celayir (Ed.), *Kamu ve Özel Sektör Uygulamaları Kapsamında Muhasebe ve Denetim* (pp. 207-226). Nobel Akademik Yayıncılık.

Özgener, Ş. (2003). Büyüme Sürecindeki Kobi'lerin Yönetim ve Organizasyon Sorunları: Nevşehir Un Sanayii Örneği [Management and Organization Problems of SMEs in the Growth Process: The Example of Nevşehir Flour Industry]. *Erciyes Üniversitesi İktisadi ve İdari Bilimler Fakültesi Dergisi*, 0(20), 137-161.

Öztürk, T. (2008). Değişen Çağın Aile İşletmelerinde Kurum Kültürünün Yerleştirilmesinde Profesyonel Yöneticilerin Beklentileri [Expectations from Professional Managers in the Establishment of Organizational Culture in Family Businesses of the Changing Age]. *Journal of Arts ans Sciences*, 1(10), 110.

Taşhan, A. (2010). *Aile Şirketlerinde Kurumsallaşma İle Stratejik Yönetim Arasındaki İlişki: Orta ve Doğu Karadeniz Bölgesi'nde Yerleşik Fındık Sanayi Üzerine Bir Araştırma* [The Relationship Between Institutionalization and Strategic Management in Family Firms: A Study About Hazelnut Industry in Middle And Eastern Black Sea Region] [Master's thesis, Marmara Üniversitesi]. Marmara University Open Access System. http://openaccess.marmara.edu.tr/handle/11424/19764

Taşkın, G. (2014). *Aile Şirketlerinin Kurumsallaşması Sürecinde İnsan Kaynaklarının Değişimi - Bir Alan Araştırması* [Change in Human Resources in the Process of Institutionalization of Family Businesses - A Field Study] [Unpublished master's thesis]. İstanbul Üniversitesi.

Yıldırım, F. (2007). *Türk Aile İşletmelerinde Aile Değerleri Üzerine Isparta İlinde Bir Çalışma* [A Study in Isparta Province on the Family Values That Obstructing Institutionalization in Turkish Family Businesses] [Master's thesis, Süleyman Demirel Üniversitesi]. Süleyman Demirel University Open Access System. https://acikerisim.sdu.edu.tr/handle/123456789/31901

Biography

Dr. Nuran VARIŞLI is currently working as an Expert in the Social Security Institution. She has a Bachelor's Degree in Management, a Master's Degree in Management and Organization and a Doctorate in Management. At the same time, she has a Master's Degree in Political Science and Public Administration and has undertaken education in Logistical Management. She has studied in the fields of Organizational Behavior, Public Relations, Management, Strategy, Human Resources Management, Finance, Leadership and Entrepreneurship. She has had important duties in Turkey's important public establishments such as the Ministry of Tourism, the Ministry of Labor and Social Security, the Grand National Assembly of Turkey, the Social Insurance Institution and the Social Security Institution. She has taught at Hacı Bayram Veli University Polatlı Social Sciences Vocational School.

CHAPTER 5

PROFESSIONALIZATION PROBLEMS IN FAMILY BUSINESSES

MURSEL GULER & ISIK ALTUNAL

Introduction

Family businesses constitute the basic dynamics of economic growth in our country as well as all over the world. As a matter of fact, it is known that the share of family businesses in all businesses in Turkey is 95%. For this reason, ensuring the sustainability of family businesses, which are the locomotive of our country, is of great importance in terms of ensuring the sustainability of the country's economy.

Since the structures of family businesses and family members are different from each other, family businesses are also defined differently in the literature. However, in general, it is possible to define family businesses as having a majority share owned by family members and at least two family members with blood ties working under the same roof. Many factors are mentioned in ensuring the sustainability of family businesses. One of these factors is institutionalization. Institutionalization can be defined as the transfer of certain standards to the enterprise in order to adapt to the changes occurring around the enterprise. In other words, the systematization of works means institutionalization. Professionalization is the rational way of doing things by competent people. Family businesses need to have a more institutional and professional structure due to the acceleration of environmental changes, the fact that businesses are subject to different regulations and processes as they grow, and business activities become more complex. It will be very difficult for family businesses that cannot professionalize and make the right investment decisions to adapt to changing environmental conditions.

Family businesses consist of three elements of family, business and ownership, and the fact that family and business elements are not independent from each other is seen as their weakest point. The intertwining of family and business elements brings nepotism (favoritism based on kinship) to the fore and this situation is seen as an obstacle to professionalization (Bingol et al., 2010). Organizational and managerial problems that arise as a result of nepotism in family businesses are mostly due to the lack of institutional infrastructure and this results in the disintegration, division or damage of family businesses.

In the study, based on the literature, professionalization steps for family businesses and the obstacles in front of the professionalization of family businesses will be mentioned and some solutions for professionalization will be presented.

Institutionalization and Professionalization in Family Businesses

Institutionalization is recognized as one of the most important steps to be taken to ensure the transfer of family companies to the next generations, to proceed with the same strength and to increase the profitability of the company.

Institutionalization refers to the implementation of structures and processes in a company to ensure that things work and, more importantly, the company grows in a healthy manner, without depending on the personal preferences of managers. Having an understanding of corporate governance is of great importance for the sustainability of corporate assets and the reputations of companies (www.sosb.org.tr, May 6th, 2021).

Institutionalization also refers to the repeated actions and habits that become standard within communities or the rules that must be followed. For example, the ways in which business employees address and greet each other, methods of reward and penalization, methods of decision-making, methods of dialog with customers, etc., actions and behavior styles can be expressed as institutionalization (Ulukan, 2005). Institutionalization theory focuses on the causes and consequences of organizational existence and continuity (Carney & Gedajlovic, 2002). There is an attempt to eliminate the lack of interfunctional coordination, the inadequacy of organizational structures, the lack of planning, inadequacies in execution and the lack of qualified human resources through institutionalization (Erdogmus, 2007).

Although institutionalization is very important for all social structures, it is much more important for family businesses. The sign of institutionalization in enterprises refers to the exercise of special organizational forms and the creation of an organizational field that is considered to be the field of organizational life (Melin & Nordqvist, 2007).

In businesses that grow to a certain stage, the owner of the business may be inadequate in its management. For this reason, the need for institutionalization increases even more when growth occurs in small- and medium-sized enterprises. This process is valid in family businesses (Erdogmus, 2007). In order to ensure institutionalization, elements such as writing down all the work flows and transactions, professionalization, the institutionalization of the family and independence from the family are considered. The most important of these elements is professionalization.

Professionalization activities in the management of businesses first began in the United States in 1891 with a donation to the University of Pennsylvania (Dyer, 1989). From that point, the concept of professionalization began to come to the fore in the organizational scheme and bureaucratic context. In later years, increasing interest in issues such as the "professionalization of organizations" or "professional bureaucracy" has focused on the structural dimensions of the organization (Karasu, 2001).

Although professionalization and institutionalization are often used as similar concepts, they actually have different meanings. Although the institutionalization of enterprises is desirable, having a family structure that dominates the family business will make institutionalization difficult. Since the family and the business are considered the same in family businesses, it is more difficult to separate processes from people; therefore, processes should be made professional, taking into account the influence of the family in family businesses (Dekker et al., 2013). It will be easier for family businesses to perform their processes in a professional manner, rather than institutionalization.

Institutionalization points to factors such as the creation of an organizational structure suitable for the purposes; writing up jobs and job descriptions; establishing internal regulations; the distribution of authorities and responsibilities and the transition to a professional management (TKYD & Deloitte, 2007). It is understood from here that professionalization is only one of the steps to be taken in the name of institutionalization. In the execution of the activities of the family businesses that have become professional, the work comes to the fore rather than the blood ties and the feeling of trust, and the activities are carried out by the people who will run the business (Ayanoglu, 2003).

Professionalization Process in Family Businesses

Several studies have shown how family members can also be professionalized and have the necessary competencies to manage their organization. Ensuring professionalization in the management of the family business is possible by taking care of training and carefully selecting members who will assume strategic control of the business (Camfield & Franco, 2019).

The concept of professionalization is not only limited to the inclusion of professionals in the business. The professionalization of family businesses takes place through the use of formal governance mechanisms, strategic planning and control systems, and the participation of non-family individuals on the board of directors and in the management team. Although the participation of non-family professionals in the decision-making process has a significant contribution in setting innovative goals, it would not be right to assume that all family members in executive positions are not professionals. Despite many studies, there is no consensus on whether managers who are family members are beneficial for family businesses (Howorth et al., 2016).

There are many reasons for the necessity of professional management in family businesses. These reasons are as follows (Dyer, 1989);

- The risk that family members lack the management skills and knowledge in important issues, such as finance and marketing, which are necessary for the business to stand. As the family business grows, it becomes even more important to include experts in tasks at critical points. This, in turn, will require family members to specialize or hire a non-family manager.
- The presence of the idea of changing the norms and values of commercial activities. Some values among family members may contradict the business values (profitability, productivity) of the business. It is assumed that this can be solved by hiring a non-family professional manager. It will be more difficult for family members to accept such ideas.
- Planning the time after the person leading the company retires makes professionalization necessary. As the founder or family leader may consider retiring in the near future, a screening may be conducted for subsequent executive candidates.

Professionalization seems to have an important place in the development of businesses. It is certain that with professionalization, businesses will more easily overcome the problems associated with growth.

It is seen that different criteria are used to determine the level of professionalization of family businesses. Some of these criteria are as follows;

- The presence of formal governance mechanisms such as the board of directors,
- The presence of formal strategic planning and control systems (budgeting, reporting, and managerial accounting),
- The participation of non-family members, often referred to as professional managers, on boards and in management (Dyer, 1989),
- Social and cultural characteristics,
- The effectiveness of management,
- The distribution of powers,
- The level of organizational development,
- The level of participation of family members in management,
- A non-family executive level,
- Management policies, and
- A management system (Camfield & Franco, 2019).

According to Scott (1995), organizations have to adapt to the pressures that come with interaction with their environment from the moment they start business. In addition, he suggests that organizations should respond by following the expectations of actors in the environment. The corporate environment can influence current corporate norms, such as family or professional norms; thus, the size of existing organizations and the way they do business can be influenced by the environment (Aldrich & Cliff, 2003).

Businesses further reinforce the legitimacy of existing norms and traditions by adopting corporate norms and traditions to facilitate their long-term survival (Lewin & Volberda, 1999; Lewin et al., 1999). Family businesses will become professional in order to do business with more corporate and professional businesses in their market. Family businesses can also become professional by doing business with corporate businesses, as well as by performing their activities in a more systematic and regular manner.

Obstacles in the Process of Professionalization of Family Businesses

When studies on the sustainability problems of family businesses in Turkey are examined, it is known that there are organizational and managerial problems. While property problems are expressed as organizational problems, it is also seen that there are administrative problems such as an inability to professionalize and a lack of institutional infrastructure. The confusion between family and business, which is the weak point of family businesses, is both an organizational problem and a managerial problem. For this reason, family businesses overcome this problem by creating a family constitution and take the most important step towards professionalization. How a family business will professionalize, how the business will gain an independent personality from family members, and how the relations between family members will be within the business are determined in the family constitution.

Reasons such as the lack of an independent financial control system in family businesses, the intervention of family members in company management, an inadequate system of human resources, a lack of proper distribution of power, and insufficient management are important obstacles in the professionalization process.

Financial Control System

It seems that most of the empirical studies on family businesses focus on the management of business earnings and the reporting of these earnings (Salvato & Moores, 2010). The presence of family members has a huge impact on the accurate reporting of business earnings (Wang, 2006). Since the manager and owner of the company are the same person, company success means executive success; it can be stated that this is especially seen in countries with a wider distribution of ownership, such as the United States and the United Kingdom (Hiebl, 2012). In contrast, family members who have a majority stake in businesses where ownership does not have a wider distribution may not protect the rights of the minority. In such cases, there must be an independent financial control system for the business to operate more systematically and reliably, and to defend the right of minority shareholders. In order for the healthy operation of a financial control system in some family businesses, it is seen that a non-family, professional financial manager is chosen. The first step toward the professionalization of family businesses is the preference of a non-family financial manager; in addition, empirical results show that non-family financial managers encourage the professionalization of the family business, the implementation of more sophisticated techniques for financial management, and a reduction in the potential financial risk of the family business (Filbeck & Lee, 2000). The presence of an independent financial control system is of great importance in professionalization.

The agency theory predicts that business managers can use resources for their personal purposes as well as to achieve their business goals (Jensen & Meckling, 1976). For this reason, business owners should develop systems that prevent business managers from focusing only on their own interests.

The development of an independent financial control system will resolve this conflict and establish a balance.

Family Members in Company Management

The closest and most important relationship between the entrepreneur and family members is the father-son/daughter relationship. This is because, in most businesses, the goal of the founder, the boss-father is to leave his business to his sons and daughters. However, it is a difficult, dangerous and problematic process for a son or daughter to take over the family business. In order for descendants to succeed in business and to minimize problems, they need their father's help at every point (Akdogan, 2000). Another important group in the family business is relatives. Anyone who is related to the family business by kinship can see himself/herself as a natural employee of the business. This, in turn, may cause a functioning problem in the business.

One of the distinctive features of modern societies is the importance given to the separation of work life and family life. Along with the concept of family businesses, this distinction is now unclear. This is because, in family businesses, family and business, tradition and entrepreneurship, bureaucracy and community are almost intermingled. Family businesses emerge as simple but quite strong and stable structures with their unique values, traditions and symbols, lacking formality and bureaucracy, and they are often seen as complex structures characterized by different interests and different, coordinated positions, providing their members with a certain level of flexibility and freedom of action (Irmis & Neslihan, 2011).

One of the important establishment goals of family businesses is to leave a family name to be transferred through the generations. However, the problems faced by family businesses threaten this goal. There are several non-business and in-business factors that affect the sustainability of family businesses. Non-business factors include variables such as economic conditions, environmental factors, competition, and market status (Birincioglu & Acuner, 2015). The biggest in-business factor affecting the life of family businesses is conflict between family members (Dyer, 1989).

The agency theory examines the impact of the relationship between ownership and management on the performance and continuity of the business. According to the agency theory, the efficiency of the company increases if the owners of the company and those who implement the decisions necessary for the operation of the company are different (Westhead & Howorth, 2006). It is certain that the gains made by efficiency will be greater than the agency costs incurred to monitor the actions and performance of managers. The separation of business ownership and management is seen as an important criterion for achieving rational economic goals (Westhead & Howorth, 2006).

Commissioning family members in business management without a certain system can also damage business activities and existing employees. Successful executive candidates will experience a loss of commitment and performance due to the appointment of people, who do not have enough experience, just because they are family members (Ozler & Gumustekin, 2007).

The separation of ownership structure and business management in family businesses is of great importance for business sustainability. Business activities will be more regular and supervision of managers will be easier. Moreover, the emotional impact from family ties will be minimized in executive performance evaluation.

Human Resources Control System

Studies examining the factors affecting human resources practices in businesses have identified factors such as company size, company development stage, family and non-family employees, and family impact (Botero & Litchfield, 2013). The human resources system proposed by Hoon et al. (2019) for family businesses is shown in Figure 5.1.

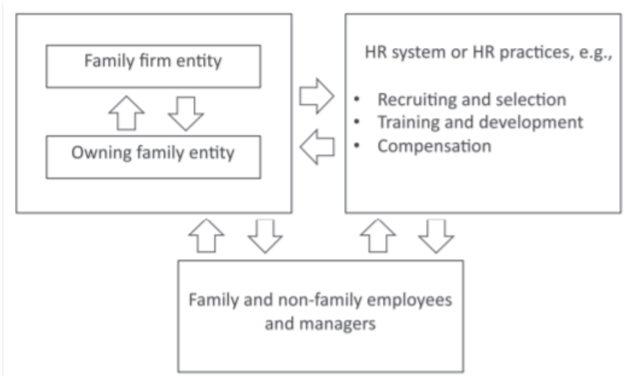

Figure 5.1: Human resources system in family firms. The model consists of three main elements (Hoon et al., 2019)

First, is the systemic whole that covers human resources practices such as training. This factor covers all corporate human resources practices that complement, replace and improve each other. Individual human resources practices should be conducted independently and isolated from other human resources practices, such as hiring, selection development, performance evaluation, and remuneration.

The second element of the framework is the unit of analysis. This analysis will allow an impartial examination and evaluation of the performance of human resources. Company size, the family generation of the business, and organizational characteristics are the main elements that affect this analysis unit. The family that owns the business will also have a big impact on the analysis unit, as family members will integrate their unique values, policies and preferences into the human resources system.

The third element of the framework is the perceptions of human resources stakeholders regarding the practices of human resources. Since a small percentage of business employees are family members in family businesses, the perception of employees regarding the system is of importance. Other employees should not feel alienated, as family values will affect human resources policies. The perceptions of employees who are and are not family members constitute the outlines of the third element.

Distribution of Powers

The decentralization of authority and delegation of decision-making authority are seen as an important process for the professionalization of family business management (Flamholtz & Randle, 2007). Family-run firms tend to downplay the formal routine and resist the delegation and decentralization of authority and responsibility, making them less suited to take advantage of opportunities in complex environments (Gulbrandsen, 2005). Hall and Nordqvist (2008) also address this paradox. Family managers state that they are seen as non-professional managers, regardless of their background and relationship with the firm. Non-family managers will be deemed professionals due to the criteria for their selection. As family members delegate their authority in business management to professional managers, the level of professionalization of the business will increase (Dekker et al., 2013).

Family members can focus on issues of strategic importance by delegating some of their authority. Moreover, it will be possible to get help from people who are experts in their field.

The delegation of authority in businesses also has an important place in the creation of a sense of trust. Business owners who are family members can increase the performance, loyalty to the organization and motivation of non-family members by delegating authority to them (Susanti & Sundiman, 2020). It is seen that the delegation of authority is of great importance for a more successful and systematic operation of processes in family businesses.

Management Effectiveness

Management effectiveness refers to the presence of a board, and the active work of this board, belonging to senior management in the family business. The presence of an active executive board in the family business will increase the quality of decision-making in the business (Gersick et al., 1997). There is a correlation between the frequency of board meetings and business performance in family businesses (Lipton & Lorsch, 1992). As the number of meetings increases, the performance of the business will also increase. A similar logic is also valid for the effectiveness of the management team. In order to effectively formulate and implement the strategy, managers need to interact with each other. Thanks to the exchange of ideas between the members of the board of directors, by interacting with each other, better decisions are made for the business.

Solution Offers for Family Business Professionalization

The intention of being professional does not mean leaving the business completely, stepping aside and leaving the work to the professionals. What is meant by professionalization is to be able to adapt to changing conditions, and to do the work more independently, in accordance with the boards and standards and in a systematic way. In other words, in order to do the work more institutionally, it is meant to create an organizational structure suitable for the purposes and to move to a professional management where authority and responsibilities are distributed. As a result of professionalization, family members will become more suitable for the changing environment. Adopting a strategic management approach as professionalization steps, choosing governance instead of management, realizing a common goal, a good corporate culture, risk management and reputation management are only one step in the beginning phase.

Recommendations for family businesses as part of professionalization are;

- They should learn to work with professional staff.
- They should trust professionals, satisfy them financially, set goals and measure their performance, warn underperforming professionals, and change them if necessary.
- They have to explain the family values and their red lines correctly

to the professionals they hire, and tell them that they have to work without undermining family values.

- They must be open to technology, and accept that they must equip their companies with modern management techniques.
- Family members can be very good traders, master industrialists, and have experience in marketing. However, this does not mean that they will perform every task in the enterprise and use every authority themselves.
- Especially in critical issues such as finance, quality management, and human resources, they should receive professional support and consulting services.
- Although it is known that a large number of family companies have been established, it should not be forgotten that a large number of family companies have also disappeared due to poor and shortsighted management.
- A family member in a managerial position in a family company should put the interests of the company above his/her own ego. They should not even bring up their personal egos.
- They should avoid imposing arbitrary rules on the company.
- As a family, they should contribute to the company, and the company should not be used to contribute to the family.
- Family businesses that act conservatively in order to avoid losing control of the company should always have professionals next to family members and listen to their advice (www.juno.financial.com, May 7th, 2021).

Conclusion

Due to the ongoing closures with the Covid-19 process, all businesses and national economies, which have come to a standstill in many sectors, have passed a tough test. Businesses that reduced their activities tried to take measures for both their own future and the health of their employees and struggled to survive. One of the most important innovations brought by the epidemic is digitalization. Except for sectors such as the tourism sector, family businesses that can keep up with digitalization have survived the epidemic period. This is because many businesses have actually closed and continued to provide online services instead. For this reason, throughout the pandemic process, businesses have been able to survive by protecting the health of their employees, protecting their cash balance, and having a more professional management approach for the future (keeping up with digitalization).

As seen with the pandemic process, business models have changed and it has become inevitable to use more digital technologies in every field. Although the use of digital technologies does not pose much of a problem for the younger generation, it can be a problem for the old member of the family who is still in charge of the business. For this reason, it is important to get help from professionals and to benefit more from young family members who can keep up with the requirements of the age in order to keep up with the changing business model.

As a result, the main actions to be taken in order to professionalize family businesses are;

- Having an effective distribution of tasks and getting help from professionals in important tasks or having professionals do them,
- Writing up workflows,
- Getting help from younger generation family members or professionals to adapt to the digital age more easily,
- This can be expressed as the creation of a strong corporate culture.

Keywords: Family Business, Professionalization, Institutionalization

References

Açıkbaş, H. (2015). Aile Şirketlerinde Kurumsallaşma ve Profesyonelleşme Institutionalization and Professionalization in Family Businesses]. http://www.juno.financial/aile-sirketlerinde-kurumsallasma-ve-profesyonellesme/ (06 May 2021)

Akdoğan, A. (2000). Aile İşletmelerinin Özellikleri ve Aile İşletmelerinde Kurumsallaşma İhtiyacı [Characteristics of Family Businesses and The Need for Institutionalization in Family Businesses]. Erciyes University Journal of Faculty of Economics and Administrative Sciences. (16), 31-47.

Aldrich, H. E., & Cliff, J. E. (2003). The Pervasive Effects of Family on Entrepreneurship: Toward a Family Embeddedness Perspective. *Journal of Business Venturing*, (18), 573-596.

Ayanoğlu, N. (2003). *Aile Şirketlerinde Yönetim ve Kurumsallaşma [Management and Institutionalization in Family Businesses].* Musiad Publishing, 42.

Aydemir, Ö. N. (2018). *Ülkemizde Aile Şirketlerine Genel Bakış ve Öneriler [Overview And Recommendations On Family Companies In Our Country]*. http://www.sosb.org.tr/haber/134/%20ulkemizdeki-aile-sirketlerine-genel-bakis-ve-oneriler.aspx (06 May 2021)

Birincioğlu, N., & Acuner, T. (2015). Aile İşletmeleri Kurucularının ve Aile Değerlerinin Aile İşletmelerinin Sürdürülebilirliği Üzerindeki Etkisi: Trabzon örneği [The Effect of Family Business Owners and Family Values on Family Business Sustainability: The Case of Trabzon]. *International Journal of Economic & Administrative Studies*, *7*(14), 491 – 515.

Bingöl, D., Sığrı, Ü., Tuncay, A., & Coşkun, E., (2010). Aile İşletmelerinin Kurumsallaşmasında Bir Dönüşüm Aracı Olarak Avrupa Kalite Yönetimi Vakfı (EFQM) Mükemmellik Modeli: Aras Kargo Örneği [European Foundation for Quality Management (EFQM) Excellence Model as a Transformation Tool in the Institutionalization of Family Businesses: The Case of Aras Cargo]. *International Family Business Congress-Aik'10, Congress Book,* Istanbul Kultur Univ. Publication No: 123. ISBN: 978-605-4233-28-1

Botero, I. C., & Litchfield S. R. (2013). Exploring Human Resource Management in Family Firms: A Summary of what We Know and Ideas for Future Development. In: Smyrnos KX, Poutziouris, P. Z., & Goel, S. (Eds.), *Handbook of Research on Family Business.* (2nd ed.). Cheltenham: Edward Elgar Publishing. (pp. 371–405).

Camfield, C., & Franco, M. (2019). Theoretical Framework for Family Firm Management: Relationship Between Personal Values and Professionalization And Succession. *Journal of Family Business Management,* 9(2), 201 – 227.

Carney, M., & Gedajlovic E., (2002). The Co-evolution of Institutional Environments and Organizational Strategies: The Rise of Family Business Groups in the ASEAN Region, *Organization Studies,* 23(1), 1-29.

Dekker, J. C., Lybaert, N., Steijvers, T., Depaire, B., & Mercken, R. (2013). Family Firm Types Based On The Professionalization Construct: Exploratory Research. *Family Business Review*, *26*(1), 81-99.

Dyer, W. G. (1989). Integrating Professional Management Into A Family Owned Business, *Family Business Review*, 2(3), 221-235.

Erdoğmuş, N. (2007). *Aile İşletmeleri: Yönetim Devri ve İkinci Kuşağın Yetiştirilmesi [Family Businesses: Transfer of Management and Raising the Second Generation].* İGİAD Publishing.

Filbeck, G., & Lee, S. (2000). Financial Management Techniques In Family Businesses, *Family Business Review*, 13(3), 201–216.

Flamholtz, E. & Randle, Y. (2007). *Growing Pains: Transitioning from an Entrepreneurship to a Professionally Managed Firm*, (4nd ed.). Jossey-Bass.

Gersick, K. E., Davis, J. A., Hampton, M. M., & Lansberg, I. (1997). *Generation to Generation: Life Cycles of Family Business*, (1st ed) Harvard Business School Press Books.

Gulbrandsen, T. (2005). Flexibility in Norwegian Family-Owned Enterprises. *Family Business Review*, *18*(1), 57-76.

Hall, A., & Nordqvist, M. (2008). Professional Management in Family Businesses: Toward an Extended Understanding. *Family Business Review*, 21, 51-69.

Hiebl, M. R. (2012). Peculiarities of Financial Management In Family Firms. *International Business & Economics Research Journal (IBER),* 11(3), 315-322.

Hoon, C., Hack, A., & Kellermanns, F. W. (2019). Advancing Knowledge on Human Resource Management In Family Firms: An Introduction And Integrative Framework. *German Journal of Human Resource Management*, *33*(3), 147-166.

Howorth, C., Wright, M., Westhead, P., & Allcock, D. (2016). Company Metamorphosis: Professionalization Waves, Family Firms and Management Buyouts. *Small Bus Econ*, 803-816.

İrmiş, A., & Neslihan, A. (2011). Aile İşletmelerinde Aile Üyelerinin İstihdamı Denizli Aile İşletmelerinde Bir Araştırma [Employment of Family Members in Family Businesses: A Study in Denizli Family Businesses]. Pamukkale University Journal of Social Sciences Institute, (8), 19-33.

Jensen, M. C., & Meckling, W. H. (1976). Theory Of The Firm: Managerial Behavior, Agency Costs And Ownership Structure. *Journal of Financial Economics*, 3(4), 305–360.

Karasu, K. (2001). Profesyonelleşme Olgusu ve Kamu Yönetimi [Professionalism and Public Administration]. *Mülkiyeliler Birliği Vakfı Publishing*.

Lewin, A. Y., & Volberda, H. W. (1999). Prolegomena On Coevolution: A Framework For Research On Strategy and New Organizational Forms. *Organization Science*, 10(5), 519-534.

Lewin, A. Y., Long, C. P., & Carroll, T. N. (1999). The Coevolution of New Organizational Forms. *Organization Science*, 10(5), 535-550.

Lipton, M., & J. W. Lorsch (1992). A Modest Proposal for Improved Corporate Governance. *Business Lawyer* 48(1), 59-77.

Melin, L., & Nordqvist, M. (2007). The Reflexive Dynamics of Institutionalization: The Case of The Family Business. *Strategic Organization* 5(3), 321 – 333.

Meşe, B. (2005). *Aile Şirketlerinin Kurumsallaşması [Institutionalization of Family Businesses]*.Gebze Technical University Social Science Institute, Master's Thesis.

Özler, H., & Gümüştekin, G. E. (2007). Aile İşletmelerinde Nepotizmin Gelişim Evreleri ve Kurumsallaşma [Development Stages of Nepotism and Institutionalization In Family Businesses]. The Journal of Selcuk University Social Sciences Institute, 1(17), 437-450.

Salvato, C., & Moores, K. (2010). Research on Accounting In Family Firms: Past Accomplishments and Future Challenges. *Family Business Review*, 23(3), 193–215.

Susanti, S., & Sundiman, D. (2020). The Influence Of Personal Value On Family Business Professionalism (Sme Case Study In Batam). *Jurnal Terapan Manajemen Dan Bisnis*, *6*(2), 34-36.

Türkiye Kurumsal Yönetim Derneği (TKDY) & Deloitte, 2007. Aile Şirketleri İçin Adım Adım Kurumsal Yönetim [Step by Step Corporate Management for Family Businesses]. http://www.tkyd.org/files/downloads/faaliyet_alanlari/yayinlarimiz/tkyd_yayinlari/aile_sirketleri_icin_adim_adim_ky.pdf (05 May 2021)

Ulukan, C., (2005). Girişimcilerin ve Profesyonel Yöneticilerin Kurumsallaşma Perspektifi [Perspectives of Institutionalization of Entrepreneurs and Professional Managers]. The Journal of Anadolu University Social Sciences Institute. 2, 29 - 42.

Wang, D. (2006). Founding Family Ownership and Earnings Quality. *Journal of Accounting Research*, 44(3), 619–656.

Westhead, P., & Howorth, C. (2006). Ownership and Management Issues Associated with Family Firm Performance and Company Objectives. *Family Business Review*, *19*(4), 301-316.

Bıographies

Dr. Mürsel GÜLER

He was born in 1987 in Bursa. After completing his high school education in Bursa, Turkey, he graduated from Dokuz Eylul University (Izmir-Turkey) Business Administration Department.

In 2012, he was appointed as a Research Assistant to Kutahya Dumlupinar University Management and Organization Department in Turkey. After starting to work at Kutahya Dumlupinar University, he successfully completed her master's degree in 2014 Health Management at Dokuz Eylul University and he successfully completed her doctorate in 2019 Kutahya Dumlupinar University Business Administration Department.

Dr. Mürsel GÜLER, who is still working as a Research Assistant at Kutahya Dumlupinar University, has published many articles, book, and book chapters in the fields of Corporate Reputation, Corporate Social Responsibility, Organizational Behavior and Business Administration, which are scanned in national and international indexes.

Phd Res. Asist. Işık ALTUNAL

He was born in 1989 in Istanbul. After completing his high school education in Istanbul, Turkey, he graduated from Gazi University (Ankara-Turkey) Accounting and Finance Teaching Department, where he continued his education with the first degree.

In 2014, he was appointed as a Research Assistant to Kutahya Dumlupinar University Accounting-Finance Department in Turkey. After starting to work at Kutahya Dumlupinar University, she successfully completed her master's degree in 2015 and her doctorate in 2019 and received her diploma.

Since he started his doctorate in 2015, he has been supported by the Scientific and Technological Research Council of Turkey (TÜBİTAK) scientist support program with 2211-A General Domestic Doctorate Scholarship Program. Işık ALTUNAL, who is still working as a Research Assistant at Kütahya Dumlupınar University, has published many articles, book, and book chapters in the fields of Accounting Manipulation, Unfair Competition, Accounting Information Systems, and Business Administration, which are scanned in national and international indexes.

CHAPTER 6

THE IMPORTANCE OF THE FAMILY CONSTITUTION IN THE INSTITUTIONALIZATION OF FAMILY BUSINESSES

GÜLBENIZ AKDUMAN & ZEYNEP HATIPOĞLU

Keeping a family business alive is perhaps the most difficult management task in the world.
—John Ward

Introduction

Family businesses are the most common type of company in Turkey as well as in the world. It is known that more than 40% of the companies in Fortune 500 are family businesses. It is seen that the rate of the family business varies from country to country in the world and it is approximately 95% in our country (Sönmez, 2010). While family businesses are generally small, they grow over time and become national or even international companies. However, the lives of these enterprises are short and the number of enterprises transferred to the next generations is very low. For example, the average period from birth to the liquidation or transfer of the world's 500 largest companies is 40-50 years. For this reason, it is necessary not to see these institutions as a static entity like a commodity or a machine, but to accept that these organizations have a unique personality (Uçkun and Yüksel, 2007). In Turkey, the average life span of family businesses is 25 years. Only 30% of these family businesses can move to the second generation and 12% to the third generation. The rate of those that pass to the fourth generation is 3%. The number of enterprises established in the pre-Republic period and continuing today is only 69 (Sabancı, 2017). These data reveal the importance of family businesses attaining a corporate structure. However, it is not possible to define the phenomenon of institutionalization and to apply the same method for every family business.

In addition, family businesses need to protect their unique strengths. Therefore, it is important to understand the current structure and strengths correctly and to design a company that can survive in the future. According to the "Family Business Survey 2021" report conducted by the international consultancy firm PWC with 2801 senior executives from 87 countries, only 37% of family businesses have a sustainable strategy and family constitution, and past experiences and values alone are not enough to carry the family business from the past to the future. The necessity of institutionalization is emphasized (PWC, 2021). In this context, the purpose of this section is to explain institutionalization and the family constitution that regulates the relations of family members and stakeholders, which is critical in institutionalization.

1. Family Business

1.1 Structure and Management of Family Businesses

In family businesses, the property is in the hands of the family. The owners of the family business are dominant and authoritarian and behave in a way that directly interferes with the administration (Fındıkçı, 2005). The family business owner effects his position in the family business, and his role within the company involves his prestige within the family (Karpuzluoğlu, 2002). Since the owners of family businesses have progressed from the kitchen of the business (sarcastically) by doing everything over the years, they know all the details of each business process very well, and they want to be in every business as much as possible.

In family businesses, the owner positions himself as the top manager of the institution. As the head of the institution, his vision, energy, and behavior spread throughout the institution (Dönmez, 2009). If the business gets stuck within the circle of its founder, its sustainability is as long as the founder's lifetime. As emphasized by Alfred Marshall (2006), the founder of neoclassical economics and the Cambridge School, "*The grandfather establishes a business, the father raises it, the son hires it, the grandson studies art history",* it is the necessity of institutionalization and support from professional managers rather than the founder of the business for sustainability.

For family businesses to be successful, the owner and senior management should not be the same person. The business owner should be relieved of the worry that he will lose his power and rely on professional management support (Erdoğmuş, 2004). In the management of family businesses, spouses and children can take part as shareholders (Pazarcık, 2004). For a family business to be successful, the family should be in unity, and the business rules should be enacted according to the business rules, not the family rules (Fındıkçı, 2008). Businesses that establish an emotional bond with their employees, have strong family ties, support the company according to their expertise, and transfer their knowledge, experience, and manners from generation to generation can survive for many years (Ateş, 2009).

Conflicts can be reduced by analyzing the priority differences between individuals using the "quadruple flat model" in Figure 6.1 created by Fındıkçı (2008) based on the concepts of ownership, business, management, and family in family businesses.

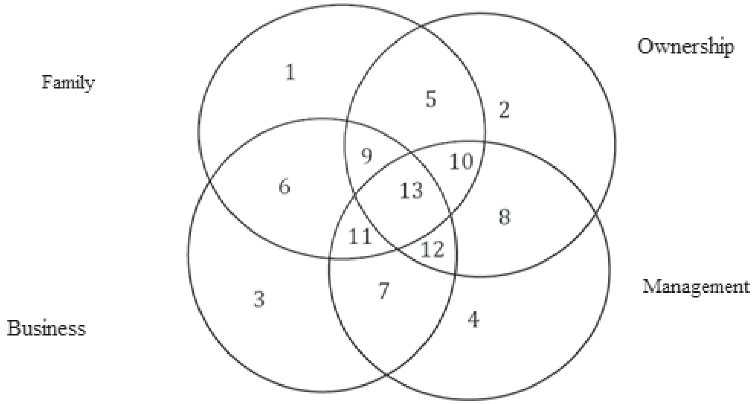

Figure 6.1: Quadruple Circle Model **Source:** Fındıkçı, 2008

Fındıkçı (2008) positioned a different family member or group of employees on each axis of the circle in the quadruple circle model:

1. A family member, business shareholder, partner, and non-management.
2. Family members or those who are not involved in the management, shareholders, and partners of the business.
3. No family member or business shareholder working as a professional manager in the business.
4. Senior managers who are not family members or business shareholders, who are not involved in business processes, and who are in charge of management.

5. A family member or business shareholder, not having a role or being a manager in the business.
6. Family members, who are not business shareholders, who work in business processes that are not involved in management.
7. Professional employees and managers who are not family members or business shareholders working in the business.
8. Family members or persons who are not involved in business processes, who are shareholders of the business, and who come from outside the business and take part in management.
9. People who are family members or business shareholders, working in functional tasks in business processes and are not involved in management due to their low management skills.
10. A family member or business shareholder, not involved in business processes, and persons in charge of management.
11. A second or third level family member, persons who take part in senior management in business processes.
12. A family member or business shareholder, a person involved in the business processes, executing the enterprise process of the business.

1.2 Advantages and Disadvantages of Family Businesses

It is seen that family businesses carry some advantages and disadvantages together when compared to non-family companies. Family businesses can increase their productivity by improving their advantages on the one hand and trying to minimize their disadvantages on the other hand. Some advantages of family companies can be listed as follows (Yıldız, 2008):

- The fact that equity constitutes a significant part of the capital minimizes the capital problem and makes the company strong.
- Individuals who know each other well create a synergy.
- The sense of ownership has a positive effect on ensuring continuity.
- It is easier to establish a strong corporate culture.

The rapid operation of decision mechanisms is another advantage. In the rapidly changing and developing world, making quick decisions is as important as making the right decision. Decisions can be made in a much shorter time frame by using the signature powers of a smaller number of people without the need to consult too many people in decisions to be taken (Göker and Üçok, 2006).

Some of the disadvantages of family businesses can be listed as follows (Yıldız, 2008):

- The family's insufficient assets and not looking favorably on borrowing may slow down the growth rate.
- Problems of profit distribution and managerial discipline may arise.
- There may be problems between generations in the use and distribution of resources.
- Since professional managers see limited career opportunities in family businesses, the system may only consist of family members.
- There may be problems in the distribution of authority and responsibilities.
- Conservatism is an inconvenience, especially in family businesses. Ownership managers may be more timid about innovations and developments than professional managers (Göker and Üçok, 2006).
- Nepotism, defined as favoritism, is often seen in family businesses as favoritism of relatives. Employees start to think that they will not achieve the promotions and wage increases they deserve. As a result, low morale and productivity are observed in the enterprise (Göker and Üçok, 2006).

1.3 Development Stages of Family Businesses

Family businesses go through different stages of development from their establishment. These stages may not follow in a successive sequence. Just as there are businesses that continue in the same phase, there are also family businesses that reach the continuity phase by increasing institutionalization and continuing their existence. These stages of development are grouped under four headings (Çalışkanel, 2018: 20; Alayoğlu, 2003):

The first generation owned and managed by the entrepreneur (Single-boss family businesses): Family businesses represent the first phase of the development process, where entrepreneurial values, beliefs, and attitudes significantly affect the corporate culture, and the first-generation family business entrepreneur and the company are almost integrated. In this process, it is seen that the entrepreneur hires professional managers because he cannot carry out production, purchasing, sales, record-keeping, and recruitment functions alone.

Growing and developing family companies (Sibling partnerships): At this stage, the company has neither a formal structure nor systems known and applied in the same way by everyone. By solving some of the problems in the establishment phase of the company, other family members also want to work in the business because it is in a growth period. Family members gradually start to be in the company. The company starts to become the center of the family union.

Complex (second- and third-generation) family businesses: In this phase, where more than one generation is employed in the company, it is possible to come across the third or even the fourth generation. Therefore, a large number of family members of different ages, knowledge, experience, and careers, as well as a large number of professional managers, work in the company due to its growth. At this stage, the separation of working and non-working shareholders also arises, bringing conflict.

Family businesses that achieve permanence: In family businesses at this stage, business comes to the fore rather than blood ties and reliability. Therefore, the works are subject to analysis, and in order to perform these works it is necessary to determine the qualities that should be present in the people who will carry out the work, the authorities and responsibilities needed for the effective and efficient execution of the work, the units to be helped or cooperated with, and the working conditions.

Some steps are required for the transition of a new enterprise under the control of the business owner into a family business: These steps can be expressed as recruiting family members for management positions, distributing shares to heirs, and changing the founder's perception of the business (seeing the business as an asset of the family, not an individual activity). The desire to turn the enterprise into a family business increases with the growth of the family. While the business owner has no thoughts of involving the children in the business or transferring it to them when they are young, as the children grow up, the desire to turn the business into a family business becomes essential. In first-generation family businesses, the partnership is sometimes shared with the spouse and minority partner. Since the ownership control belongs to the founder, strategic, operational, and family decisions also belong to the founder. However, there are business examples in which the spouse also shares the authorities and responsibilities with the founder (Gersick et al., 1997; Yolaç and Doğan, 2011).

2. Institutionalization in Family Businesses and the Family Constitution

2.1 Institutionalization in Family Businesses

Institutionalization is the process of having rules, standards, and procedures rather than individuals, including greeting styles, methods, and methods of doing business, and thus transforming into a different and distinctive identity from other companies, and it is the transformation of the enterprise into a system (Aslan and Çınar, 2010; Karpuzoğlu, 2004; Bilgin, 2007; Şahman et al., 2008). Accordingly, the institutionalization of an organization means that it has been accepted by its environment and gained continuity (Dilbaz, 2005).

In order to understand the concept of institutionalization in family businesses, it is necessary to first understand the concept of institutionalization and its components. There are different definitions regarding institutionalization in the related literature:

- Institutionalization is the absorption of the values owned by the business (Selznick, 1948).
- Institutionalization is turning the applied processes into rules (Meyer and Rowan, 1977).
- Institutionalization is ensuring the sustainability of the enterprise independent of the person (Koç, 1983).
- Institutionalization is the separation of institutions from their competitors as a result of the standardization and implementation of the procedures and rules independent from the person (Karpuzoğlu, 2001).

Before and after institutionalization, there are revisions in the concepts that are given importance and the changing mindset in the institutions. The changing concepts in institutions before and after institutionalization are listed in Table 6.1 below (Tuncel, 2011):

Table 6.1: Changing Concepts Before and After Institutionalization

Before Institutionalization	**After Institutionalization**
Self-focus	We focus
Manager	Lead manager
Instant management	Strategic management
Administration	Governance
I know	Common sense
Authorization	Strengthening
Personal culture	Corporate culture
Staff	Human Resources
Purposes	Goals
Process stacks	Processes
Chaotic structure	Defined structure

Market calls	Business development and innovation
Solving problems	Preventing trouble
Crisis management	Risk management
Hidden information	Corporate memory
Acting based on opinion	Resilience to evidence
Informal communication	Formal communication
Mediocrity	Branding
Image	Reputation

Institutionalization is a management philosophy in which the enterprise is managed with system thinking. The first step for institutionalization is determining the process, duties, and responsibilities. In this step, the duties and responsibilities to be done according to the processes should be defined.

In order for family businesses to be sustainable, within the scope of institutionalization, it is necessary to focus on activities in two main areas: managing ownership and managing growth (PWC, 2021):

Figure 6.2: Holistic Approach in the Institutionalization of Family Businesses
Source: The figure was created by the authors using the (PWC, 2021) resource

Institutionalization is seen as a process that family businesses mostly avoid and separates them from their essence. However, institutionalization is a process that does not cause family businesses to lose their essence; on the contrary, it is a process that enables them to become stronger by feeding on their essence. Reasons for the establishment of family businesses include; Creating opportunities for their children, immortalizing the family legacy, keeping the family together, financial independence, creating wealth and their own retirement and personal plans, protecting competent employees, providing financial security to the family, and being beneficial to the society (Kanbur and Kanbur, 2008). Despite these positive goals, family businesses still have some conflicting needs, causing problems in evaluating their efficiency. These needs include; Every family member regarding the business as a source of income even if they do not work in the family business, the managerial effects of the inexperienced second generation participating in the top management, the pressure exerted by the parents on their children to automatically take over the business, the founder not being able to separate the family from the business, and the second generation not wanting to be involved in the business (Birley et al., 1999).

Family businesses become sustainable and prosperous when they gain strength from innovations without losing the power of their experience (Dönmez, 2009). The underlying reason for success is that they do not resist innovation and work-oriented institutionalization efforts by protecting their valuable traditions (Ateş, 2009). From the business' ownership structure to its organizational structure; Many important factors from decision-making authority to decision-making determine institutionalization. What is at the forefront when determining the values of the business, its flexibility and autonomy, the solutions applied in the face of conflicts, the level of planning, information sharing and coordination, orientation, performance evaluation, and of course, the formation of culture are indicators of institutionalization (Kılınç, 1996).

While institutionalization is considered to be the implementation of sound governance systems required for sustainable success, good governance can be defined as “the whole of the guidance, management and control systems a company applies to achieve the desired success. Institutionalization is the continuity of institutions, setting a standard for behavior, and gaining stability. It is the steady development of the determined rules, laws, customs and traditions, ethical patterns, standardization around specific rules, and continuity. Accordingly, an institution is institutionalized, accepted by its environment, and gained continuity” (Güney, 2008).

Baron and Lachenauer (2021) propose the "3C" model that they created, taking its name from the initials of the English words “context, choices, and culture” to create a sustainable family business:

- Context: Updating the content by accepting that there is no single correct method valid at all times and under all conditions.
- Choices: Supporting success by agreeing on family members' choices.
- Culture: The sustainable development of a culture that is eager to learn, work and win together is open to change.

Arie de Geus (2002), who analyzes 27 successful and long-lasting institutions in her book, *Living Company*, emphasizes that most companies do not survive change and competition fluctuations in the long term, revealing the revolutionary concept of the learning organization and recommends the characteristics that should be possessed for a sustainable organizational life under four headings:

- Being a continuous learner with broad vision, flexible and adaptable to changing conditions.
- Being cautious while putting the capital at risk, focusing on its funds and main line of business rather than outsourcing.
- Covering both the society and its employees with values based on love and respect.
- Sharing decisions with employees, enabling the development of employees, and having a tolerant and participatory culture.

In the same year, Collins (2002) published *Good to Great* which examines 1435 companies and lists typical characteristics of the 11 companies found to be the most successful; being disciplined, then protecting the core values, focusing on the primary goals, as well as the unique goal that changes according to the situation and needing to set strategies and change cultural values and operational practices over time. This is explained with the "Hedgehog Model", which suggests that to be successful, the institution should focus on the mainline of business, rather than "The Fox". The fox is a brilliant animal that perceives the world in all its complexity and can pursue more than one goal at once. On the other hand, the hedgehog is simpler, being an animal that does not get lost in complexity but does one thing very well, "to become a ball to protect itself" and it cannot perceive complexity. Hedgehogs only see their ultimate goal and set out to achieve that goal. Successful and sustainable corporate companies behave just like hedgehogs. They stick to what they do best and do not let themselves get distracted. Institutions need to make an intense effort not to get distracted (Collins, 2002).

Baron and Lachenauer (2021) named the 4-room governance model that they proposed for the institutionalization of family businesses as the “3 + 1 (3 rooms 1 living room) model”. It is emphasized that people with different duties and responsibilities can participate in decision mechanisms on different issues with this 4-area room model, even if it is a small family business in the 3 rooms 1 living room model. In the 3 rooms 1 living room model, family members and professionals try to increase the institution's strength by taking part in different decision mechanisms. Managerial decisions are taken by people who are classified in 4 different rooms, namely the ownership room, the board of directors’ room, the management room, and the family room, in the 3 rooms 1 living room model shown in Figure 6.3:

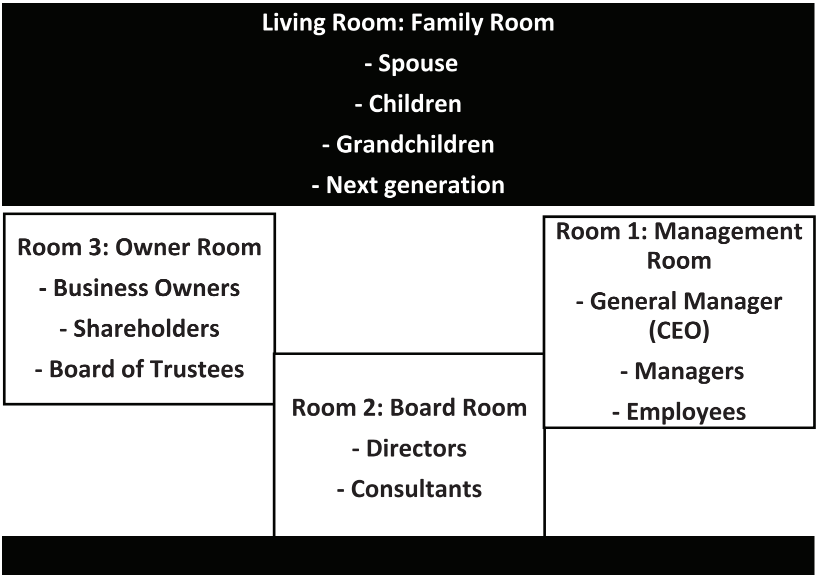

Figure 6.3: "3 Rooms 1 Living Room" Model in the Institutionalization of Family Businesses
Source: The figure was created by the authors using the (Baron and Lachenauer, 2021) resource

The general manager, managers, and employees are located in the management room, the first room in the 3 rooms 1 living room model, and daily activities are done here. Strategic and critical decisions are made by external consultants who support the institution and the directors of the institution in the second room, which is named the board room. For example, a critical decision such as not approving an unethical job at the organization can be made in the board room. In the third room, the ownership room, business owners, shareholders, and members of the board of trustees make the financial decisions of the institution. The family room that unites and holds all the rooms together represents the living room, consisting of spouses, children, grandchildren, and next-generation members. The necessary plans must be made to keep the family together in the family room and transfer the institution's next object (Baron and Lachenauer, 2021).

William O'Hara (2003) examines the companies that have been successful in corporate life for a long time, such as 200 years after completing their institutionalization studies, and lists the characteristics that institutions should have for sustainable success in his book named *A Hundred Years of Achievement* as follows:

- A cultural life of love and respect like a family with employees.
- The rapid resolution of disputes between family members who own the institution towards harmony.
- The assignment of family members in the institution according to their competence and expertise.
- The ability of the institution's owner to transfer his experience and knowledge to new generations.
- A commitment to family values and traditions.
- An openness to change and innovation.
- A focus on core business, not relationships.

The expected points of the models and suggestions presented by different researchers are that institutions attach importance to development in order to adapt to the changing world, value human beings, protect their values and traditions, have a strong communication network within the family, and focus on the work done in order to transfer experience and knowledge from generation to generation. In the light of this information, things to be done in institutionalization studies in family businesses can be listed as follows:

- Create a strategic plan by analyzing strengths and weaknesses.

- Inform all family members about strategic management and strategic planning.
- Determine the operating rules of family members in the business.
- Determine the authorities and responsibilities of family members.
- Include the participation of professional employees in business management.
- Establish a system where family members and professionals can make joint decisions.
- Create a corporate identity.
- Establish an effective communication network within the company.
- Prepare a family constitution.

For the institutionalization of a family business, first of all, a professional management team should be formed; after the board of directors is determined, a family constitution, family council, transfer, and inheritance plans should be formed, and possible disputes should be resolved (Karabıyık, 2014). As a result of institutionalization efforts, what will be achieved is to have a high level of corporate power that is open to change and learning, focused on people and values, and having competitive power (İzgören, 2007).

2.2 Problems Encountered in the Institutionalization of Family Businesses

In addition to family companies established with a strong capital structure, there are companies established with modest means which have developed over time and strengthened their capital structure in today's business world. During the development of family businesses, the decision issues in these companies are now at a more macro level. In order to make these decisions in a healthy way, instead of conventional business methods, management practices based on professionalism and expertise, which take a scientific dimension rather than the personal preferences of the founders or business owners, are on the agenda (Aydınlık and Karagülle, 2006).

Considering that the real sector in our country is mainly composed of non-institutionalized family businesses and SMEs, we can see that businesses cannot institutionalize, mostly due to human factors. The most critical problems in institutionalization are the unwillingness of the founders to transfer or share the business management with others, a lack of trust in professional managers due to the belief that the founders have more knowledge, and the founders' desire to keep the business under their control (Erkan, 2012). Almost all of the SMEs operating in Turkey are family businesses. The lack of institutionalization causes these companies to complete their lives after the second generation. Institutionalization is essential for a company to look to the future with confidence. Over time, business people from the core are insufficient in management, organization, the devolution of authority, institutionalization, the training of the second generation, adaptation to the job, leadership, and similar issues in family businesses. In family businesses, there are problems in many areas such as institutionalization, authority transfer, management organization, and responsibility, and the solution of these problems depends on the family business owners and professional managers improving themselves and increasing their knowledge and skills (Yıldırım, 2011). The stages of the institutionalization process in family companies can be listed as follows (Porter, 2000; Fındıkçı, 2005: 111; Güney, 2008):

- Analyzing the current situation in the family business.
- Identifying the strengths and weaknesses of the current situation.
- Convincing family member partners to change and transform towards institutionalization.
- Making clear the importance of change within the organization.
- Preparing a core leadership team to realize the change.
- Ensuring the formation of a team spirit in the group that will provide change.
- Ensuring the leader who will manage the change process at the top is convincing, adopted and supported by this transformation.
- Creating a vision suitable for change and transformation and spreading it within the family business.
- Carrying out training sessions for family business members to adapt to change and transformation.
- Analyzing the possible resistance to be encountered in family members and examining existing negative habits.
- Providing some returns that family member business partners can see in the short term with the change process.
- Encouraging employees, especially family members.
- Motivating and contributing to the institutionalization of all employees, especially professionals, working in the family business.
- Structuring change and transformation as a project and spreading this within the institution with a certain planning process.
- Informing, preparing and supporting family members who are not involved in the work for change and institutionalization.

- Close monitoring of the partners that make up the board of directors of the family business to reflect the change in their own operations and practices.
- Having enough members of the board of directors from outside the institution in order to ensure effective observation, evaluating the suitability and contribution of these persons' professions and experiences to the institution.
- Family member partners, especially the chairman of the board of directors, should be involved in such a way to actively determine and direct change and transformation and add new horizons to this process.
- Composing the preferred board of directors, the orientation of the institution, the attitude towards risk and the determination of the strategic approaches.
- Making an intense effort not to lose the amateur spirit as the main goal in all stages of change.
- Having interim audits at certain stages of the change process, and evaluation in terms of the point reached as a result.
- Considering how well the goals of change have been achieved, to determine the point reached according to the starting state and sharing the results.

A report titled, "How are family businesses preparing for change? The new normal in family businesses" was published by Ernst & Young in September 2020, suggesting that these stated change and transformation efforts required different approaches in the coronavirus crisis and the actions to be taken during and after the Covid-19 crisis are explained in the transformation agenda as short-, long-, and medium-term. According to the report: The Covid-19 outbreak required family companies to accelerate their transformation programs. In order to minimize the effects of the epidemic, adapting to the situation and developing resistance come to the fore in the short term, while transformation will be inevitable for the company in the long term. In the short term, when the business world is forced into a transformation based on remote access, it is essential to increase awareness of risk management, information security, and cybersecurity to reduce the epidemic's effects on family companies without causing damage. In family businesses, with increased awareness of risk management in the medium term, they must take action on cost optimization and financial restructuring. Family businesses need to create their business models and strategies, workforce, and technologies in a way that is constantly changing and adaptable. It will be critical to review business models, identify new growth opportunities, and determine the future growth model strategy and target operating model in the long term.

An essential step of institutionalization in family businesses is undoubtedly the inclusion of professional managers in the system. However, this time, uncertainties arise in terms of employees, and communication problems appear in management. Conflicts may be experienced between family members during decisions while applications taken in family businesses, delays in decision processes, and disruptions in operation are observed. These problems increase even more with the involvement of non-family managers in the processes. Employees are directly affected by communication problems at managerial levels. Uncertainties and dilemmas arise in terms of who employees are dependent on, who they will take orders from, or to whom they will be responsible, and this situation negatively affects the organizational commitment of the employees (Çetin et al., 2008).

Working together voluntarily in institutionalization efforts is accepted as the first step after transferring the necessary information to the professional manager to establish the corporate management system that the institution needs (Dalkılıç Çekin, 2013). Despite the negative judgments of the past, it is seen that family companies have succeeded in institutionalization and formed large structures. For example, IBM, Ford, Unilever, P&G, and Toyota are the first ones that come to mind. When we look at their standard features, we see that they have become public and even global companies and family businesses. The share of families in these companies is now low, around 5-15%. However, family members are still actively working in these companies. Other shareholders also show their trust by keeping these people in charge, and they achieve success in this way (Ülker, 2021).

2.3 Establishment of the Family Council and the Family Constitution

One characteristic of a family business is that family members play an active role in the business. Problems usually move from home to business and affect decisions made in the business. Discussion at home leads to business damage or even division, sibling fights, greed, and competition. It is not possible to prevent business talk at home, but the business should benefit from discussions of issues rather than gossip. To achieve this, family members involved in the business should come together at certain times and evaluate the business issues with an appropriate approach; that is, a family council should be established. Rules should also be determined for the family council, and any words that may arise outside of the council should not be given importance (Yıldız, 2008). The family council should ensure that the importance of family and business for each other is determined. The company's board of directors should be responsible for strategic planning. In this direction, the focus should be on the development of the business, the capital needs of the business and the owners, the training of personnel in critical roles and the leadership team, and the determination and training of people to whom the management will be transferred (Karabulut, 2008).

The family council also represents a body with responsibility for the preparation of the family initiative plan. The council's aim, which consists of family members, family business advisors, and experts, is to create an elevated platform where issues related to the family and business will be discussed (Aydın, 2018).

The family constitution is the primary written and unwritten rules of the family and the family's relationship with the business and those who join the family by marriage or blood ties and deserve to bear the same surname, acting as a guide in their relations with third parties and the business and accepted by family members. On the other hand, it explains the rules and values that are applied in the same way to all family members and has certain sanctions in case of non-compliance. As can be seen, this definition also includes some principles called norms that are not written down. The norms that emerge over time create awareness and the obligation to comply with family members by being constantly applied (Karpuzoğlu, 2004).

Some data on family businesses strikingly reveal the importance of their sustainable success for our country. 52% of family companies operate within the backbone of the country's economy, such as production, 16% in construction and real estate development, and 6% in consumer products. Approximately 40% of these enterprises are comprised of companies established between 1950 and 1980 and 46% between 1981 and 2000. Various sources state that 38% of family businesses in Turkey belong to the first generation, 47% to the second, 13% to the third and, similar to international statistics, only 2% belong to family members from the fourth and later generations. Considering that the average life span of family businesses is 25-30 years, it is possible to say that family businesses' intergenerational management and ownership transition processes in our country will soon take place more intensely. In addition, it should not be overlooked that conflicts among family members and involuntary separations such as deaths accelerate these transitions (Deloitte, 2019: 2). Family businesses establish an institutional structure and prepare family constitutions that will minimize the problems that may arise in the future by considering these developments.

Considered the oldest and most successful family business globally, the Japanese Mitsui family was established in 1673. In 1694, family constitutions were structured by its founder Mitsue Haçirobei to govern the relations between family, stakeholders, and company managers. The Mitsui family, which has survived and developed for many years by drafting and complying with a family constitution, includes dozens of multinational companies with 132 offices in 164 countries in areas such as trade, banking, shipping, construction, mining, oil and gas, insurance, chemicals and real estate development (Nakaoka, 2018). It is claimed that the Mitsui family business has demonstrated the survival strategies of the Japanese family business in a period faced with internal and external pressures for internationalization (Suhnsuke, 2018). According to the "Family Business Survey 2021" report conducted by the international consultancy firm PWC with 2801 senior executives from 87 countries, only 28% of family businesses have a family constitution or protocol (PWC, 2021). According to this research, it is evident that family businesses did not show a significant improvement in the family constitution in the 327 years after the first constitution was established.

Creating a family constitution is one of the leading suggestions for family businesses. Families entering this process will analyze the "company" and "family" priorities and what steps to take in this direction. The examples in Table 6.2 presented by Mike Cohn (2005) guide the formation of families' management policies (Sebilcioğlu et al., 2010):

Table 6.2: Family Business Management Policy Examples

Problem	Family-Priority Companies	Work-Priority Companies
Human resources policies	Job opportunities are open to all family members. These companies are almost a place of refuge for family members who cannot be successful outside of the family business.	Only family members who are suitable for work and duty can apply. Criteria such as the education, skills and experience required by the duty are clearly stated for all employees, whether they are from within or outside the family.
Remuneration, reward policies	All family members have the same income sharing right. The criterion is not experience or skill. Experienced and successful family members are expected to accept the same gain as their less successful relatives.	Remuneration and reward are based on criteria based on authority, responsibility, and performance. The wage policy is created not according to the needs of the relatives but according to the sectoral norms. The parent-child

	In this way, it is thought that there is fair sharing in the family.	relationship is planned and understood by all employees. High performers, even outside the family, are rewarded fairly. Family members who are deemed incompetent may be fired.
Leadership	This depends not on success and competence in leadership but a position in life and family.	Leadership is not inherited; it is earned. The family's attitude on this issue is that the most suitable person takes over the leadership. Sometimes this person may be outside the family. In this case, a family can entrust the company to a professional manager from the sector or train a manager from within the company with foresight and a training plan.
Use of company revenues	Company revenues are used to meet the personal needs of family members such as a house and car.	Company revenues are used within strategic planning. There is a clear distinction between company assets and family assets. Budgeting and planning are essential. Company partners receive a share of the income through dividends.
Training	There is no training program. Family members learn by experience.	There is a training plan. With the programs made within this plan, all management staff are trained for their positions.

Source: Sebilcioğlu et al., 2010

This constitution is a living document which needs to be flexible in content and regularly reviewed to meet the needs of the business and the family. Essentially, this constitution is a set of policies regulating how family and work interact with each other. It usually includes the family's philosophy and value judgments and the family's mission (Sebilcioğlu et al., 2010).

The "family constitution" that came into effect also conditions the participation of new generations in company management. Thus, confusion and arbitrary behavior in this matter are eliminated. For example; In the constitutions of Koç, Sabancı, and Eczacıbaşı, the conditions of participation of family members in the management of the company are specified in great detail. Some of the prominent conditions in this area are experience in another company, the number of promotions, a requirement to understand the language in the company. Family members who do not comply with these conditions are recommended to do business outside the group (Sönmez, 2010).

The Mitsui Family Constitution, which is accepted as the first family constitution in the world, primarily focuses on restructuring the family and work organization's incomplete and complex processes to regulate the habits and feelings of the family. This set of family rules created to ensure the long-term continuity of the business under new conditions is called "Mitsui Kaken" (Suhnsuke, 2018). It consists of the 10 items listed below, including family communication, behaviors, attitudes, and working principles (Mitsui, 2021):

1. Relationships between family members should be close and friendly. It should not be forgotten that conflicts in the family can destroy the family business.
2. It is frugality that enriches the family, and luxury that destroys it. Be frugal; avoid luxury.
3. Consult the family council when borrowing and getting married.
4. The portion of annual earnings to be determined should always be distributed to family members.
5. A person can work until his last breath and does not fall into retirement comfort for any reason.
6. Organize your financial affairs very well and collect and audit financial reports for all regions at headquarters.
7. Replace your inefficient employees with promising young employees. Focus is the key to success.
8. Do not focus on things other than your own.
9. The children in the family should learn the job starting from an apprenticeship and move up level by level in the institution.
10. Love your country, fulfill your civic duties, and glorify your empire by worshipping your gods.

The scope of the family constitution can be discussed under three main headings. These are family, business, and constitutional regulations (Şakar, 2008; Karpuzcuoğlu, 2004: 161; Aydın, 2018):

1. ***Regulation on Family Responsibilities*** of carrying the family surname, benevolence, social responsibilities, improving communication, organizing family meetings, the first/second marriage contract, dividend

distribution, will preparation, death, divorce, separation, disability, marriage, out-of-wedlock children/first marriage children, core values, and family relationships.

2. ***Regulatory Issues Regarding Business*** leadership and management style, performing the tasks delegated to others by the owners, handing over to future generations, the value of minority-majority shares, the rights and responsibilities of active-passive shareholders, the transfer and sale of shares, borrowing on behalf of the company, company value, reinvestment, the selection and preparation of heirs, sudden death or incapacity, post-retirement conditions, the rights, responsibilities and working conditions of professional managers, the rights, responsibilities and working conditions of relatives, benefiting from the income, and the reputation and career opportunities of the enterprise.

3. ***Regulations on the Constitution*** include purpose, scope, constitutional amendments, sanctions, decision-making, implementation procedure, duties, and responsibilities.

In light of the information listed above, the process of preparing a family constitution can be expressed in 15 stages (Kamacı, 2020):

1. Organizing a family forum.
2. Identifying the need to create a family constitution.
3. Deciding on the method and criteria for the selection of council members.
4. Establishing a family council.
5. Determining the purpose of the establishment of a family council, working principles, and criteria for taking part and staying in office.
6. Establishing the family mission.
7. Making a swot analysis of the family (analysis of strengths and weaknesses).
8. Conducting the family constitution scoping study.
9. Preparing the family constitution draft.
10. Presenting the draft family constitution to the family and asking for their opinions.
11. Finalizing the family constitution.
12. Determining conditions for the amendment/revision of the family constitution.
13. Determining actions to encourage the use of the family constitution.
14. Establishing disciplinary rules to be applied to behaviors contrary to the family constitution.
15. Presenting the final version of the family constitution at the family forum and distributing it to family members.

3. An Example of a Roadmap for Family Businesses

Deloitte (2019), the international consultancy firm, provides an example of a roadmap for family businesses with the "Keys to Sustainable Success in Family Businesses Report" in Table 6.3.

Table 6.3: Example of a Roadmap for Family Businesses

Arranging Family and Company Relationships	- Creation of the family constitution - Compliance of the family constitution with the articles of association of the company - Succession planning - Creation of the shareholding agreement - Structuring the board of directors - Establishment of non-executive committees (audit, risk, etc.) - Determination of corporate values and ethical rules, internal communication.
Financial Transformation and Reporting	- Independent audit - Transition to International Financial Reporting Standards (IFRS) and system transformation - Preparing a budget in line with the IFRS – Quick closing - IFRS compliant management reporting transformation.
Activation of the Internal Control System and Establishment of the Internal Audit Function	- Evaluating all (business and IT) processes and controls of the company, determining improvement points, planning actions - Activation of the internal control system (activating the actions, designing and implementing the missing controls) - Establishment of the internal audit function - Establishment of the audit committee.
Establishing an Enterprise Risk Management Framework	- Establishing an inventory of all risks that may affect the institution - Determination of a risk-taking strategy - Establishment of the risk management organization - Preparation of a risk management procedure - Creation of risk reports.

Creating a Brand Strategy	- Determination of a brand portfolio strategy - Clarification of brand positioning - Development of a brand management organizational structure - Development of a brand performance system.
Human Resources Evaluation Policy	- Establishment of a performance management system - Determination of talent management strategy.
Establishing an Institutional Growth Strategy	- Determination of growth strategy - Competitive positioning, and entry strategy into target markets - New product development - Creation of a growth-oriented organizational structure - Customer management - Sales channel efficiency - Creation of profitability strategy - Examining the cost structure - Pricing and profitability management - Operations strategy, an effective business model - Risk management.

Source: The table was created by the authors using the "Deloitte, 2019 Keys to Sustainable Success in Family Business Report" resource

In addition to this roadmap, if family companies want to be successful, they should consider the following suggestions put forward by Drucker and McKinsey Consulting (Kebeci, 2011):

- Working family members should be at least as talented and hardworking as non-family workers.
- Professionals should be appointed to key positions in all family businesses, except tiny ones.
- Regardless of how many family members are involved in management, a non-family person should be placed in one of the top positions.
- The issue of management transition should be led by someone other than family and work.
- The company should serve the family business, not the family.

- The company should act with a clear strategy without spreading to every area.

Conclusion

When looking at the information in the related literature, reports, and researches made specifically for family businesses in Turkey, it is stated that three-quarters of family businesses in Turkey do not have an emergency plan to be activated in the event of the death or incapacity of key managers. They are behind the global average in this regard. In line with the global results, it was stated that the most critical disagreement was over the future strategies of the business, and the failure of active shareholders to consult other family members was the primary source of the problems. Shareholders widely accept that in the world, where three-quarters of businesses do not have resolution procedures for disputes between family members in Turkish businesses, closed methods in line with traditionalist tendencies such as a family council (67%) and a family constitution (33%) dominate as a dispute resolution method. It has been determined that the concepts of contract and mediation have not been adopted. In addition, 69% of Turkish family businesses do not choose their future ownership and management staff; however, it is stated that the successors in essential positions will be family members accepted with the same weight (PwC, 2011). According to another study on family businesses in Turkey (Deloitte, 2010); It has been observed that 69% of the enterprises do not have a family constitution, which has been established in order to transfer the works to the next generations in a planned manner and to ensure the continuity of the enterprise (Yolaç and Doğan, 2011). In this context, it is a critical requirement for family businesses to attach importance to institutionalization and create a family constitution.

Keywords: Family Business, Family Constitution, Institutionalization in Family Businesses.

References

Aslan, İ. ve Çınar, O. (2010). Bir Aile Şirketinin Kurumsallaşması: Yeniden Yapılandırma ve Varislerin Yönetime Hazırlanması Süreci (Institutionalization of a Family Business: Restructuring and Preparation of Heirs to Management). *Organizasyon ve Yönetim Bilimleri Dergisi*, 2(1), 89-97.

Alayoğlu, N. (2003). *Aile İşletmelerinde Yönetim ve Kurumsallaşma (Management and Institutionalization in Family Businesses)*. İstanbul: Müsiad Yayınları.

Ateş, Ö. (2009). *Şirket Doktoru (Company Doctor).* İstanbul: Global Kobi Yayınları.

Aydın, E. (2018). *Aile İşletmelerinin Sürdürülebilirliğinde Paradoks 'Duygusal Sahiplik Olgusunun Rolü' Türkiye'deki Kıdemli İşletmeler Üzerine Bir Araştırma (Paradox 'The Role of Emotional Ownership in the Sustainability of Family Businesses' A Study on Senior Businesses in Turkey)*. İstanbul: Beta Yayınları.

Aydınlık, A. Ü. ve Karagülle, A. Ö. Tekstil (İplik) Sektöründeki Bir Aile İşletmesinin Kurumsallaşma Düzeyini Belirlemeye Yönelik Bir Uygulama (An Application to Determine the Institutionalization Level of a Family Business in the Textile (Spinning) Sector). İstanbul Kültür Üniversitesi 2. Aile İşletmeleri Kongresi, 14-15 Nisan 2006, İstanbul, 58-63.

Baron, J. and Lachenauer, R. (2021). *Harvard Business Review Family Business Handbook: How to Build and Sustain a Successful, Enduring Enterprise (HBR Handbooks).* USA Harvard Business Review Press.

Bilgin, N. (2007). *Aile Şirketleri Kurumsallaşma Eğilimleri: Ankara Kobi Örneği (Institutionalization Trends of Family Businesses: Ankara SME Example).* Yayınlanmamış Yüksek Lisans Tezi, Atılım Üniversitesi Sosyal Bilimler Enstitüsü, Ankara.

Birley, S., Ng, D. ve Godfrey, A. (1999). The Family and the Business. *The Governance of Smaller Businesses, Long Range Planning,* 32, 598-608.

Cohn, M. (2005). Does Your Company Put Family or Business First. *The Business Journal of Phoenix*. (https://www.bizjournals.com/phoenix/stories/2005/01/17/smallb3.html, 17.05.2021)

Collins, J. (2002). *"İyi"den "Mükemmel Şirkete" (From "Good" to "Excellent Company").* 4. Baskı. Çeviri: Levent Cinemre. İstanbul: Boyner Yayınları.

Çalışkanel, S. Ş. (2018). *Aile İşletmelerinin Kurumsallaşması ve Kurumsallaşma Sorunları- Türkiye Genelinde Üretim Yapan Aile İşletmeleri Üzerine Bir Araştırma (Institutionalization of Family Businesses and Institutionalization Problems - A Study on Family Businesses Producing Throughout Turkey)*. İstanbul Kültür Üniversitesi Sosyal Bilimler Enstitüsü Yayınlanmamış Yüksek Lisans Tezi, İstanbul.

Çetin, C., Tikici, M. ve Karatepe, S. (2008). *Aile İşletmelerinde Örgüt İçi İletişimin Çalışanların Örgütsel Bağlılıklarına Etkisi: Bir Araştırma (The Effect of Intra-Organizational Communication on Employees'*

Organizational Commitment in Family Businesses: A Study). 3.Aile İşletmeleri Kongresi, 18-19 Nisan, İstanbul.

Dalkılıç Çekin, B. (2013). *Aile Şirketlerinde Kurumsallaşma, Pembe Çantalı Kızın Hikayesi (Institutionalization in Family Businesses, The Story of the Girl with the Pink Bag)*. İstanbul: Caretta Yayıncılık.

Deloitte (2019). Aile Şirketlerinde Sürdürülebilir Başarının Anahtarları (Keys to Sustainable Success in Family Businesses). (aile-sirketlerinde-surdurulebilir-basarinin-anahtarlari.pdf (deloitte.com, 21.05.2021).

De Geus, A. (2002). *The Living Company*. USA: Harvard Business Press.

Dilbaz, S. (2005). Büyüme ve Kurumsallaşma Sürecinde Aile Şirketlerinde Yönetim. Karaman Örneği (Management in Family Businesses in the Process of Growth and Institutionalization. Karaman Example). Selçuk Üniversitesi Sosyal Bilimler Enstitüsü Yayımlanmamış Yüksek Lisans Tezi, Konya.

Dönmez, N. (2009). Aile Şirketlerinde Kurumsallaşma ve Yönetimin Devri: Uşak OSB'mde Örnek Uygulama (Institutionalization and Transfer of Management in Family Businesses: Example Practice in Uşak OIZ). (Yüksek Lisans Tezi), Dumlupınar Üniversitesi, İşletme Bölümü, Kütahya.

Erdoğmuş, N. (2004). *Aile İşletmeleri: İkinci Kuşağın Yetiştirilmesi (Family Businesses: Raising the Second Generation)*. İstanbul: İktisadi Girişim ve İş Ahlakı Derneği Yayınları.

Erkan, M. (2012). *Türk Ticaret Kanunu'nda Aile İşletmelerinde Kurumsallaşma ve İç Denetim (Institutionalization and Internal Audit in Family Businesses in the Turkish Commercial Code)*. Bursa: Ekin Yayınları.

Ernst & Young (2020). *Aile Şirketlerinde Yeni Normal (The New Normal in Family Businesses).* (https://www.ey.com/tr_tr/ey-turkiye-yayinlar-raporlar/aile-sirketlerinde-yeni-normal Türkiye, 05.05.2021)

Fındıkçı, İ. (2005). *Aile İşletmeleri -Aile Şirketlerinde Yönetim ve Kurumsallaşma (Family Businesses -Management and Institutionalization in Family Businesses)*. 2.baskı İstanbul: Alfa Yayınları.

Fındıkçı, İ. (2008). *Aile İşletmeleri -Aile Şirketlerinde Yönetim ve Kurumsallaşma (Family Businesses -Management and Institutionalization in Family Businesses).* 4.baskı. İstanbul: Alfa Yayınları.

Gersick, K.E. (1997). *Generation to Generation: Life Cycles of The Family Business.* Boston: Harvard Business School Press.

Göker, A. Z. ve Üçok, T. (2006). *Aile İşletmeleri ve Karar Verme Süreci, Köklü Aile İşletmelerinde Bir Uygulama (Family Businesses and Decision Making Process, An Application in Established Family*

Businesses). İstanbul Kültür Üniversitesi 2. Aile İşletmeleri Kongresi, 14-15 Nisan 2006, İstanbul, 45-57.

Güney, S. (2008). Aile Şirketlerinde Güncel Konu ve Sorunlar (Current Issues and Problems in Family Businesses). Siyasal Kitabevi. Ankara.

İzgören, A. Ş. (2007). *İş Yaşamında 100 Kangru. Sistem Liderliği (100 Kangaroos in Business. System Leadership).* Ankara: Elma Yayınevi.

Kamacı, K. (2020). *Aile İşletmelerinde Kurumsallaşma (Institutionalization in Family Businesses)*. Konya: Eğitim Yayınevi.

Karabıyık, H. (2014). Aile İşletmesi Toplumundan Kurumsal Topluma Geçiş (Transition from Family Business Society to Corporate Society). *Siirt Üniversitesi Sosyal Bilimler Enstitüsü Dergisi*, (2-3), 43-51.

Kanbur, A. ve Kanbur, E. (2008). *İskender Dede'nin 150 Yıllık Markası Kebapçı İskender'in Stratejik Analizi (Strategic Analysis of Iskender Dede's 150-Year-Old Brand Kebapci Iskender)*. 3.Aile İşletmeleri Kongresi, 18-19 Nisan, İstanbul.

Karabulut, A.T. (2008). Aile İşletmelerinin Kurumsallaşmaya ve Yönetim Fonksiyonlarına Yönelik Yönetim Sorunları: İstanbul'da Tekstil Sektöründe Üretim Yapan Aile İşletmesi Kobiler Üzerinde Bir Araştırma (Management Problems Regarding Institutionalization and Management Functions of Family Businesses: A Study on Family Business SMEs Producing in the Textile Sector in Istanbul). *Marmara Üniversitesi İktisadi ve İdari Bilimler Dergisi*, 25(2), 643-676.

Karpuzoğlu, E. (2004). *Gelecek İçin Aile Anayasası (Family Constitution for the Future).* 1. Aile İşletmeleri Kongresi Kongre Kitabı, Kültür Üniversitesi, 17-18 Nisan. İstanbul.

Karpuzoğlu, E. (2001). *Büyüyen ve Gelişen Aile İşletmelerinde Kurumsallaşma (Institutionalization in Growing and Developing Family Businesses).* İstanbul: Hayat Yayınları.

Karpuzoğlu, E. (2004). *Büyüyen ve Gelişen Aile Şirketlerinde Kurumsallaşma (Institutionalization in Growing and Developing Family Businesses).* 4. Baskı: İstanbul: Hayat Yayınları.

Kebeci, T. (2011). Aile Şirketlerinde Yönetim Anlayışı ve Kurumsallaşma (Management Understanding and Institutionalization in Family Businesses). İkinci Adam Yayınları. İstanbul.

Kılınç, T. ve Ertaş, A. (1996). Özel Hastanelerin Kurumsallaşma Düzeyine Yönelik Bir Araştırma (A Research on Institutionalization Level of Private Hospitals). *İ.Ü. İşletme Fakültesi Dergisi*, 25, 44-45.

Koç, V. (1983). *Hayat Hikayem (My Life Story).* İstanbul: Apa Ofset Basımevi.

Marshall, A. (2006). *Principles of Economics: Abridged Edition*. New York: Cosimo Classics.

Meyer, J., & Rowan, B. (1977). Institutionalized Organizations: Formal Structure as Myth and Ceremony. *American Journal of Sociology*, 83(2), 340-363.

Mitsui (2021). *Family Rules.* (https://www.mitsui.com/jp/en/index.html, 15.05.2021)

Nakaoka, S. (2018). Binding Emotions for Long-Term Continuity of Family Business? The Foundation of Family Rule and Mitsui's Business in Late 19th and Early 20th Century Japan. *Entreprises et Histoire*, 2(2), 48-61.

O'Hara, W. (2003). *Centuries Of Success.* Avon, MA: Adams Media.

Pazarcık, O. (2004). *Aile İşletmelerinin Tanımı, Kurumsallaşması ve Yönetimi (Definition, Institutionalization and Management of Family Businesses).* 1. Aile İşletmeleri Kongresi Kongre Kitabı, İstanbul Kültür Üniversitesi Yayınları, 40, 34-36.

Porter, M. E. (2000). *Rekabet Stratejisi (Competitive Strategy).* Çeviren: Gülen Ulubilgen. İstanbul: Sistem Yayıncılık.

PWC (2021). *Aile Şirketleri Araştırması 2021(Family Business Survey 2021).* (https://www.pwc.com.tr/tr/hizmetlerimiz/aile-sirketleri/yayinlar/aile-sirketleri-arastirmasi-2021.html, 12.05.2021)

Sabancı, G. (2017). *Türkiye'deki İşletmelerin Yüzde 95'i Aile Şirketi (95 Percent of Businesses in Turkey are Family Businesses).* (https://www.hurriyet.com.tr/ekonomi/turkiyedeki-isletmelerin-yuzde-95i-aile-sirketi-40599291, 15.05.2021)

Sebilcioğlu, F., Koçer, B., Erkan, A., Sönmezer, T., Karacar, G., Zaman, T. ve Erdoğan, E. (2010). *Kurumsal Yönetim İlkeleri Işığında Aile Şirketleri Yönetim Rehberi (Family Business Management Guide in the Light of Corporate Governance Principles)*. İstanbul: Türkiye Kurumsal Yönetim Derneği Yayınları.

Selznick, P. (1948). Foundations of the Theory of Organization, *American Sociological Review.*13(1), 25-35.

Sönmez, Y. (2010). *Sıradaki Lütfen: Ben Aile Şirketi (Next Please: I'm Family Business)*. İstanbul: Hayat Yayınları.

Suhnsuke, N. (2018). Binding Emotions for Long-Term Continuity of Family Business? The Foundation of Family Rule and Mitsui's Business in Late 19th and Early 20th Century Japan. *Entreprises et Histoire*, 91(1), 1915-1963.

Şahman, İ., Tengilimoğlu, D. ve Işık, O. (2008). Özel Hastanelerde Yönetimin Profesyonelleşmesinin, Kurumsallaşma Süreci Üzerindeki Etkisini Belirlemeye Yönelik Alan Çalışması (A Field Study to Determine the Effect of Professionalization of Management on the

Institutionalization Process in Private Hospitals). *Gazi Üniversitesi İİBF Dergisi*, 10(2), 1-23.

Şakar, N. (2008). *Kurumsallaşmada "Aile Anayasasının" Stratejik Rolü: Eskişehir'de Bir Araştırma (The Strategic Role of the "Family Constitution" in Institutionalization: A Study in Eskişehir).* 3. Aile İşletmeleri Kongresi Kongre Kitabı, Kültür Üniversitesi, 18-19 Nisan. İstanbul.

Tuncel Hatice Tomris (2011). *Aile Şirketlerinde Kurumsallaşamama (Institutionalization in Family Businesses).* Konya: Konya Ticaret Odası Yayınları (http://www.kto.org.tr/dosya/rapor/aile_sirketi.pdf, 01.05.2021).

Uçkun, C. G. ve Yüksel, A. (2007). Aile Şirketlerinin Performansının Arttırılmasında Bir Strateji: Dış Kaynaklardan Yararlanma (Outsourcing) (A Strategy for Increasing the Performance of Family Businesses: Outsourcing). *Selçuk Üniversitesi Karamn İ.İ.B.F Dergisi Yerel Ekonomiler Özel Sayısı*, 25-39.

Ülker, M. (2021). *Şirketlerin Sınırlarını Biliyoruz, Ailenin Sınırları Ne? (We Know the Limits of the Companies, What are the Limits of the Family?).* https://muratulker.com/y/sirketlerin-sinirlarini-biliyoruz-ailenin-sinirlari-ne/, 07.05.2021)

Yıldırım, S. (2011). Kurumsallaşamayan Aile Şirketlerinde Pazarlama Sorunları Üzerine Nitel Bir Çalışma (A Qualitative Study on Marketing Problems in Uninstitutionalized Family Businesses). *Kocaeli Üniversitesi Sosyal Bilimler Enstitüsü Dergisi*, 22(2), 185-202.

Yıldız, A. (2008). *Aile İşletmelerine Tavsiyeler, Konya'da Aile İşletmeleri Üzerine Yapılmış Bir Araştırma (Recommendations for Family Businesses, A Study on Family Businesses in Konya)*. İstanbul: Sistem Yayıncılık.

Yolaç, S. ve Doğan, E. (2011). Küreselleşme Sürecinde Aile İşletmelerinde Yönetim ve Kurumsallaşma (Management and Institutionalization in Family Businesses in the Process of Globalization). *İstanbul Üniversitesi İktisat Fakültesi Mecmuası,* 61(2), 83-110.

Biographies

Gülbeniz AKDUMAN

Gülbeniz Akduman, who has worked in various managerial positions at Topkapı Palace, Turkish Airlines, Havaş, Avea, Turkcell Superonline, Doğan Holding, TAV Holding, ATÜ and DeFacto for 28 years. Gülbeniz Akduman, who received the title of Associate Professor by completing her master's and doctoral education in the field of Business Administration, worked as an academician in Fatih Sultan Mehmet Foundation University between 2017 to 2020 and has been giving lectures in the Business Administration/Human Resources Management program of İstanbul Bilgi University Graduate Programs Institute since 2015. She implemented the "Happiness Management" project, a first in Turkey within the scope of Employee Relations Management and implemented as a course at Harvard, by establishing and managing the Happiness department in the private sector, becoming Turkey's first Happiness Manager and Berkeley Institute of Wellbeing certified Happiness Coach. She has Berkeley Institute of Wellbeing Happiness Coach, Pearson Certified Experienced Trainer-Instructor, Assessment System Assessor and Quality Management Certifications. She acts as an expert and board member in order to share her knowledge, experience, and gives lectures and training in the fields of Management-Organization, Human Resources Management, Organizational Behavior and Aviation Management.

Areas of expertise: She has national and international articles, papers, book, and book chapters in the fields of Human Resources Management, Organizational Behavior, Management and Organization, Strategic Management, Organizational Development, Training and Development, Happiness Management, Aviation Management, Civil Aviation Cabin Services, Institutionalization in Family Businesses, Employee Happiness Management and Luxury Service.

Zeynep HATİPOĞLU

Zeynep Hatipoğlu, who has worked in Leadership, Organizational Development, Process Development, Employer Brand Management, Human Resources Management and Education for 15 years, graduated from Abant İzzet Baysal University, Business Administration Department. She started her career at Akbank T.A.S. She then graduated from the Business Administration Institute of Istanbul University. Following her experience at Akbank, she made a career plan for training and human resources. She was introduced to the education sector at İstanbul Aydın University as the Coordinator of Continuing Education Center. In addition to her administrative duties, she was a member of the same university in 2006-2009 term. Between 2009-2014, she was the director of the Human Resources and Continuing Education Center units at Istanbul Arel University. She managed the collaboration processes of the leading companies in the retail, health, media and transport sectors with the university and organized summits on current human resources practices (Positive Leadership, Generation Y and Human Resources Management in the Retail Sector). In the same period, she established the human resources system of Minopolis

Entertainment Center. In 2014, she was a part of the academic exchange at the University of Maribor. After completing her Ph.D. program in Business Administration in 2014, she worked as a consultant in various sectors including R&D and logistics and worked as an academician in Nişantaşı University 2014 to 2019 and she has been teaching Strategic Management, Management Psychology, Human Resources Management, Education-Career Development, Performance Management, Talent Management in İstanbul Arel University. Zeynep also teaches at Bilgi University Graduate Program and Galatasaray University Graduate Program as a visiting lecturer. She has ICF Coaching, Assessment System Assessor and Quality Management Certifications. With strong corporate experience and academic background, she has taken part in many national and international research projects published.

Areas of expertise: Organizational Development, Process Development, Employer Brand Management, Human Resources Management, Training and Development, Talent Management, Performance Management, Leadership, Organizational Behavior, Coaching and Mentoring.

CHAPTER 7

CULTURE OF CHANGE IN THE INSTITUTIONALIZATION OF FAMILY FIRMS

MÜNEVVER BAYAR

Introduction

Organizations are units that operate to produce and sell goods and services on the basis of meeting human needs. Today's developments, which are in the age of change, enable organizations to be affected as well. A culture of change must be created in organizations to adapt to the change trend of the world and to apply the principles of the age of change. In this context, creating a culture of change in family companies varies according to their structures. It is easy for family businesses that can absorb new approaches and new views and understand the importance of change to emerge from this change. Generally speaking; Creating and changing a family business change culture is difficult and time consuming.

Achieving change in family businesses is not as easy as one might think. There are many factors that prevent change. It is necessary not to ignore these or those who are resistant to change. Twelve factors that can prevent the change of family companies come to the fore. These are "centralisation"; In family companies, the decision mechanism is gathered in one person and the power and authority of the business are not shared with the company units, long-term planning cannot be made in the company as a result of short-term thinking and decision-making, no interest in innovation and creativity initiatives on the grounds of failure risk, conservative behavior in the family company and opposition to change , lack of will and morale to struggle, special interest groups to take a more active role by organizing in businesses or families and the business environment to become more politicized for family businesses, the lack of clear determination of priority issues in family businesses, the decrease in family business management's trust in managers and employees, increasing conflicts between the family business employees, reporting only good news to senior management and family members, hiding information as a result of fear and insecurity, employees in family businesses not tending to work in groups, and Leadership in the business resists institutionalization.

Along with the dizzying development and globalization process in information and communication technologies, change has become an inevitable phenomenon in the business context, similar to other fields. Family businesses, dominated by family beliefs and values, have begun to experience problems in adapting to the intense competitive environment in which the pace of change in the world has become a global market. There are experts who research family companies, which have an important place in the Turkish economy as well as in the world economy, from many aspects. As a result of these researches, it has been seen that most of the family companies owned by Turkey and the world have not been sustainable for a long time, and it has been seen that there are problems in transferring the businesses to the next generation(s). The main reason for not providing longevity in family businesses is the failure to institutionalize. Most family businesses that aim for continuity institutionalize which symbolizes systematization in business activities, and create a culture of change in this context, but there are various problems in terms of implementation.

Structure and Development of Family Businesses

At the heart of the structure of the family business is the fact that the business is done by the family and a business is established. In this structure, which is based on the unity of the family, the entrepreneur supports the management of this consolidated business by establishing a company with a regulated ownership relationship. This structure, which adds the personal interests of the family members to the interests of the family and the interests of the society, is sometimes conflicting. The main roles in family businesses are those assumed by the family, those arising from the share ratio and those arising from the status of an employee in the company. Clearly defined definitions and boundaries between these roles prevent the conflict and confusion of people's roles (Fındıkçı, 2007).

At this point, the three-circle model, which is a very useful method to understand the source of interpersonal conflict, role dilemmas and different priorities of individuals in family businesses, comes to the fore. The model in question views the family company as a system and that system has a structure consisting of separate but interlocking subsystems. The family business consists of three groups of people, the members of the family, the employees of the company and the shareholders of the company (Avila et al., 2003). At the intersection of the three circles, seven different areas are created and the individuals in the family business are in one of these areas (Barry, 1975). The three-circle model has become the three-dimensional development model in revealing the structural formation and development in family businesses by adding the development process at a later stage. These are (Yolaç and Doğan, 2011):

• Evolution of Ownership: Ownership comes to the fore as a determining factor in the growth phase of family businesses. They evolve from a single person domination and control structure to a sibling partnership and then to a consortium of cousins. Complex relationships become more difficult to manage with the movement from one-man ownership to an increased number of shareholder cousins.

• Evolution of the Family: The vital stages of the family consist of the young business family, the employment of children, multi-work and the transfer of the flag. The process, which starts with the establishment of a business by the entrepreneur, continues with the transfer of control and management in the business to other generations.

• Evolution of the Business: This is the dimension of the family business consisting of its own characteristics. The size, age, structure, and financial position variables of the enterprise are the determinants of the stages in which the enterprise is located. The formation process of the evolution of the enterprise is in the order of initiation, expansion, and maturation. Numerous studies on the life cycles of family businesses explain the evolution of organizations. The development of family businesses consists of four life stages. These developmental stages are as follows (Yolaç and Doğan, 2011).

- First-generation Family Businesses
- Growing and Developing Family Businesses
- Complex (Second and Third generation) Family Businesses
- Family Businesses Succeeding in Persistence.

Management in Family Businesses

Management principles and rules in all companies are generally valid for family businesses as well. Along with this situation, it is one of the important factors that the management in family businesses also includes differences due to some characteristics. Common values in the management principles specific to family businesses can be summarized as power sharing, joint activities, openness to new ideas and methods, close relationships, mutual respect, solidarity, social support, and respect for private life (Pazarcık, 2004). The management of a family business is closely related to the power and position of the manager. The manager takes his power from his position in the business world and in the family. The strength associated with the company is the position in the management hierarchy, share ownership and work experience. On the other hand, family strength depends on the ability of the founder/first generation to be an old person or influence their family. The five most important elements in terms of management success in family businesses are listed as follows (Özmutaf, 2007):

- Good cooperation and communication between units.
- A company identity.
- A selection and placement system suitable for the requirements of positions during personnel recruitment.
- The existence of a strategic plan.
- The institutionalization of the business.

At a certain stage of the growth process, the need for institutionalization in family businesses increases because the owner is inadequate in management. The importance of institutionalization is not realized when the founder is the head of the company or when the company is small; however, the management and coordination of problems that arise for the company embody the need for institutionalization as it enters the growth process (Sciascia et al. 2015). When the founder must leave the company or change the management, the need for institutionalization increases even more. The most important issue here is to initiate and manage institutionalization efforts before the problems become serious. Otherwise, the desired success will not be achieved (Kuru, 2007).

The unwillingness of the entrepreneur to transfer the management and the fact that the criterion of being a family member comes before the performance of the individual when appointing managers are two of the most important obstacles to professionalization in family businesses. In the process of growing family businesses, management and ownership require separation at the right time (Schröder, 2011). In family businesses, there is a fear that the family will lose control of the business if professionals take over. However, with the growth of the company, the employment of professional managers becomes easier and the boundaries between the family and the company become clear (Kuru, 2007).

The Institutionalization Process and Development in Family Businesses

In addition to family businesses not being institutionalized, another reason for failure is the inadequacy of management skills (Fındıkçı, 2007). All this clearly shows the problems faced by family businesses in intergenerational change. The definitions of the concept of institutionalization, which plays an important role in the continuity of family businesses, deal with institutionalization in various dimensions (Yelkikalan and Aydın, 2018). In terms of institutionalization, the entrepreneur and manager have rules and standards independent of the partnership. Creating systems adapted to changing environmental conditions and an organizational structure suitable for this change can be defined as the process of transforming unique business processes and methods into an organizational culture, thus adopting a different identity (Karpuzoğlu, 2004). In other words, institutionalization is the emergence of stable, orderly, and socially integrative patterns from unstable, uncertainly organized or tightly technical activities. The most important aspect of institutionalization can be considered as the creation of values that go beyond the technical requirements of the current task (Poza, 2013).

Many studies on family businesses reveal the institutionalization criteria of family businesses with the following aspects (Kuru, 2007):

- Keeping family problems completely separate from work problems.
- Constantly examining the domestic, socio-area, economic and cultural changes from day to day and determining the direction of the business according to the changing situation.
- Planning on the basis of know-how in the distribution of duties of non-family working individuals.
- Having a selection and placement system that meets job requirements in recruitment. Mixing family and work roles, conflicts and mixing emotions and logic threaten the future of family businesses as the generations progress and the family grows (Sabuncuoğlu, 2005).

For this reason, the most important issue that family businesses should focus on is to ensure continuity. Family businesses must adapt to change and carry out this process in the most correct way in order to ensure continuity and take decisive steps towards the future. The most important point in the success of this change process is that family businesses can separate their family, partnership and management problems and create a separate mechanism to solve each one (Memili et al., 2013). This also requires the concept of institutionalization. This is to ensure the continuity of family businesses, to correctly determine the structure of the partnership and to clearly show the roles, to fulfill the leadership role of the business founder and to implement the institutionalization process. Within the framework of institutionalization, it is necessary to clarify family relations and expectations, to prepare a family constitution, to form a family council, to determine the roles in the management mechanisms, to increase the efficiency of the board of directors and to create an infrastructure for the successor plan (Kumkale, 2015). Institutionalization is when entrepreneurs transfer their power to a specific system, the general operation is carried out according to the rules, and if necessary, they can work with managers with higher qualifications (Kraiczy, 2015).

Creating a Culture of Change in Family Businesses

Change is being able to make a difference (Robbins and Judge, 2019). It can be defined as the process experienced by an organization to move from its current state to its preferred future state while overcoming all the problems encountered (Sabuncuoğlu and Tolay, 2008).

Change is mostly an undesirable situation in family businesses which employees can resist. It is thought that change will affect the balance of the organization, that it will make the employees will feel insecure and that situations contrary to their interests will arise. In particular, employees who are satisfied with their current situation do not accept change. Family businesses that maintain the traditional family structure may show greater resistance to change. From this point of view, it can be said that the most important element in creating a culture of change is a perspective towards institutionalization.

The priority in the success of family businesses is to create a culture of change that will adopt a business strategy. The basis for the success of the organization is to create an effective culture of change by adopting the business strategy of the employees. Resistance to change can be minimized with the combination of individual abilities, cooperation, and organizational power (Haaland and Kind, 2008).

The creation of a culture of change varies according to the organizational structure of family businesses. In general, it is not easy to build a culture of change in organizations. In family businesses that are open to new views, new ideas and approaches, the adoption of change and the creation of a culture of change occur much faster (Jauch and Glueck, 1988). There are two important assumptions for organizational change. In the first assumption, this transformation can be successfully implemented by organizations; and in the second assumption, change adds value to the organization and is an important element for its continuity (Johnson and Scholes, 2001).

Family businesses can learn by creating a change culture that can touch stakeholders. Businesses that aim to learn to adapt to the world, that have made differentiation permanent, attach importance to change and innovation. For this reason, business employees should learn by applying the following theories about change in order to create a culture of change (Yiğit, 2014):

1. The appropriate vision and mission should be determined, and a priority list should be made for change. In addition, these changes should be explained in turn to those who are related to the subject.
2. Those who start the change should receive the support of all participants and provide an opportunity to contribute.
3. Change should not be instantaneous; it should be known that it is an event that is a requirement of the process.
4. Responsibility for change should be given to the entire organization.
5. While the foreseen results for the change can be achieved, other results may occur in the stages of the change, contrary to the planned ones.

Creating a Culture of Innovation

The first of the important elements of creating a culture of change in family businesses is to create an environment that will encourage a culture of innovation. According to Peter Drucker, the concept of innovation is more advanced than genius. It is a knowledge and skill-oriented process that focuses on a single area. The effect of innovations is seen over time (Drucker, 2002). The most important element that will encourage the culture of change in family businesses is the top management and the leader. The innovation process, which is perceived as a risk for the leader, is seen as a stressful and complex process. It is very difficult to control and predict what the results will be (Kanter, 2001). Leaders who will lead the change play an active role in family businesses.

Innovative family businesses support the development and training of their employees and take precautions with job security practices. These businesses offer practices that encourage their employees to take initiative and develop new ideas and products (Howell and Higgins, 1990).

Business innovation skills depend on the state of innovation in organizational cultures. Sustainable innovations are a formation that is determined by organizational cultures and that provides innovation culture, innovation skills and sustainability. The innovation culture also influences creativity, autonomy, continuous learning, flexibility, collectivism, and informal communication, as it clarifies new views. Considering the innovation culture within the organizational and social culture is a correct approach. The innovation culture should settle between these two interactive cultures (Ürper, 2008). In this context, the beliefs of the staff in innovation are more important than they think about innovation, and the cultural extensions play a critical role in creating a new culture (Tzafirir et al., 2004).

Creating a Learning Organization

Learning organizations support the learning of all members of the organization and quickly adapt to change in order to achieve their strategic goals (Pedler et al., 1989). Leaders, who are important at every stage of change, have the same importance in learning organizations. Leaders within these organizations lay the foundations of the learning organization by being aware of the skills and knowledge levels of their employees, leading their development, adopting the rules of ethical behavior, and encouraging organizational learning (Shin et al., 2017).

According to a developed theoretical model, certain "situational stimuli" in work environments affect and activate certain personality traits with which they are related in terms of quality. With this interaction, employees show some behaviors. There are many stimulant elements that give businesses the ability to innovate. Among these, it is very important for businesses to have a tendency to learn or to have a learning organization feature. At this point, organizations are constantly improving themselves. A learning orientation in organizations not only supports knowledge management, but also supports the emergence of new information and thoughts (Aragon-Correa et al., 2007).

Management of Learning

Managing learning is an approach that questions learners, investigates, solves problems, and supports learning, and prepares learners for professional life by using daily life problems. Learners think about "what they know" and "what they should know", and they can view facts with previous learning strategies by focusing on the information they have (Lam, 2004). It is stated that the method of managing learning has three important features. These are:

1. In the process of managing learning, if the learner encounters a problem or scenario, learning begins.
2. The problem is structured.
3. The administrator who uses the method is not the one who manages the learners, but the one who directs them.

The method also enables learners to participate in learning processes and to change traditional educational programs with the different perspectives they bring to learning. In the method, the problem provides the learners with the opportunity to evaluate what they have learned, and to establish a cause-and-effect connection, foresight and discussion. Problem-solving should be complex and lead the learner toward learning. Knowledge is reconstructed as learners construct theories about the problems (Lam, 2004).

Conclusion and Recommendations

After the family businesses, which fulfill all the functions of the founding entrepreneurs, start to grow, they must be able to make changes in the structure of the business in order to cope with the problems caused by growth and to follow the conditions of the day. Institutionalization is a necessary method for businesses to exist in the future and will keep the business alive by creating standards and facing the many challenges.

Planning for the transfer of management is an important step in the institutionalization of family businesses. With a bad management takeover, the company can lose efficiency, start experiencing management difficulties, or even disappear. So, an effective transfer plan is of great importance for the family business to be sustainable and to continue its life after the retirement of the founding entrepreneur. It should also include the necessary planning to prepare family members for their future roles that the business manager is considering during a management transfer. A written plan to ensure that the company has no problems with the transfer process will prevent potential internal conflicts. Preparing heirs for their future roles is an important part of the transfer plan. Before taking up management in the company, understanding the duties they will undertake and the responsibilities they will assume will enable the heirs to get to know their professional life and prepare them for their future roles.

In the creation of a culture of change in family businesses, one of the important factors is adapting to differentiation, as well as adapting by learning. Especially in this process of change, businesses aim to achieve success through change and innovation. The realization of innovation in businesses includes the process of formation of an organizational culture, skills and sustainable innovations.

The existence of an organizational feature comes to light for learning in family businesses, supporting information management in terms of continuous self-improvement, new information and different ideas. This situation contributes to learning about solving problems in family businesses. Therefore, it consists of processes for innovation in achieving success in family businesses. It is essential for family businesses to keep up with innovations in the age of change. For this reason, it is necessary to eliminate the factors that prevent institutionalization in family companies and to make the culture of change dominant in the business. Creating this culture of change is possible with effective leadership, vision, education and participation by the family.

It is not easy to create a culture of change because of the traditional structure of family businesses. The change experienced in family businesses having family members active in management can make members nervous. Family businesses that are open to innovation need to be open to new experiments and ideas. New ideas will be produced and an effective change culture will be created in businesses that reward both success and failure and make their employees feel that they will not encounter any negative behavior as a result of failure.

Keywords: Family Business, Institutionalization, Culture of Change

References

Aragón-Correa, J. A., García-Morales, V.J. & Cordón-Pozo, E. (2007). Leadership and Organizational Learning's Role on Innovation and Performance: Lessons from Spain. *Industrial Marketing Management*, 36 (3), 349-359.

Avila, S.M., Avila, R.A. & Naffziger, D.W. (2003). A comparison of family-owned businesses: Succession planners and non-planners. *Journal of Financial Service Professionals*, 57 (3), 85-92.

Barry, B. (1975). The development of organization in the family firm, *The Journal of General Management*, 3(1), 42-60.

Carlock, R.S. & Ward, J.L. (2001). *Strategic Planning for The Family Business Parallel Planning to Unify the Family and Business (1st ed.)*. Palgrave Macmillan UK.

Drucker, P.F. (2002). The Discipline of Innovation, Harvard Business Review, 80(8), 95-148.

Fındıkçı, İ. (2007). *Aile Şirketleri*, Alfa Yayıncılık.

Haaland, J. I. and Kind, H.J. (2008). R&D policies, trade and process innovation. Journal of International Economics, 74, 170-187.

Howell, J. M. and Higgins, C. A. (1990). Champions of technological innovation. Administrative Science Quarterly, 35(2), 317–341.

Jauch, L. R. and Glueck W. F., (1988), Business Policy and Strategic Management, (5th Ed.)., Mc. Graw Hill Int. Editions, Management Series, U.S.A.

Kanter, R.M. (1988). When a Thousand Flowers Bloom: Structural, Collective and Social Conditions for Innovation in Organization. Research in Organizational Behavior, 10, 169-211.

Kanter, R.M. (2001). Creating The Culture for Innovation. In F. Hesselbein, M. Goldsmith & I. Somerville (Eds.), Leading for Innovation and Organizing for Results, The Drucker Foundation Wisdom To Action Series (pp.73- 85). Jossey- Bass A Wiley Company.

Karpuzoğlu, E. (2004). *Büyüyen ve Gelişen Aile Şirketlerinde Kurumsallaşma*, Hayat Yayıncılık.

Kraiczy, N. D., Hack, A., & Kellermanns, F. W. (2015). What makes a family firm innovative? CEO risk-taking propensity and the organizational context of family firms. *Journal of Product Innovation Managemen*t, 32(3), 334-348.

Kumkale, R. (2015). Aile Şirketleri ve Müesseseleşme, https://www.alomaliye.com/2005/10/04/aile-sirketleri-ve-muesseselesme/

Kuru, Ü.Ö. (2007). İnsan Kaynakları [Human Resources]. *İnsan Kaynakları ve Yönetim Dergisi*, 10(9), 34.

Lam, D. (2004). Problem-based learning: An integration of theory and field. *Journal of Social Work Education*, Proquest Psychology Journals, 40 (3), 371-389.

Memili, E., Zellweger, T. M., & Fang, H. C. (2013). The determinants of family owner-managers' affective organizational commitment. *Family Relations*, 62(3), 443-456.

Özmutaf, N. M. (2007). Geleceğin Örgütlerinde İnsan Kaynakları İçin Başarı Ölçülerine Yönelik Çok Değişkenli İstatistiksel Bir Yaklaşım [A Multivariate Statistical Approach to Success Measures for Human Resources in Future Organizations]. *Milli Prodüktivite Merkezi Verimlilik Dergisi*, 4, 61-74.

Pazarcık, O. (2004), Aile İşletmelerinin Tanımı Kurumsallaşması ve Yönetişimi, 1. Aile İşletmeleri Kongresi - Kongre Kitabı, İstanbul Kültür Üniversitesi Yayınları

Pedler, M., Burgoyne, J. & Boydell, T. (1989). The learning company. Studies In Continuing Education, 11(2), 91-101.

Poza, E. (2013). *Family business* (4th edition). South-Western Cengage Learning.

Robbins, S.R. and Judge, Timothy, A. (2019). Örgütsel Davranış (Edt. İnci Erdem), Nobel Bilimsel Eserler.

Sabuncuoğlu, Z. (2005). İnsan Kaynakları Yönetimi, 2. Baskı, Alfa Aktüel Basım.

Sabuncuoğlu, Z. and Tolay, E. (2008), Liderlik, Değişim ve Yenilik, Liderlik ve Motivasyon, (Ed. Celalettin Serinkan), Nobel Yayınları.

Schröder, E., Schmitt-Rodermund, E., & Arnaud, N. (2011). Career choice intentions of adolescents with a family business background. *Family Business Review*, 24(4), 305-32.

Sciascia, S., Nordqvist, M., Mazzola, P., & De Massis, A. (2015). Family ownership and R&D intensity in small-and medium-sized firms. *Journal of Product Innovation Management*, 32(3), 349-360.

Shin, H. W., Picken, J. C. & Dess, G. G. (2017). Revisiting the learning organization: how to create it?. Organizational Dynamics, 46, 46-56.

Tzafrır, S. (2004). The Consequences of Emerging HRM Practices, Trust in their Managers. *Journal of Personnel Review*, 33, 624-647.

Ürper, Y. (2008). *Girişimcilik* (Ed. Yavuz Odabaşı). Anadolu Üniversitesi Yayınları.

Yelkikalan, N. and Aydın, E. (2004). Aile Şirketlerinde Profesyonelleşmeyi Yönlendiren Bir Dinamik: Entellektüel Sermaye Birikimi [A Dynamic That Drives Professionalization in Family Businesses: Intellectual Capital Accumulation]. *Yönetim Bilimleri Dergisi (çevrimiçi)*, Aile Şirketlerinde Profesyonelleşmeyi Yönlendiren Bir Dinamik: Entellektüel Sermaye Birikimi | AVESİS (comu.edu.tr)

Yolaç S. and Doğan E. (2011). Küreselleşme Sürecinde Aile İşletmelerinde Yönetim ve Kurumsallaşma [Management and Institutionalization in Family Businesses in the Process of Globalization]. İstanbul Üniversitesi İktisat Fakültesi Mecmuası, 61 (2), 83-110.

Yiğit, S. (2014). Kültür, Örgüt Kültürü ve İnovasyon İlişkisi Bağlamında İnovasyon Kültürü [Innovation Culture in the Context of Culture, Organizational Culture and Innovation Relationship]. *KMÜ Sosyal ve Ekonomik Araştırmalar Dergisi*, 16 (27), 1-7.

Biography

Dr. Münevver BAYAR

She completed her undergraduate degree in Business Administration and her Master's degree in Management and Organization. She has a PhD degree in Business Management. She worked at various levels in the Ministry of the Interior (EGM), the General Directorate of Retirement Fund and the Social Security Institution. She has been working in the Social Security Institution as a manager for about 10 years and has taught at Hacı Bayram Veli University School of Banking and Insurance. She has published articles, books, book chapters and papers in the fields of Management, Human Resources Management, Strategic Management, Organizational Behavior, Entrepreneurship, and Insurance.

CHAPTER 8

THE ROLE OF THE FINANCIAL MANAGEMENT DEPARTMENT IN FAMILY BUSINESSES

MEZIYET SEMA ERDEM

Introduction

It is seen that most of the businesses that have a say in the economic life in the world and in Turkey today (75%-90%) are family businesses or they are the continuation of businesses established as family businesses (Kalkan et al. 2013). During the establishment and growth periods of family businesses, which are formed by individuals with kinship ties, first generations struggle with some difficulties such as technical knowledge, institutionalization and access to finance and use their efforts and resources in the best way for the purpose. They grow the business and make it successful. In the period of the second and third generations, some conflicts of interest within the family may arise from time to time, and financial difficulties may arise (Özgentürk, 2013). In this period, family businesses, which have to deal with the emotionality's in the family and also cope with the emerging financial problems, cannot renew themselves and develop enough. This situation negatively affects the sustainability of success in family businesses (Yurttatur and Nakipoğlu, 2013). As a matter of fact, the majority of family businesses generally cannot catch a sustainable growth trend in the next generations. It is claimed that the average life expectancy for a family business is between 24 and 34 years, however, only 30% of family businesses can pass to the second generation, 12% to the third generation, and the rate of those who can pass to the fourth generation remains at 3% (Kobal and Yıldırım, 2017). The main reason underlying this situation is the confusion of business management and family relations and the financial problems that have to be dealt with in family businesses (Yazıcı, 2017).

If there are some financial problems in an enterprise and solutions to these financial problems cannot be produced, it should not be expected that other units of that enterprise will work effectively and efficiently. For this reason, as in all other businesses, the way to sustainable success in family businesses is through an effective financial management. Financial management can be briefly defined as all the activities carried out in an enterprise to transform funds provided for commercial purposes into suitable asset investments. The selection of the assets that the enterprises will invest in and the distribution of the profits to be obtained together with the provision of the resources required in this investment process under the most favorable conditions constitute the main decisions to be made by the financial manager. The main purpose of the financial manager is to maximize the value of the enterprise (Korkmaz, 2010). Functions such as financial analysis and control, financial planning, management of business assets, providing and managing needed funds under appropriate conditions, distribution of profits, which will be handled within the scope of financial management, are within the scope of the duties and responsibilities of the financial management department of the enterprise. Since all investment and financing decisions to be taken in enterprises should be taken by taking advantage of the opinions and suggestions of the financial management, there should be an effective finance department in family businesses that have reached a certain size. Depending on the size and scope of the business, family businesses should have at least an effective finance committee. Within the scope of this section, the financial management process of family businesses will be examined and the duties and responsibilities of the financial management department will be discussed.

Financial Management in Family Businesses

Family businesses are businesses established by the family leader or family members clustered around him to make profit (Yalkut, 2020). In other words, if two or more people from the same family work in various levels of the same company and the majority of the company is held by one or more family members, this business can be called a family business. Family businesses not only have the opportunity to work with a team that identifies the business with their family reputation, is clamped around family culture and family values, and is focused on success, but also has the advantage of making quick decisions. However, in family businesses where family members are both founders and managers, family relations can also cause some conflicts and crises that may cause the life of the business to end (Deloitte: 2019). Family businesses generally do not have a written business plan. Parallel to this, issues such as the underdeveloped or insufficient development of activities such as foresight, planning, budgeting, reporting in the enterprise, and the fact that tactics are at the forefront rather than strategy because the plans are generally short and medium-term can create great problems. In this type of businesses, the foresight, budgets and even plans are made by the entrepreneur or a family member. The family member dealing with these jobs generally expects from the employees to act in accordance with these fictions in their minds. Depending on this situation, especially in small-scale family businesses, it is possible to encounter situations where financial decisions are made based on intuitions and experiences and are expressed verbally without some analysis (Akgemci and Sevinç, 2003). In parallel with all these, the inability to realize an effective financial management process can cause some problems, especially in family businesses that cannot leave the management to professional managers.

Family members play an active role in the management of the business in family businesses where professional management is not applied in order to meet the financial needs of the family members and not to divide the inheritance that will remain from the family.

However, it is observed that family members constitute a decision mechanism in financial matters as well as in the capital structure of the company in family businesses where duties cannot be transferred to more professional managers in the second and third generation periods (Deloitte, 2019).

However, family disputes and conflicts in general can negatively affect the financial management process as well as all company activities. This situation can slow down the decision-making mechanisms both within the enterprise and in the financial management process. As a result of such a situation, financial decisions may not be taken quickly, personal egos may come to the fore, and financial decisions for the benefit of the company may be delayed or not be taken, and an inability to focus on the corporate strategy. As in any business, all investment and financing decisions to be taken in family businesses should be taken by taking advantage of the opinions and suggestions of the financial management. For this reason, in family businesses that have reached a certain size, having a finance department will be beneficial in the process of making and implementing financial decisions. Although the position of the finance department in the organization chart of the enterprise may vary depending on the field of activity and size of the enterprise, in a family business that has reached a certain size, a finance manager at the general manager level should be at the head of this department in terms of his powers and responsibilities. If the family business has not reached a certain size and professionalization has not been achieved in the management, it is of course not expected to have a financial management department in this family business. However, in such family businesses, at least one financing committee should be included in the business. The finance department in the enterprise is a center where the fund requirements of the entire enterprise are determined and the funds provided are distributed to all departments. Fund requirements of all departments of the enterprise are collected in the finance section (Ceylan and Korkmaz, 2010). For this reason, the finance department or finance committee formed should be in close relationship with other departments within the enterprise.

Functions of Financial Management in Family Businesses

All investment and financing decisions to be taken in the enterprise should be taken by taking advantage of the opinions and suggestions of the person responsible for financial management or the finance department. Functions such as financial planning and financial analysis in enterprises, monitoring and control of cash flows, working capital management, management of fixed capital investments, providing funds and capital, determining the places where the funds will be used, distribution of the profit obtained, are a department responsible for financial management within the enterprise according to the size of the enterprise. or by the committee. Since the presence of an effective finance department or committee in the enterprise will enable financially effective and efficient decisions to be taken, it can be argued that this situation will increase the success of the enterprises in general. The works to be carried out by the finance department in enterprises are briefly discussed under the headings in the following sections.

Financial Analysis

As the growing businesses turn to small savers in order to find resources, the need to inform the interest groups about the business has emerged. Financial statements are the tables that are prepared at regular intervals to present information about the businesses to all interest groups related to the business, according to the reporting function of the information collected by the accounting department. These include basic financial statements; While it consists of balance sheets and income statements that all companies have to prepare, additional financial statements; It consists of cost of sales statement, funds flow statement, cash flow statement, net working capital change statement, equity change statement and profit distribution statements (Gündüz, 2019).

Among the financial statements, the financial statement that shows the assets of the business at a certain date and the sources used to finance these assets, together with their amounts and distributions, is the balance sheet. The balance sheet consists of two equal sides called assets and liabilities. While the assets of the enterprise are on the active side, the financing resources of these assets are on the passive side of the balance sheet (Öcal, 2020).

While the assets in the assets of the balance sheet are ranked from the most liquid to the least liquid value according to their rate of conversion into money, the resources in the liabilities are ordered from short to long term according to their maturities. The financial statement that shows all the income of the business in a certain period and all the costs and expenses incurred in the same period and the net profit or loss of the business as a result of these is the income statement (Akdoğan and Tenker, 2010). The income statement displays the company's revenue, costs, gross profit, selling and administrative expenses, other expenses and income, taxes paid, and net profit in a coherent and logical manner. Other financial statements other than the basic financial statements are an annex and complement to the balance sheet and income statement (Akdoğan and Tenker, 2010).

Financial statements provide information about the business to various information users who are in business and interest relations with the business and will make decisions according to these relationships. Interest groups such as business managers, business owners and partners, business employees constitute the users of financial statements within the processing. Creditors to the business, those considering becoming a partner in the business (potential partners), competitors of the business, government and public institutions, unions, financial analysts, lawyers and chambers of commerce, other businesses and institutions that have a commercial relationship with the business (customers and vendors), public are users of non-processing financial statements (Şahin and Bakır, 2009).

The process of examining the relationships between the items in the financial statements and their changes over time in order to evaluate the financial situation, operating results, financial performance and financial development of the business, to predict the direction and size of the development, and to make predictions for the future (Çabuk and Lazol, 2008).

Financial analysis can be divided into several classes based on the variety, scope and purpose of financial data. If the financial analysis is done to inform the permanent staff of the business (such as the managers, accountants and internal auditors of the business) and current partners is called internal analysis. If the analysis is made to provide information to third parties and institutions other than the permanent staff of the enterprise, by making use of the financial reports published by the enterprise to the public is called external analysis. If the analysis is carried out to determine the meaningful relationships among the financial statement items belonging to a single period (or a certain date) of the enterprise is called static analysis. If the analysis is made using financial statement data of (two or more) consecutive years of the business and comparisons are made between years and changes are calculated is called dynamic analysis. Dynamic analysis type is very useful in making forecasts and plans for future periods. If the analysis is done to provide information to the business management is called management analysis. If the analysis is carried out to provide information to those who are or are considering becoming a partner to the enterprise, and those who provide or will provide long-term resources to the enterprise is called investment analysis. If the analysis is carried out to determine the liquidity status and short-term debt payment status of the enterprise and to provide information to those who will provide credit to the enterprise is called credit analysis (Şamiloğlu and Akgün, 2 010).

There are basically four techniques used in the financial analysis process: comparative table analysis (horizontal analysis), trend percentage analysis (trend analysis), percentage analysis (vertical analysis), ratio analysis. Comparative table analysis is used to examine the changes in the past and present conditions of each item in the financial statements. Trend analysis from methods; It is used to determine the trends of the items in the financial statements over time, while the vertical percentage analysis is used to determine the group and general percentages of the groups or classes in the relevant years. Ratio analysis establishes mathematical relationships between financial statement items. In this way, it gives an idea about the economic and financial structure of the enterprise, its profitability, liquidity and working status, solvency, efficiency of its assets, efficiency, and adequacy of management (Elmas, 2015).

In order for family businesses to access cheaper financing resources in international financial markets, go public or attract foreign capital, they should be transparent in terms of financial reporting and prepare their financial statements in an internationally valid financial reporting language in a way that is appropriate, reliable, understandable, and free from manipulation and on time required. In addition, in family companies, financial statements that are compatible with world accounting standards and that are comparable to the world accounting standards should be produced, giving importance to the infrastructure of the accounting and finance system within the enterprise, and the accounting and finance departments should invest in human resources. However, before the financial plans are created in family businesses, it is absolutely necessary to evaluate the current financial situation, operating results, financial performance and financial development of the business, to predict the direction and size of development, to make predictions for the future, the status of the business in terms of liquidity, profitability, efficiency in its activities and financial structure should be analyzed.

Financial Planning

Today, businesses should focus on long-term goals rather than short-term policies in order to gain competitive advantage. In this direction, businesses that foresee the future from today, plan their activities according to these predictions and operate in line with these plans will be able to achieve success in the future. It is important to use these funds in the most effective and rational way, as well as to provide the funds needed by the enterprises for their activities in optimum conditions with minimum cost. The most rational use of funds depends on the detailed planning of financial actions in advance. Bringing all the plans and designs related to the financial management of an enterprise into certain programs and combining them with the activity plans of the enterprise refers to financial planning (Avder, 2006). In other words, financial planning is the process of determining in advance how the activities of the enterprise will occur in line with the possibilities and objectives of the enterprise, and what amount of funds will be needed for these activities. With financial planning, future targets will be digitized, and it will allow the comparison of the actual and expected situations in both business activities and financial management process. Thus, it will allow the emergence of a control opportunity. However, it is ensured that the problems that may be encountered in economic life are foreseen. Coordination is provided between various departments in the enterprise. Resources will be used more effectively (Akgüç, 1996).

One of the issues to be controlled first in financial management is cash flows. Cash flow statements are used for cash control purposes. It should be known that it is impossible for businesses that do not earn cash or cannot use the cash they earn in the right place and time to be successful. In an effective cash management, daily cash inflows and outflows should be estimated (Uzun, Türk and Uzun, 2003). Cash budgets, one of the most basic tools of short-term financial planning, are tools that help financial management in which cash inflows and outflows are determined according to the situation in the current period's business activities. The purpose of preparing the cash budget is to determine in advance the cash needs and surpluses of the enterprise for the period under consideration. Thus, the business will prevent liquidity crunch by seeing when there will be a cash shortfall and deciding in advance how this shortfall will be met. In periods when there is a cash surplus, the enterprise will still have the opportunity to decide in advance how this surplus will be evaluated (Aydın et al., 2014). Long-term, in other words, pro forma financial statements and budgets prepared for short-term purposes, which are created for the purpose of planning the future, enable the evaluation of the performance of the enterprise in financial terms, while also making it easier to determine the deviations from the forecasts and to review the forecasts for the future.

Financial planning will make a significant contribution to the focus of the business on its goals and the efforts of all business units to achieve the same goal in a coordinated manner, in family businesses as well as in all other businesses.

The financial planning and subsequent financial control process in businesses will increase the efficiency of business management as a whole and will be the key to the success of the finance manager.

Management of Working Capital

Short-term assets, which are considered to be converted into money in a business within one year, constitute the current assets of the business, in other words the gross working or working capital. Gross working capital consists of liquid assets held by the enterprise, securities, receivables with and without promissory notes and inventories including commercial goods held for commercial purposes. Gross Working (working) capital in the enterprise; It is kept in order to continue the daily activities of the enterprise and to pay its short-term debts that are due. Of these, the process of maintaining daily activities is provided by net working capital. The part of the Gross Working Capital that exceeds the short-term liabilities (debts) is called net working capital. Current assets should be of sufficient size and structure to both pay the short-term debts of the enterprise and continue its daily activities (Ceylan and Korkmaz, 2017).

The business should have Working Capital in the amount that can maximize profitability and productivity. In this, the working capital should be sufficient to carry out the works in the most economical way without encountering any financial difficulties and to meet the sudden needs and losses that may prevent significant financial losses (Erdoğan, 1990). As the working capital decreases below the sufficient level, it increases the failure of the firm and causes it to lose its prestige, causing it to lose its credibility in the eyes of the creditors and other institutions it is associated with in the market. The excess of working capital increases liquidity and reduces risk, on the other hand, it decreases profitability (Aksoy, 1990, 145).

Situations such as the inability of current assets to meet short-term debts, inability to pay debts on time, working with insufficient stock, inability to benefit from interest income, inability to provide inputs under appropriate conditions, and inability to adapt to changing market conditions in a timely manner indicate insufficient working capital in that enterprise. However, if negative news about the business has spread in the public, if the company's stocks have lost value, and in similar situations, the adequacy of the working capital should be questioned (Aksoy, 1990). Factors causing insufficiency of working capital; Losses that become chronic due to excessive cost increases, inaccurate fixed asset investments, insufficient profit margin to be added to sales prices, increases in input prices, borrowings over high interest rates, failure to adapt to technological developments in the sector and faulty profit distribution policy can be summarized. However, the working capital requirement in the business varies according to the nature and scale of the business activities and the financial techniques used. The factors that determine this need are: average stocks, annual sales, annual general expenses, gross and net profit margin, payment period to vendors, payment period offered to customers, seasonal and cyclical changes (Aksoy, 1990).

As in other businesses, an effective working capital management in family businesses will have an impact on the credibility and profitability of the business. The business should not hold excessive current assets and liquid assets, and liquid assets should be sufficient. Excess liquid assets should be evaluated in alternative investment instruments such as investing in interest or investing in securities that can be converted into cash at any time. The business should follow its receivables well and take the necessary measures for the timely collection of receivables. Sustaining an uninterrupted production at full capacity should be ensured, economic stocks should be calculated by balancing risk and return, excess stock should not be kept on hand, and excessive funds should not be tied to stocks. The role of working capital management is important in family businesses, as in all businesses, in terms of the ability of the business to run its business in a healthy way, to increase its business volume, to increase its credit worthiness, to achieve its goals successfully, and so on increases. The more effectively the working capital is managed, the less the need for borrowing. Effective management of working capital, especially in small-scale family businesses, not only increases profitability by generating cash, but also reduces the risks that may arise due to cash shortages. Due to lack of capital, these businesses can reduce capital shortage by renting fixed assets or purchasing used fixed assets during the investment process in fixed assets. The more effectively the working capital is managed, the less the borrowing requirement in the business will be.

Management of Fixed Assets

The assets of the enterprise that can be collected, sold, used and consumed in a period longer than one year or a normal operating period constitute the fixed assets of the enterprise, in other words fixed capital investments. Fixed assets consist of trade receivables, financial fixed assets, tangible fixed assets, intangible assets, special depletion assets, future expenses and income accruals and other non-current assets. Fixed capital investments are the basis for the survival and growth of businesses. Because businesses that aim to continue their existence in the current competitive conditions, increase the market value of their businesses by growing and expect profit in the future, have to invest in assets such as machinery and equipment used in production in order to realize these goals and also keep up with changing socio-economic and technological conditions (Sarıaslan and Erol, 2008). It is possible to examine fixed capital investments in five sections. Among these, renovation investments are investments made for the purchase of a new facility that will do the same job, instead of a facility that has become ineffective. Expansion investments are investments that involve the expansion of facilities in order to increase existing capacity and bring advanced technologies into operation. Product investments; It includes investments made for the development of existing products, such as research and development, engineering design, promotion expenses or better control of quality in production, and investments made for adding new products to the product line. Strategic investments; they are investments made to reduce risk and increase the welfare of employees. Modernization investments are the investments made to modernize the enterprises in order to save more costs and increase the production quality (Ceylan and Korkmaz, 2010).

Static methods used in the evaluation of fixed capital investments can be listed as audit sorting, the ratio of the total net cash inflow to the investment amount, the ratio of the annual average net cash inflow to the investment amount, the ratio of the average annual income to the average investment amount, and the payback period. Dynamic methods consist of internal rate of return and net present value profitability index methods. Under uncertainty conditions, it is used when choosing among alternative projects, in case the conditions change regarding the future and the possibility of cash inflows to differ from the expected values, in other words, if the risks of the projects are taken into account. It covers methods such as risk adjusted discount rate, certainty equality method, probability distribution method, decision tree method, simulation method and evaluation of investment projects in an inflation environment (Sarıaslan and Erol, 2008). Short-term liabilities (debts) should never be used to finance fixed assets in family businesses. Otherwise, the short-term debt solvency of the business will weaken and there will be a shortage of net working capital. This may leave the business in a difficult situation in terms of cash. If the enterprise finances its fixed assets with short-term liabilities and the due short-term liabilities cannot be paid, the enterprise may have to dispose of its fixed assets in return for its debt, and the enterprise will lose this power since it determines the production capacity and power of the enterprise in fixed assets. However, there is a need for sufficient current assets in the business to operate the fixed assets. Fixed assets should be financed by equity (equity) and long-term liabilities (debts). It is expected that fixed assets in production enterprises are more than current assets.

Management of Funding Sources

Funds to be used in the business can be obtained from equity and foreign sources, as well as through auto financing. The funds that the business needs from its own resources or the opportunities of its owners are the funds provided through equity. These funds can be handled under two headings as fundraising through capital raising and fundraising through stock issuance. Funding by capital increase, which is generally applied in businesses that want to grow, is realized by increasing the existing capital depending on the decision of the business owners and asking the existing partners to participate in the capital increase by using their pre-emptive rights. Providing funds through the sale of capital market instruments such as stocks and bonds to the public is called fund issuance by issuing stocks. In this way, it is ensured that the people participate in the company as partners or founders (Sarıaslan and Erol, 2008). Long-term funds provided by enterprises from foreign sources are generally provided through commercial bank loans and bond issuance. Bonds are long-term debt securities that must be repaid within a certain period of time, together with the principal and interest, at a specified interest rate. Businesses can obtain funds by taking loans from banks, taking into account the degree of need of the funds they need, its repayment power and the place to be used. If businesses are going to use funds for their current assets, they can apply for short or medium-term loans, and if they are going to use funds for their fixed assets, they can apply for medium or long-term loans (Ceylan and Korkmaz, 2010). The short-term resource needs of businesses are generally; activity volume, sales and credit policy, capital structure and seasonal and cyclical factors. However, the cost of short-term resources is lower than the cost of long-term resources. However, short-term resources create risks for the business due to the frequency of repayments and the difficulties encountered in renewal. Auto-financing is the retention of all or part of the profits within the business without being distributed. By means of auto-financing, additional financing can be provided to the enterprise without applying to the partners for capital increase, and in addition, in case of issuing new share certificates for capital increase and their purchase by third parties, the negativities that the business management will face are prevented by auto-financing (Sarıaslan and Erol, 2008). The debts that the business has to pay within an operating period, usually up to one year, are short-term financing sources. Resources provided by businesses from short-term funds are generally used to finance current assets (Sarıaslan and Erol, 2008). The main short-term funding sources used by businesses are; commercial loans (seller loans), short-term bank loans, financing bills, export financing, asset-backed securities, financing receivables and stocks, and factoring. The maturities of medium-term funding sources used by businesses generally vary between one and five years. As the main medium-term financing sources; medium-term bank loans, loans provided by providing machinery and equipment as collateral, loans provided through financial leasing and fortfaiting, and medium-term insurance company loans can be counted (Ceylan and Korkmaz, 2010). Long-term funds used by businesses are generally those with maturities longer than five years. Long-term funds are specifically requested by businesses to finance fixed assets as long-term funding sources; long-term bank loans, issued bonds, funds from equity and auto financing can be counted (Ceylan and Korkmaz, 2010).

The cost of resources in businesses is equal to the weighted average of the costs of all types of resources used or required to be used. It is the price the business pays for the funds it uses. The structural features of the resources used or intended to be used are effective in determining the independent resource costs (Aydın et al. 2004). The combination of debt and equity used in financing business activities is called capital structure. If businesses operate with a balance between risk and return, debt and equity capital, their capital costs will decrease and their market values will increase. If a firm's borrowing rate is below the target capital structure, then its capital requirement will be met by borrowing at a higher rate. Otherwise, if the borrowing ratio is above the target, the business will meet the financing it needs by issuing stocks. The high use of debt in the formation of the capital structure of the enterprise does not only increase the risk of operating earnings; it also increases the expected rate of return on equity (Ceylan and Korkmaz, 2010). Although it is widely believed that family businesses use external financing for growth and expansion, family businesses primarily finance their growth using internal resources such as retained earnings, operating cash flows and working capital.

Dividend Decisions

Dividend decisions; It includes decisions about how much of the profit will be distributed to the business partners and how much of it will be left within the business and auto-financing will be provided (Aydın et al. 2004). The importance of the profit distribution policy can be considered in two aspects: from the point of view of the company and the shareholders. The goal of the finance manager is to maximize the market value of the business. As the market value of the business increases, the partners will also benefit from this situation. But while business management plans for the longer term, company shareholders want a regular dividend. In this case, the business management will have to establish an optimal balance between the market value of the business and the profit share expectations of the partners. However, shareholders tend to evaluate the value of the business in terms of the amount and rate of dividends distributed. Thus, the business may have to follow a regular profit distribution policy every year. Businesses determine their profit distribution policies, medium and long-term management strategies, capital needs, investment and financing policies, profitability rates, cash situations, market conditions, legal regulations in force (TTK, SPK, KVK, GVK), by evaluating the developments in the economy (ISMMMO Profit Distribution Working Group, 2014). The regular dividend distribution policy (fixed dividend distribution policy) is based on the principle of distributing a fixed amount of dividend every year, even if the profit obtained changes. It is preferred by investors who want to earn fixed income and do not like risk. According to the fixed rate dividend distribution policy, it is based on the principle of dividend distribution by setting aside a certain amount from the profit earned every year, even if the profit obtained changes. While fixed amount dividend distribution is seen mostly in publicly traded companies, fixed rate dividend distribution is seen in non-public family companies. Some businesses, on the other hand, choose to distribute dividends in addition to a fixed amount of dividends (Aydın et al. 2004). Factors such as legal rules, liquidity status of the enterprise, payment of debts, limitations in debt contracts, growth rate of active assets, regularity in earnings, new investment plans, tax status of shareholders, audit, inflation are the factors affecting the distribution of dividends in enterprises.

Financial Risk and Elements of Financial Risk

Financial risk can be defined as the probability that the expected return of an investment will deviate from the actual return. The first step of risk management in businesses is to determine and define all potential risks that are likely to occur in these areas, taking into account all the factors of the business. While the second step is to define the probability of occurrence of the risks and what their potential effects will be, the last step is to carry out the necessary studies to eliminate or reduce the identified risks (Emin, 2018). Total risk is divided into two main groups as "systematic" and "unsystematic", depending on whether it has the ability to control (manage) or limit it in financial markets for businesses. Systematic Risks are risks that affect all investment decisions within the system and therefore all financial investments. Systematic risks include purchasing power risk, interest rate risk, market risk, political risk, and exchange rate risk. Unsystematic risks, on the other hand, are those that depend on the financial investment to be made or planned to be made. The structure and operation of the company whose financial assets will be invested, as well as the structure and functioning of the sector in which the company issuing the financial asset to be invested in are the main determinants of unsystematic risk. The sources of unsystematic risk include business and industry risk, financial risk, and management risk. Risk management is a systematic process in which different techniques are used, to identify possible risks and to control the identified risks in line with the risk appetite of the business and its method. The aim in this process is to keep the risk of encountering sudden and unexpected situations to a minimum (Emin, 2018).

Conclusion

It is seen that the majority of businesses that have a say in economic life today are family businesses formed by individuals with kinship ties. In family businesses, family members are often involved in various levels of management. Until the period of the second and third generations, if the transfer of duties to more professional managers has not been realized, family members constitute an important decision mechanism in financial matters as well as in the capital structure of the company. This situation may cause some conflicts of interest within the family and emotional feelings within the family. If there are financial difficulties in parallel with the problems for this family, the trust in the business among the related interest groups is also shaken. If a timely solution to family sentiments and emerging financial problems is not found, the future and even the very existence of the company may be endangered. Such problems cause the success of family businesses in the first-generation period to not be continued in the second and third generations. Especially in the period of the second and third generations, institutionalization should be given importance so that the management and family relations are not confused with each other, and professional managers should be used, especially in financial management.

Family businesses that have not reached a certain size may experience financial problems such as insufficiency of equity capital, difficulties in obtaining loans and high loan costs. There may be some financial problems such as difficulties in collecting receivables in family businesses, taking excessive risks, investing in inefficient projects, not knowing and not using alternative financing sources, low liquidity, inefficient use of production capacity, and inability to successfully manage cash in terms of the business. In order to overcome the financial problems encountered, it is necessary to establish and implement the awareness of financial management correctly in family businesses. In family businesses, there is a need for a unit where financial affairs are carried out and relevant expert personnel. Thus, the related works of the enterprise will be carried out in a healthier and more orderly manner. In addition, it will be possible to obtain the necessary financial resources in the most appropriate way.

In family businesses, the financial actions that the financial manager should perform within a certain plan are also extremely important for the effective use of the resources of the businesses. This will also play a role in increasing profitability. Planning of financial actions will also provide an inspection and control opportunity by detecting the deviations in the plans of the enterprises at the end of the activity period and investigating the reasons. Thus, in the light of the determinations made, it will be possible to take measures to minimize the problems. On the other hand, financial plans will minimize the possibility of encountering some bad surprises in the future, as they allow the enterprise to determine in advance the amount of funds that it will need to reach its target and from which sources this amount can be obtained. The financial planning and subsequent financial control process in businesses will increase the efficiency of business management as a whole and will be the key to the success of the finance manager.

As a result, the existence of an effective financial management department in family businesses that have reached a certain size and making all investment and financing decisions in the business by benefiting from the opinions and suggestions of the finance department managed by professionals independently of family members will contribute to the sustainable success of businesses. Depending on the size and scope of the business, family businesses should have at least an effective finance committee.

Keywords: Family Businesses, Financial Management, Functions of Financial Management Departments, Financial Planning.

References

Ak, B. G. (2008). Aile İşletmelerinin Kurumsallaşmasında Gelecek Nesillerin Eğitiminin Rolü [The Role of Education of Future Generations in the Institutionalization of Family Businesses]. *International Family Business Congress-Aik'08, Congress Book,* Istanbul Kultur Univ. Publication No: 78, ISBN: 978-975-6957-79-0.

Akdoğan, N., & Tenker, N. (2006). *Finansal Tablolar ve Mali Analiz Teknikleri* [*Financial Statements and Financial Analysis Techniques*] (10th ed.). Gazi Publishing House.

Akgemci, T., & Sevinç, İ. (2003). Aile İşletmelerinde Büyümenin Kavramsal Analizi [Conceptual Analysis of Growth in Family Businesses]. *1st Family Business Congress Proceedings,* Istanbul Kultur University, 512–520.

Akgüç, Ö. (1996). *Finansal Yönetim* [*Financial Management*]. Accounting Institute, Publication No: 65.

Aksoy, A. (1990). *Çalışma Sermayesi Yönetimi* [*Working Capital Management*]. Gazi Publishing House.

Aksoy, A., & Yalçıner, K. (2013). *Çalışma Sermayesi Yönetimi* [*Working Capital Management*]. Detay Publishing.

Avder, E. (2006). *Finansal Planlama* [*Financial Planning*] (http://www.muhasebetr.com/yazarlarimiz/erdogan/002/, 25.05.2021).

Aydın, N., Başar, M., & Çoşkun, M. (2014). *Finansal Yönetim* [*Financial Management*] (5th ed.). Detay Publishing.

Bakır, H., & Şahin, C. (2009). *Yöneticiler için Finansal Tablolar Analizi* [*Financial Statement Analysis for Managers*] Detay Publishing.

Ceylan, A., & Korkmaz, T. (2010). *İşletmelerde Finansal Yönetim* [*Financial Management in Business*] (16th ed.). Ekin Publishing.

Ceylan, A., & Korkmaz, T. (2010). *Finansal Teknikler* [*Financial Techniques*] Ekin Publishing House.

Ceylan, A., & Korkmaz, T. (2017). *İşletmelerde Finansal Yönetim* [*Financial Management in Business*] Ekin Publishing.

Çabuk, A., & Lazol, İ. (2008). *Finansal Tablolar Analizi* [*Financial Statement Analysis*] *(*5th ed.). Nobel Publishing.

Deloitte, (2019). Aile Şirketlerinde Sürdürülebilir Başarının Anahtarları [Keys to Sustainable Success in Family Businesses] (https://Www2.Deloitte.Com/Tr/Tr/Pages/Deloitte, 12.05.2021).

Elmas, B. (2015). *Finansal Tablolar Analizi* [*Financial Statement Analysis*] Nobel Publishing.

Emin, D. (2018). *Küçük ve Orta Ölçekli İşletmelerde Finansal Yönetim Problemleri* [*Financial Management Problems in Small and Medium Enterprises.* In H. Babacan (Eds.), Ş. Duymaz Ş. (Eds.) & A. Temizer (Eds.), Multidisciplinary Studies-3 (Social Sciences) (pp. 343-363). Gece Publishing.

Erdoğan, M., (1990). *İşletme Finansmanı* [*Corporate Finance*]. Dicle Univ. Publications.

Gündüz, Ö. (2019). *Temel Muhasebe Denklemi, Temel ve Ek Mali Tablolar* [*Basic Accounting Equation, Basic and Additional Financial Statements*] (https://sinavimvar.com/temel-muhasebe-esitligi-temel-ek-mali-tablolar/, 12.05.2021).

ISMMMO Profit Distribution Working Group. (2014). Kar Dağıtımı ve Vergilendirilmesi [*Profit Distribution and Taxation*] (https://archive.ismmmo.org.tr/docs/SeminerNotlar/18022014/kar_da%C4%9Ft%C4%B1t%C4%B1m_sunum_2014_2.pdf, 21.05.2021).

Kalkan, A., Bozkurt, Ö. Ç., Oktar, Ö. F., & Türk, M. (2013*).* Aile İşletmelerinde Yöneticilerin Demografik Özellikleri Ve Yönetim Fonksiyonları İle İlgili Karşılaştıkları Sorunlar Üzerine Bir Araştırma [A Study on the Problems Encountered by Managers in Family Businesses Related to Demographic Characteristics and Management Functions]. *International Journal of Economic and Administrative Studies,* 6(11), 127-14.

Karpuzoğlu, E. (2004). Aile İşletmelerinin Sürekliliğinde Kurumsallaşma [Institutionalization in the Continuity of Family Businesses]. *1st Family Business Congress Proceedings*, Istanbul Kultur University, 42-53.

Kobal, S. K. E., & Yıldırım, O. B. A. (2017). Aile İşletmelerinin Kurumsallaşma Sürecinde İkinci Kuşağın Yaşadığı Sorunlar Üzerine Bir Araştırma [A Study on the Problems of the Second Generation in the Institutionalization Process of Family Businesses]. *Marmara University. Öneri*, 12(46), 97-120.

Şamiloğlu, F, & Akgün, A, İ., (2010). Finansal Tablolar Analizi [*Financial Statement Analysis*]. Ekin Publishing.

Öcal, H. (2020). Aile Şirketi Hissedarlarına Yönelik Finansal Okuryazarlık: Bir Örnek Uygulama [Financial Literacy for Family Business

Shareholders: A Case Study]. In D. Celayir (Eds.), *Accounting and Auditing within the Scope of Public and Private Sector Practices* (pp.207-226). Nobel Publishing.

Özgentürk, J. (2013). *Aile İşletmeleri Ömürlerini Uzatmak İçin Dernek Kurdu* [*Family Businesses Established an Association to Extend Their Lifespan*]. (http://Www.Radikal.Com.Tr/Yazarlar/Jale-Ozgenturk/Aile-İsletmeleri-Omurlerini-Uzatmak-İcin-Dernek-Kurdu-1163834/, 25.05.2021).

Sarıaslan, H., & Erol, E. (2008). Finansal Yönetim [*Financial Management*]. Siyasal Publishing House,

Uzun, E., Türk, Z., & Uzun, E., (2003). İşletme Başarısında Finansal Planlama ve Yeniliklerin Rolü [The Role of Financial Planning and Innovation in Business Success]. *Management and Economics,* 10(2), 63-73.

Yalkut, T. (2020). Aile Şirketleri [Family Businesses]. *P&L Economi*, (http://Www.Detaykibris.Com/Tandogan-Yalkut-Yazdi-Aile-Sirketleri-241589h.Htm, 25.05.2021).

Yazıcı, M. (2017). Türkiye'de Aile İşletmeleri Sorunlar ve Çözüm Önerileri [Family Business Problems and Solution Suggestions in Turkey]. (https://Www.Turcomoney.Com/Turkiyede-Aile-İsletmeleri-Sorunlar-Ve-Cozum-Onerileri.Html, 25.05.2021).

Yazıcıoğlu, İ., & Koç, H. (2009). Aile İşletmelerinin Kurumsallaşma Düzeylerinin Belirlenmesine Yönelik Karşılaştırmalı Bir Araştırma [A Comparative Research on the Determination of Institutionalization Levels of Family Businesses]. *Selcuk University, Journal of Social Sciences Institute,* 21, 497-507.

Yurttadur, M., & Nakipoğlu, N. (2015). Aile İşletmelerinde Kuşak Çatışmalarının Finansal Yapıya Etkileri, İtalyan Ve Türk Aile İşletmeleri Üzerine Bir Uygulama [The Effects of Generation Conflicts on Financial Structure in Family Businesses, an Application on Italian and Turkish Family Businesses]. *Bartin University. Department of Business Administration Journal*, 6(12), 403-420.

Biography

Dr. Meziyet Sema Erdem started her academic career as a research assistant at Tokat Gaziosmanpaşa University, Faculty of Economics and Administrative Sciences. She graduated from Tokat Gaziosmanpaşa University Social Sciences Institute in 2006 in the field of business administration. She completed her doctorate degree in the field of Finance at Erciyes University, Institute of Social Sciences in 2012. The author has been working at Abant izzet Baysal University, Faculty of Economics and Administrative Sciences, since 2014.

CHAPTER 9

EXTERNAL FINANCING SOLUTIONS FOR FAMILY FIRMS

HÜSEYIN ÖCAL

Introduction

Business activities need finance. Launching a business necessitates start-up capital to purchase fixed assets. We expect business owners to inject cash as start-up capital. Companies must finance their working capital needs, such as the daily finance required to pay expenses and purchase inventory. Business growth involves finance to increase the assets, probably along with higher working capital needs. Business growth is also possible by acquiring another company. Again, there is a need for finance. When the business faces a decline in sales or cannot collect the receivables on time due to an economic downturn, finance is needed to make the payments. If a business develops a new product, then the company has to pay the research and development bills.

All of these business activities require a specific form of finance. In practice, one form of finance does not satisfy all needs. As some positions require one year or less of funding, other situations require five years of funding or more. Operational expenditure refers to more day-to-day expenses (wages, inventory) that last less than one year. However, capital expenditures refer to investment expenditures usually involving the purchasing of assets with larger budgets than operational expenditures and last more than one year. These two types of spending are financed differently as the duration that the capital is sunk in differs.

This chapter explains the difference between internal and external finance and analyzes the different short-, medium-, and long-term finance sources. Besides, it evaluates the advantages and disadvantages of each form of finance for a given situation.

Sources of Finance

It is practical to analyze sources of finance in two categories as “internal sources of finance” and “external sources of finance”. Companies can raise finance from a wide range of sources in these categories.

Internal Sources of Finance

Retained earnings, reductions in working capital, and asset sales are three primary sources of internal finance.

The primary internal source of finance is profits retained in the business. If a company is operating profitably in the market, a business pays some of these profits as corporation tax to the government and pays dividends to shareholders. The business keeps the rest of the profit in the business to finance future activities. The retained earnings are a very critical and long-lasting source of funds for companies. Myers & Majluf promoted the “pecking order theory” (1984) and stated that businesses prioritize their sources of financing. Businesses first use retained earnings, second issue corporate bonds and finally issue equity. Onatca, Unver, and Sokmen (2019) have done a panel data analysis for 186 manufacturing companies whose stocks were traded on the Borsa Istanbul between 2009 and 2016. The study has indicated that firms first use internal finance. External finance is utilized when internal finance is insufficient. In other words, the analysis has shown that these firms' approach is in line with the pecking order theory. However, business owners should not infer that a profitable business has cash in accounts and it can use all of its retained earnings for future growth. In practice, earnings are often sunk-in receivables and inventory. Business owners should be on alert to being profitable and cash-rich at the same time.

The second primary source of internal finance is a decline in working capital. When companies raise inventory levels or sell goods/services on credit, they use a source of funds. When companies lower inventory and receivables, tied-up capital will be free to be used for other purposes that generate more profit for the business. Then, companies need to have an optimum level of cash, receivables, and inventory in accounts so they can meet their short-term debts, are not faced with a lack of inventory that may disrupt production, and penetrate the market by selling on credit. Thus, business owners should not tie up too much money or too little money in working capital. Here are the tips for managing working capital effectively in family businesses: Liquidity ratios assess the ability of the company to pay its short-term debts. There are three liquidity ratios used frequently in practice. The “current ratio” shows if the business can pay its short-term liabilities with its current assets.

Current Ratio = Current Assets/Current Liabilities (1)

The “acid test ratio” is a stringent metric of a business' liquidity. Inventory is deducted from current assets. This is because inventory is the least liquid item in current assets. Business owners can apparently see the picture of the firm's ability to pay short-term debts with an acid test ratio.

Acid Test Ratio = (Current Assets - Inventory)/Current Liabilities (2)

The “cash ratio” calculates a company's ability to repay its short-term debt with cash or near-cash assets.

Cash Ratio = Cash and Cash Equivalents/Current Liabilities (3)

I recommend that business owners compute liquidity ratios and compare these ratios with the industry average. The next question may be what to do if your business' liquidity ratios are worse than the industry average. A strategy to increase liquidity is “sell and leaseback”. Businesses can sell off their fixed assets (land and property) to leasing companies for cash and lease them if needed by the business. The business will have a lump sum of cash up-front and then pay back the lease payments every month until the leasing maturity. Leasing charges reduce the net profit, but liquidity risk will be manageable (www.investopedia.com, 2020). Other strategies may be to get a long-term loan and close the short-term loan or sell inventories at a discount to raise cash.

Aro-Gordon & Gupte (2016) stated that employing appropriate modern inventory management techniques can help businesses ensure a steady flow of materials while minimizing the carrying costs. Companies need to have an optimum level of cash, receivables, and inventory in accounts to not be faced with a lack of inventory that may disrupt production and penetrate the market by selling on credit. To serve this purpose, I recommend that business owners first compute receivables and inventory efficiency ratios and compare these ratios with the industry average. The modern inventory theory spotlights minimizing debt or equity capital invested in inventory. Here are the tips for reducing inventory: The “inventory turnover ratio” exhibits the number of times the business management buys inventory and resells it in a period. The higher this ratio, the lower will be the investment in inventory. To find the average number of days that capital is sunk in inventory, one needs to divide 365 (number of days in a year) by the inventory turnover ratio.

Inventory Turnover (times) = Cost of Goods Sold/Average Inventory (4)

The next question may be what to do if your business' inventory turnover ratio is worse than the industry average. The strategy to increase the inventory ratio may be to carry out a “just-in-time” project, calculate the reorder point and safety inventory, determine the maximum inventory level, make an ABC analysis, and eliminate obsolete inventory. The just-in-time inventory approach adjusts raw-material orders from suppliers directly with the production plan. This inventory strategy increases efficiency and reduces inventory costs (https://www.investopedia.com, 2021). This approach may not be applicable in all industries. Prompt delivery of the inventory by the vendor is critical for the just-in-time inventory technique to attain a good outcome. Any delay in inventory means production disruption and extra cost for the business (Takim, 2014). However, it is worth thinking if it is possible to adopt it. Determining inventory levels for effective inventory management is indispensable for achieving an optimum level of inventory. The “reorder level” is one of the quantitative techniques used to determine the inventory level. The reorder level is the point at which a business issues a purchase order for inventory. Additionally, the reorder level is a function of the consumption rate and order lead time.

Reorder Level = Average Consumption * Order Lead Time (5)

The “order lead time” is the period between placing an order and receiving the ordered item. Besides, the maximum level of inventory is the level above which a business does not hold stock in its warehouses. The maximum inventory level is a function of minimum consumption and order lead time.

Maximum Inventory Level = Minimum Consumption * Order Lead Time (6)

Businesses should probably determine obsolete inventories no longer in demand due to their becoming out of fashion and convert them to cash.

The “ABC analysis” is a way to efficiently control many inventory items (Hatefi et al., 2014). The ABC analysis classifies inventories into three categories such as "A items" with very tight control (every month), "B items" with less tight control (every quarter), and "C items" with the most straightforward controls possible (every year). “A” category items are 20% of the number of items that makes 80% of the overall value. If the company's management controls an “A” category item every month and builds a strategy on regularly keeping it at the optimal level, the inventory will be reduced; thus, capital will be released. The advantage of this approach is that it is impossible to control 100% of the number of items every month in practice. However, it is possible to control 20% of the number of items.

Computing the “account receivable turnover ratio” is one way of keeping receivables at an optimum level. The accounts receivable turnover ratio records the number of times a company collects its average accounts receivable in a period. The higher the accounts receivable turnover ratio, the lower is the capital sunk-in account receivable. One needs to divide 365 (number of days in a year) by the account receivable turnover ratio to find the average number of days that debt or equity capital is sunk in receivables. In other words, the days' sales in receivables measure the length of time the business collects payment from clients who have bought goods or services on credit. Thus, the shorter this period, the better the management is at monitoring its working capital.

Receivables Turnover(times) =Sales / Trade Receivables (7)

The next question may be what to do if your business' account receivable turnover ratio is worse than the industry average. A low receivable turnover ratio may be appealing to customers because a low ratio means extended credit for them. It also implies additional revenue for the business. Then it is worth thinking whether a low ratio is a deliberate management strategy or not. However, if the ratio is lower than the industry average, it could also be connected with a weak follow-up of customers' repayment periods. The business can form a credit analysis department to overcome weaknesses in following up customers’ payments. The credit analysis team evaluates the customer's borrowing capacity and repaying ability according to the contract terms. Besides, the team makes a receivable ABC analysis and “aging” to manage customers more effectively. If the credit analysis team of the company controls the “A” category receivables every month and calls the customers before the due dates to collect on time, the receivables will be reduced; thus, the capital will be released.

The final ratio we need to consider for managing internal sources of funds is the “account payable ratio”. This measures how quickly a business pays its suppliers during the year.

Account Payable Ratio (times) = (Cost of Goods Sold – Beginning Inventory + Ending Inventory)/Account Payable (8)

One needs to divide 365 (number of days in a year) by the account payable turnover ratio to find the average number of days that the business pays its suppliers during the year. I recommend that family business owners should do their best to stick to the formula of "Account Receivables in Days + Inventory Turnover in Days < Account Payable in Days. If this equation holds, then growth does not require additional working capital.

Internal financing sources are a type of capital that has no direct cost to the business, although there may be an opportunity cost. Internal finance does not increase the liabilities of the company. One of the challenges of family businesses is that they have limited access to external finance (Varışlı, 2020). For this reason, managing working capital is vital for them. There is no risk of loss of control when the company finances its operations with internal sources of funds. However, relying entirely on internal sources of finance slows down business growth. In other words, annual profits may confine the growth rate. We need to keep in mind that growing companies often rely on debt capital to a certain extent. I recommend that business owners use external sources of loan capital and determine appropriate financial leverage ratios (e.g., the debt/asset ratio) collectively for their firm and assert the ratios in the family constitution. Again, business owners can compare their firm's leverage ratios with the industry average to see where they stand in debt in the industry.

Leverage ratios measure the degree to which the capital of the business is financed by short-term or long-term debt. There are several different ways of measuring the leverage of a company, but I will mention just a few for this chapter.

Total Debt Ratio = (Total Assets – Total Equity)/Total Assets (9)

The “cash coverage ratio” evaluates how well a company covers its interest expense with its earnings. The ratio illustrates whether the management uses debt in a way to create earnings more than its cost. Thus, the trend of the ratio provides valuable information to the management of the family firm. If the ratio is deteriorating, the business owners may think of reducing the loan amount.

Cash Coverage Ratio = (EBIT + Depreciation)/Interest (10)

Companies operating for many years usually have assets that are no longer fully utilized. Business owners can sell unused assets to raise cash. Then they use cash for closing loans or buying inventory, etc. Selling unused assets to generate some money is an internal source of finance. We must keep in mind that this is a one-off source of funds that cannot be easily repeated and sustained. However, retained earnings and reductions in working capital are sustainable internal sources of funds. Internal financing sources are a type of capital that has no direct cost to the business and does not increase the company's liabilities. For this reason, business owners should keep an eye on internal sources of funds.

External Sources of Finance

Short-term Finance

A bank overdraft, trade credits, factoring, and short-term bank loans are four primary sources of external finance.

A bank overdraft is one of the short-term sources of finance that is the most flexible. The amount of finance and the loan maturity can change every day based on the demand of the business. A bank grants the company the freedom or right to overdraw on its account in relation to the balance. A bank and the client agree on the limit of the amount that can be overdrawn in advance. Since this form of short-term finance is highly flexible, a bank charges high interest for it. If a bank worries about the credibility of its client, it can ask for the loan to be closed within a short period which will financially distress the client. A bank overdraft is the least appropriate choice for expansion, takeover projects, and the purchase of equipment.

"Trade credit" is another short-term finance option available for family businesses. The vendor granting a specific payment term to the buyer without cash payments is called trade credit. By deferring the payment of bills for goods or services received, a business is acquiring finance. On the other hand, if the company regularly delays the payments to its suppliers, the suppliers may ask for collateral, charge a high price, or prioritize other customers because credibility will have deteriorated. Trade credit is appropriate to finance an increased inventory or sales when the sales are on credit and receivables will not be collected quickly.

Factoring is a growing source of external financing for small- and medium-sized enterprises (SMEs). "The credit provided by a "factor" is linked to the value of a supplier's accounts receivable and not the supplier's overall creditworthiness. Therefore, factoring allows high-risk suppliers to transfer their credit risk to their high-quality buyers" (Klapper, 2005). Let's assume a business sells goods on credit. It needs money urgently to pay its debt at the same time. Then the company sells its customer's account to the factor and notifies the customer. The factor makes part of the payment against the invoice purchased after deducting interest and the commission. Finally, the factor follows up the customer's account for payment. When the factor collects the full invoice amount from the original customer at maturity, the factor realizes a profit. The business meets its obligations on time (but will not collect the full invoice amount), and the factor makes a profit with this source of external finance. It releases liquidity from accounts receivable. This source of finance is most appropriate when there are short-term liquidity needs such as financing an increase in sales on credit, or paying the debt. However, it is not suitable for significant expansion or purchasing equipment.

A short-term loan is a critical alternative for companies. Banks grant credit lines for their clients, and the loan amount is usually small. Short-term loans are appropriate for temporary cash flow challenges that stem from an increase in sales on credit or inventory but not appropriate for long-term investment. Short-term loans are repaid within a year. The interest rate on a short-term loan is lower than the interest rate on a long-term loan. These loans are less risky compared to long-term loans in consequence of their shorter maturity. Thus, the borrower can access the funds quickly (www.corporatefinanceinstitute.com).

Medium-term Finance

Leasing and medium-term bank loans are two primary sources of medium-term external finance. Leasing is frequently utilized to procure fixed assets in the medium term. First, the lessee and the supplier of the asset agree about the specifications and price of the assets. Second, the lessee makes a lease application to a leasing company. Third, after assessing the credibility of the lessee, the leasing company buys the asset from a supplier and asks the supplier to deliver the assets to the lessee's premises. The lessee gets the right to use equipment, vehicles, computers, etc., making installment payments over a fixed period to the leasing company. Leasing gives a business full use of assets without the need to finance an outright purchase. Leasing improves the short-term cash-flow position of a company. However, leasing is not a cheap option. The lessee pays interest on the loan. Some governments give incentives to leasing operations lowering the tax (VAT is 1% in Turkey) on the asset. Then, leasing becomes a reasonable option. The other point worthy of note is that the leased asset cannot be seized in the case of bankruptcy. Leasing is not appropriate for significant expansion.

A medium-term bank loan is another option for family businesses. Medium-term loans have a repayment period between one and five years. A payment schedule is generally monthly. A business might have to put down some collateral. Medium-term business loans are helpful when a company has passed the start-up phase and needs capital to fund an acquisition or other expansion project. Since the repayment of a medium-term loan can occur over several years, banks are more likely to analyze a company's creditworthiness in detail. In other words, the approval process takes some time. Banks often require extensive documentation to ensure that the company is capable of paying the loan on time. A medium-term loan is more expensive than a short-term business loan with relative terms (www.fora financial.com, 2020).

Long-term Finance

Debt and equity finance are two main sources of long-term finance. Debt capital increases the liabilities of a company. There are two ways of raising debt capital. The first is to borrow long-term loans from banks, and the second is to issue corporate bonds for family businesses.

The points we made on medium-term bank loans are also valid for long-term bank loans. Banks grant long-term loans at either a variable or a fixed interest rate. Fixed rates bring certainty, but they can be costly if the loan is agreed upon with the bank at a time of high interest rates. In other words, businesses will be locked in long-term high-interest rates. In addition, businesses borrowing from banks will frequently be asked to give collateral for the loan. Companies with few assets that can be considered collateral by banks may face difficulty getting a long-term loan. Besides, if companies cannot pledge an appropriate asset, banks may charge higher interest rates for the loan even if the loan is approved.

Moreover, there may be cases where banks do not have long-term sources of their own to grant long-term loans to clients. We have seen that some of the developing country banks could not access long-term funds from international financial markets in the past. Nowadays, this does not seem to be a significant problem. But this does not mean that banks are not going to confront such a situation in the future when worldwide quantitative easing ends. The export credit guaranty facility (e.g., Hermes, GSM) of developed countries may be in charge again. A long-term bank loan is appropriate when the businesses have a profitable long-term investment opportunity (e.g., new factory) that will bring more return than the loan interest to be paid. However, it is not appropriate for purchasing inventory to meet the expected demand for a short time.

Companies issue corporate bonds to access debt capital. A company desiring to access funds will sell bonds to investors. The company makes coupon payments (a fixed-interest) annually or semi-annually for the bond's life. They are essentially loan agreements between the bond issuer (company) and an investor. The bond issuer is required to pay a specified amount of interest and principal at specified future dates. A bond is a relatively simple thing. The investor lends a company some money, say TL1,000. The company pays the investor regular interest, and repays the original loan amount of TL1,000 at maturity. The buyers may resell to other investors in the secondary market if they do not want to wait until maturity before getting back their original investment. However, the issuer and the investor should be aware of the interest rate risk. As time passes, interest rates change in the market. However, the coupon payments and face value of a bond remain unchanged. Thus, the price of the bond varies. When interest rates move up, the present value of the bond's remaining cash flows reduces, and hence the price declines. When interest rates decline, the bond price increases. Besides all other things being equal, the longer the time to maturity, the greater is the interest rate risk, and the lower the coupon rate, the greater is the interest rate risk (Hillier et al., 2017). Corporate bonds are most appropriate for long-term uses such as expansion or equipment purchase expected to last several years.

Corporations issue shares when they are first formed. The capital raised will be used to procure assets, etc. This capital never has to be paid back unless the company is completely closed due to stopping trade. Private corporations can sell more shares to current shareowners. The corporations' ownership structure will be the same as long as all shareholders buy shares in the same proportion as those already owned.

On the other hand, owners of a corporation can prefer going public and sell shares to the broader public. Going public would have the potential to raise much more capital than the capital injection by existing shareholders. However, there is a risk of some loss of control to the new shareholders.

Moreover, shareholders expect dividend pay-outs, although these are not mandatory. Corporations' shares are traded in the secondary market once the initial public offering is completed. Founding owners of the company can easily convert their shares into cash following some procedures. In other words, the share of the family business will be liquid (easily converted to cash) and has a fair price per share because investors determine the value of the company at the stock exchange market. Selling and buying shares among family members will not be problematic since the price per share is determined in the market transparently. While family members who want to sell their shares and follow their own goals will leave the family business, loyal shareholders will stay and work. The corporation's value determined at the stock exchange market is also an important reference point if the company experiences a merger and acquisition. Companies whose shares are traded on the stock exchange are subject to regular audit and supervision by regulatory bodies. Besides, they need to have a well-functioning board and a professional executive team that represents stakeholders.

Moreover, they must produce regular and timely audited reports. It is a no brainer that a family business going public enhances its continuity. A public offering increases the company's credibility and provides the opportunity to find lower-cost external funds from banks or the market (www.dunya.com, 2020). Public companies have to disclose financial and other required information to investors. The company will be more transparent and appear more often in the media. Thus, the public will know the company's brand name without the company incurring marketing expenses.

Equity finance is appropriate for the long-term expansion of the business or taking over another company. Besides, proceeds can be used to repay outstanding debt or for research and development. I believe that putting equity finance in place of debt finance is more beneficial for the company. However, equity finance is not appropriate for buying inventories or temporary increases in working capital needs.

The other important point to focus on is to decide which method of long-term funding a company should prefer: debt or equity finance? It is not easy to answer this question. Some businesses will use only debt or equity capital, while others will use both debt and equity capital for substantial investments. Debt finance has the following advantages: The ownership of the company does not change; investors don’t have voting rights at annual general meetings; interest charges are an expense of the business and reduces taxable income; and finally, the leverage of the company increases and this gives shareholders the chance of higher returns on equity in the future if the company is operating at the optimum capital structure. Equity capital has the following advantages: It is permanent capital and never has to be paid; and the dividend pay-out is not mandatory in most countries. However, the company's ownership structure is diluted, and investors have voting rights at the annual general meeting. Moreover, the tax shield advantage for debt finance is not valid for equity finance.

Small companies can get long-term investment funds from venture capitalists. Organizations and sometimes wealthy people wish to purchase shares of start-ups when it is very challenging for start-ups to access external funds from other sources. Raising capital is difficult because of the risks of the company. This is because business success is not evident in the early stages and other finance providers usually keep away from start-ups. However, venture capitalists are willing to take a risk and lose money. A high-risk, high-return motto might work, and the reward can be very significant. Picture in your mind a venture capitalist having invested in Amazon, Facebook, or YouTube in the early stages of growth. Venture capitalists, in most cases, want a portion of the future profits in return for their investment.

Small-size innovative businesses that have growth potential can contact the Keiretsu forum. This offers capital and cooperation opportunities globally. It is not a fund; it is a platform that brings together angel investors, venture capitalists, and small-size businesses in need of capital. Keiretsu forum members listen to the presentations of pre-selected companies at regular meetings. Members evaluate the companies together, but make their investment decisions alone. The Istanbul chapter was founded in 2012 (www.keiretsuforum.com.tr). Next-generation family business owners can be angel investors in the Keiretsu forum to learn how to assess an investment opportunity and learn to take the risk. Venture capital is appropriate for financing a relatively risky business such as a start-up. It is not suitable for a profitable family business.

Factors Influencing Finance Choice

The required fund's duration, cost and amount, the desire to retain control, the size of existing borrowing, the flexibility of the finance, and currency risk all affect the finance choice.

It is risky to borrow long-term finance to pay for short-term needs or borrow short-term finance to pay for long-term investments. Let's imagine that a profitable business buys a property with a short-term bank loan, and a few months later, the company's revenue falls due to an economic downturn. The company cannot generate enough earnings to pay the interest expense. The bank asks the client to pay back the loan on time rather than roll it over. Businesses very often face similar situations in practice. How will the company close the loan in a short period? One option is to sell the property. However, the property will usually be sold at a severe discount because it needs to sell it urgently. So, the company loses money and probably will not cover the loan amount to be paid. If the company does not pay back on time, the business goes into bankruptcy because of liquidity risk. The other option is to get a long-term loan and close the short-term loan if possible. The key takeaway from this case is that businesses should pair the duration of sources of funds to the duration of the requirement. I would recommend using long-term capital for long-term investment and short-term funds to finance a short-term need such as increasing inventory or paying suppliers. Yılmaz (2017) analyzed the data of sixty firms listed on the Borsa Istanbul (BIST100) between 2000 and 2012. Yılmaz found that firms are financing their current assets (especially receivables and inventory) with short-term debt capital and long-term assets (especially plant and equipment) with long-term debt capital.

The cost of the finance matters. Getting finance is not free. Even internal finance has an opportunity cost and may be used effectively elsewhere. Usually, long-term loan interest rates are higher than short-term loan interest rates. A business does not match the duration of the need and the duration of the source of finance because of cost considerations. Besides, it is easier to access a short-term loan in a short period. Loans may be costly during a period of rising interest rates. Similarly, going public costs a lot in fees and commissions for the promotion of the share sale. Even under these conditions, in my view, matching the need's duration and the finance source's duration is as important as the cost of finance in choosing the right source of funds.

The amount of funds required affects the finance choice. Companies would generally use initial public offerings (share issues) and corporate bonds for a large amount of finance because of the administration and other costs. However, companies could use small bank loans to raise small amounts.

Current owners take the risk of giving up some control when they sell shares on the stock exchange market. If the owners wish to keep complete control of the business, then going public might be inappropriate.

The existing leverage of the business affects the finance choice because banks will be reluctant to grant loans to a company with existing high debts compared to its size.

When a business has a cyclical sales and cash collection, an adjustable form of finance is superior to a long-term and inflexible source.

Currency (exchange-rate) risk affects the finance choice. It arises from the change in the price of one currency with another. Let's suppose a business operates in Turkey and sells its products in Turkish lira. The business needs to invest in equipment for expansion and would like to procure equipment from a German firm in euros. The company would be exposed to currency risk that may create unpredictable profits and losses. Businesses should somehow hedge themselves for the depreciation of the Turkish lira. The Turkish economy has savings and current account deficits. The two deficits, known as the twin deficit, first depreciate the TL against other hard currencies and secondly, force the central bank to increase the policy interest rates (Bagci, 2019). The vicious circle is highly probable if the Turkish economy cannot attract portfolio and long-term direct investments. The business can get a mid-term loan from the vendor directly in foreign currency or from a local bank in TL. Mid-term TL loans are scarce, and the interest rate is usually high, so the financing is costly. An FX loan from the vendor is generally cheaper; however, the business is exposed to currency risk. I recommend that business owners hedge the FX position in the futures or options market. Besides, compare the cost of both financing options with each other.

Moreover, family businesses should determine the currency risk ratio (FX-based Assets/FX-based Liabilities). The ratio can fluctuate between 90% and 110% for banks. The ratio may be determined as softer for firms. The ratio might be between 70% and 130% for firms based on their equity, keeping in mind that every firm is different. Furthermore, the family constitution should have a clause on the currency risk ratio to guide the new generation.

Conclusion

A significant source of internal finance is reductions in working capital in addition to retained earnings. Business management can manage working capital effectively in family businesses to release capital. I recommend that business owners regularly compute liquidity ratios, receivables, and inventory efficiency ratios and compare these ratios with industry averages. If these ratios fall behind the industry average, business owners should build strategies to improve them. Some approaches to increasing the inventory ratio may be to carry out a just-in-time project, calculate the reorder point/safety inventory, make an ABC analysis, and eliminate obsolete inventory. The strategy to increase the receivables ratio is to form a credit analysis department, make an ABC analysis for receivables, and age the receivables to manage customers more effectively. The execution of these strategies requires investment in information technologies. Varışlı (2021) stated that IT investment has a further positive effect on motivation in medium-sized industrial enterprises.

The ownership structure, existing debt level, currency risk, and duration, cost, and amount of the source of finance influence finance choice. I recommend that business owners finance current assets with short-term sources of finance and long-term assets with long-term sources of finance. Matching the need's duration and the source of the fund's duration is as vital as the finance cost in choosing the right funding source. Business owners would generally use initial public offerings and corporate bonds for a large amount of finance. However, small bank loans could be used to raise small amounts. Owners who want to retain control of the business would find going public inappropriate. The existing leverage of the company matters in the finance choice. Banks prefer not to grant loans to companies that have a high debt/asset ratio. Currency risk is another factor that affects the finance choice. A business exposed to currency risk may create unpredictable profits and losses. Companies should hedge themselves for the depreciation of the domestic currency.

Keywords: Sources of finance, Factors affecting finance choice, Working capital reduction strategies

References

Aro-Gordon, S., & Gupte, J. (2016). Review of Modern Inventory Management Techniques. Global Journal of Business & Management, 1(2), 1-22.

Bagci, E. (2019). Merkez Bankası Politika Faiz Oranı ve Döviz Kuru İlişkisi: Türkiye Örneği [Relationship Between Central Bank's Policy Rate and Foreign Exchange Rate: Turkey's Case]. Adıyaman University Social Sciences Institute Journal, (31), 324-348.

Hatefi, S. M., Torabi, S. A., and Bagheri, P. (2014). Multi-criteria ABC Inventory Classification with Mixed Quantitative and Qualitative Criteria. International Journal of Production Research, 52(3), 776-786.

Hillier, D., Clacher, I., Ross, S., Westerfield, R. and Jordan, B. (2017). *Fundamentals of Corporate Finance* (3rd ed.). McGraw-Hill Education.

Klapper, L. (2005). The Role of Factoring for Financing Small and Medium Enterprises. The World Bank.

Myers, S. C., & Majluf, N. S. (1984). Corporate Financing and Investment Decisions When Firms Have Information that Investors Do Not Have. Journal of Financial Economics, 13(2), 187-221.

Onatca Engin, S. N., Unver Erbas, C., & Sokmen, A. G. (2019). Pecking Order Theory in Determining the Capital Structure: A Panel Data Analysis of Companies in Turkey. Business and Economics Research Journal, 10(3), 687-698.

Takim, S. (2014). Optimization of Effective Inventory Control and Management in Manufacturing Industries: Case Study of Flour Mills Company Calabar, Nigeria. Journal of Emerging Trends in Engineering & Applied Sciences, 5(4), 265-276.

Varışlı, N. (2020). Aile İşletmelerinin Yönetim Problemleri [Family Business Governance Problems]. Bayramoğlu, G. ve Yılmaz, O. (Ed.), Aile İlişkileri Bağlamında Aile İşletmeleri, ss:181-194, İstanbul, Kriter Basım Yayın

Varışlı, N. (2021). İşletmelerde Bilgi Teknolojileri Kullanımının Çalışanların Motivasyonu Üzerine Etkisi: Kobiler Üzerinde Bir İnceleme [IT Usage Impact On Employee's Motivation: An SME Analysis]. Business Research Journal, 13(1), 410-429.

www.corporatefinanceinstitute.com.Short-term-loan.

https://corporatefinanceinstitute.com/resources/knowledge/finance/short-term-loan/#:~:text=A%20short%20term%20loan%20is,temporary%20personal%20or%20business%20capital&text=As%20it%20is%20a%20type,year%20from%20getting%20the%20loan (accessed 17 May 2021).

www.dunya.com, (2020). Şirketler neden halka (borsaya) arz edilmek ister? https://www.dunya.com/kose-yazisi/sirketler-neden-halka-borsaya-arz-edilmek-ister/484729 (accessed 25 May 2021).

www.forafinancial.com, (2020). Medium-term loan.

https://www.forafinancial.com/blog/working-capital/medium-term-loan/ (accessed 15 May 2021).

www.investopedia.com, (2020). Leaseback.

https://www.investopedia.com/terms/l/leaseback.asp (accessed 19 May 2021).

www.investopedia.com, (2021). Just-in-time.

https://www.investopedia.com/terms/j/jit.asp (accessed 12 May 2021).

www.keiretsuforum.com.tr . Sıkça sorulan sorular. http://keiretsuforum.com.tr/sss (accessed 24 May 2021).

Yilmaz, H. (2017). Factors Effective on Capital Structure: An Empirical Analysis of Listed Firms in BIST. Third Sector Social Economic Review, 52(3), 22-45.

Biography

Hüseyin Öcal has 19 years of diverse professional experience, 13 years in the financial sector (e.g., banking) and 6 years in nonfinancial sectors (e.g., textiles, telecommunications) with hands-on experience in internal audit, credit risk, credit marketing/sales, bank branch management, revenue assurance and SOX compliance. He has a national family business and multinational company experience.

Öcal has written his doctoral thesis on corporate governance and earned a Doctor of Philosophy from the University of Marmara/Turkey. Additionally, he has a corporate governance rating license. He lectures in corporate finance, entrepreneurship, family business management, and risk management/internal control/audit at İ. Gelişim University. He has written a book on corporate governance and three book chapters on family businesses.

Öcal ended his professional career in 2009 and has started consultancy work. He advises major corporations on post-merger integration, process improvement, financial strategy, performance improvement, and family business longevity. He has vast consulting experience in banking, telecoms, textiles and the automotive subindustry.

CHAPTER 10

SOCIAL MEDIA MANAGEMENT IN FAMILY BUSINESSES

OSMAN ÖZDEMIR & KADIR ÖZDEMIR

Introduction

In a family business, which is managed by kinship relations, the private and business lives of family members are combined and not considered separately. Accordingly, the family business is carefully investigated by researchers as it has different administrative dynamics and an important share in social and economic life. Especially large family businesses have complex family structures that cause them to remain small. Nowadays, technological advancements are increasing and spreading, and the most effective way to grow and reach new customers is the usage of social media. In this context, the family business must use social media platforms which enable users to share experiences, information and thoughts in an online environment such as Facebook, Twitter, Instagram, YouTube, etc., to gain awareness and reach new markets. Due to the effects of developments in internet technologies, customers spend more time on social media platforms and buy online. Therefore, the usage and management of social media in family business are examined in this study.

Social Media and Family Businesses

Social media are defined as online platforms which enable users to interactively share their thoughts, experiences, and information (Carr & Hayes, 2015; Safko & Brake, 2012). Along with social media platforms such as Facebook, Twitter, LinkedIn, Instagram, YouTube, etc., users can also create content, bookmarks, and social networks. In this context, social media are frequently used by people worldwide, because they are easy to use and provide fast access causing the spread of social media usage and the increase of their influence (Asur & Huberman, 2010; Carr & Hayes, 2015).

Accordingly, people use social media for various objectives, and in the context of the literature, the purposes of social media usage are information sharing, information seeking, communication, social interaction, convenience utility, to pass the time, relaxation, entertainment, the expression of opinions, surveillance/gain knowledge of other people (Whiting & Williams, 2013) and to purchase products (Haiji, 2015). Additionally, businesses' reasons for social media usage are to attract new customers, cultivate relationships, increase awareness and familiarity, communicate with customers, receive feedback, interact with suppliers (Michaelidou et al., 2011), reach new markets, understand the impact of customer's attitudes and decisions (Jones et al., 2015), recruitment (Gibbs et al., 2015) and selling products (Haiji, 2015). In this context, social media usage is important for family businesses.

Social media started to develop and spread with web 2.0 which refers to the period 2000-2010. In this period, the internet became more dynamic, and people started to communicate online. In web 1.0, communication over the internet was one-sided and users only transmitted the messages they desired to send to other users and could not receive any feedback and reply. Thus, during this period, businesses were using the internet to inform their customers about products and services. However, with social media platforms, customers can give feedback to businesses about products and services whenever they want (Jussila et al., 2014; Atzori et al., 2020; Kingsnorth, 2017). This provided plenty of benefits to businesses and accordingly, they have advanced and updated their products and services according to the feedback from customers (Miller et al., 2016; Atzori et al., 2020; Kingsnorth, 2017).

In addition, the mutual communication that was established with social media has given businesses the opportunity to obtain, interpret and process customer data. With the obtained data, businesses have personalized their strategies, products, services, promotions, and advertisements (Atzori et al., 2020). In this context, social media platforms have taken the place of traditional media such as newspapers, radio, TV, etc., especially for businesses. This is because marketing activities in social media platforms are easier, faster and less costly. Also, with social media, businesses have started to easily reach new markets and customers. For this reason, many family businesses use social media platforms to increase brand awareness (Kaplan & Haenlein, 2010).

Types of Social Media

Social media platforms used by people or businesses are classified according to their usage purposes (Safko & Brake, 2010). In this context, social media types are similar in many sources which are shown in Table 10.1.

Table 10.1: Types of Social Media

Social Media	**Example**
Blogs	Tumblr
Microblogs	Twitter, Sina Weibo
Forums	Reddit
Media and Video Sharing	Instagram, YouTube, Snapchat, TikTok
Social Networking Sites	Facebook, LinkedIn

Source: (Safko & Brake, 2010; Usher, 2011; Constantinides, 2009; Huang et al., 2010; Osatuyi, 2013)

The types of social media shown in Table 10.1 are used individually and institutionally for many different purposes. Accordingly, the definitions and usage purposes of social media types are as follows.

Blogs, the short form for weblogs, are among the most well-known and fast-growing types of social media platforms (Constantinides, 2009). However, according to research, approximately 11% of internet users use blogs and obtain information. Blogs are also online diaries where information and thoughts are posted electronically and frequently updated by owners. The information and thoughts in blogs can be on various topics such as politics, education, communication, traveling, books, purchasing, marketing, etc. (Borders & Kirk, 2005). In this context, blogs are used by customers and family businesses for different objectives. In general, while customers use blogs to obtain information, businesses use them to present and promote their products and services (Safko & Brake, 2010).

Microblogs came with Twitter in 2006 and have had unprecedented growth. The content of microblogs includes text messages that are related with trending topics. Text messages are called Tweets on Twitter (Sharifi et al., 2010) and must be a maximum of 280 words. In this context, microblogs are generally used by customers to follow trending topics and share information and thoughts. They are also used by family businesses in promotions, communication, and customer relationship management (Ramage et al., 2010) and follow word-of-mouth about business and products (Barhorst et al., 2020).

Forums are defined as platforms where online discussion is held on specific topics. Customers use forums to obtain information about businesses or products, and to discuss the benefits, strengths and weaknesses of the products. Information presented on forums is more reliable than business advertisements because products are examined and discussed in detail. For this reason, businesses frequently use internet forums to create credibility and trustworthiness (Bickard & Schindler, 2001).

Media and video-sharing websites are an important part of social media platforms. For example, YouTube is the world's largest video-sharing website (Huang et al., 2010) where users view more than 1 billion hours of video each day. This situation offers great advantages for businesses. On media and video-sharing sites, family businesses promote themselves and their products with embedded videos, audio or images. They also transmit the messages to their customers to enable reliability and increase corporate reputation. In this context, these social media platforms play a significant role in persuading customers to purchase (Osatuyi, 2013; Spence et al., 2016).

Social networking sites have the highest number of users among other social media types, and the number of users is increasing day by day (Brandzaeg & Heim, 2009). Users can create and edit their profiles on these sites (Alkindi & Suqri, 2013). In this way, social networking sites like Facebook are used to make new friends, and for communication, interaction, socializing, sharing photos and videos, information sharing, learning, discussion, relaxation and entertainment (Brandzaeg & Heim, 2009). In this context, family businesses also create profiles on social networking sites, communicate with customers and promote their families, products and services (Alkindi & Suqri, 2013).

Social Commerce for Family Businesses

As the popularity and use of social media platforms increased, they offered opportunities for new business models for businesses. Accordingly, social media platforms have started to be used for commerce, and this is defined as social commerce. Thus, social commerce is known as e-commerce which is conducted on social media platforms. In this perspective, social commerce is a subset of e-commerce with an emphasis on online interaction and customer contribution (Liang & Turban, 2011; Stephen & Toubia, 2010).

Product reviews, recommendations, comments, and product ratings are significant because social commerce is more customer focused and the emphasis is on customer interaction. This is defined as electronic word of mouth (e-WOM) in the literature which has a considerable impact on customers' decisions (Stephen & Toubia, 2010). In this context, social commerce offers a large amount of information to businesses about consumers and the perception of products and services. Owing to e-WOM in social commerce, businesses can learn which products and services satisfied customers and which did not. Thus, businesses modify or change their products and services according to reviews and recommendations. However, in the research, it was determined that 45% of consumers who shop through social commerce considered the product reviews, comments, and recommendations of other consumers (Lin et al., 2019).

As online shopping involves risk and uncertainty, trust is one of the critical factors in social commerce. Therefore, product reviews, comments and recommendations provided for assurance to customers are significant in social commerce (Goh et al., 2013; Lin et al., 2019). In today's business environment, social commerce is essential for family businesses to understand consumers and to develop their relations with them. So, the performance of family businesses increases, and they achieve competitive advantages (Lin et al., 2019).

Especially with the Covid-19 pandemic which emerged in Wuhan, China in December 2019, the usage of social media and social commerce has increased accordingly. With the effects of the pandemic, many economic and social changes occurred. Quarantine was implemented globally and people commenced avoiding physical contact with each other. At the same time, many commercial activities moved to the virtual environment, and both customers and businesses had to make transactions online. In this context, e-commerce and social commerce have enabled many businesses to survive worldwide (Bach, 2021). Therefore, the value of the social commerce market which was determined as USD 474.8 billion in 2020, had reached USD 584.9 billion by 2021 and is forecasted to reach USD 3,369.8 billion by 2028, with a growth of 28.4% (Grand View Research, 2021). Accordingly, the significance of social commerce for family businesses and its impact on performance will increase in the future all around the world.

Owned, Earned, Paid and Shared Media for Family Businesses

Social commerce has become one of the key factors for businesses to communicate and integrate with potential and current customers. In addition, with social commerce, businesses can directly promote their brands and products to customers and receive feedback. Therefore, businesses use owned, earned, paid and shared media strategies to create brand awareness and a positive customer attitude (Mattke et al., 2019). The owned, earned, paid and shared media framework is shown in Figure 10.1.

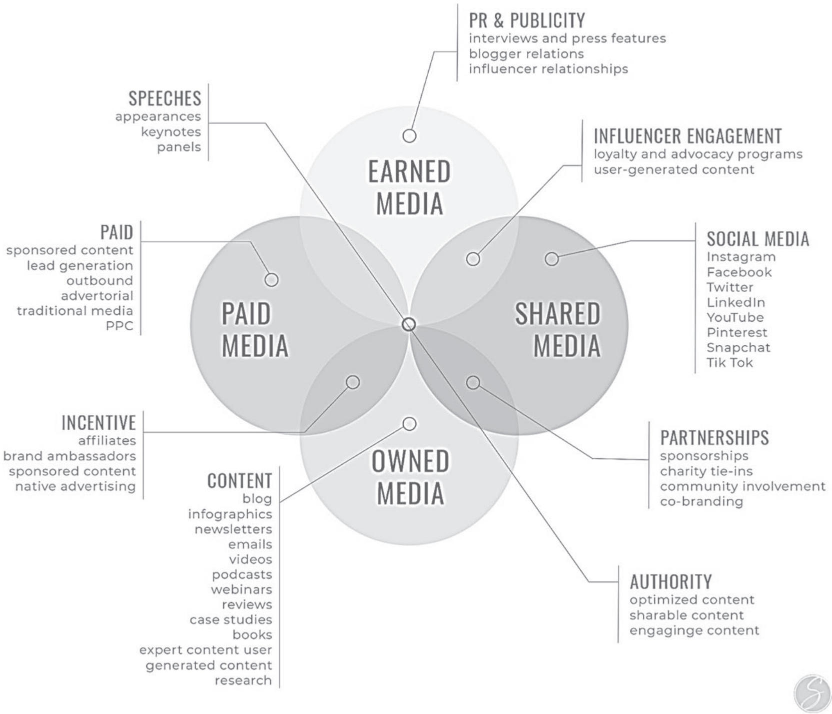

Figure 10.1: Paid-Owned-Earned-Shared Media Framework (Simplysianne, 2020)

Owned media refer to media and publications that are established and controlled by businesses such as newsletters, magazines, corporate websites, blogs, events, self-hosted videos, webinars, mobile applications, and official social media platform pages (Facebook, Twitter, LinkedIn and Instagram pages, etc.) (Macnamara et al., 2016; Charlesworth, 2014; Xie et al., 2018). Businesses can reach customers by sharing the desired content in owned media to create a positive attitude. Also, the content shared in owned media is free of charge and provides cost advantages. However, the use of owned media means that customers follow the businesses via these media (especially in social media accounts) which is important in terms of better interaction and communication with customers. In this context, research indicates that owned media have a significant impact on customer's satisfaction, attitude, loyalty, and purchase intention (Mattke et al., 2019).

Earned media, which are also considered as organic media, refer to media which are not directly generated by businesses but by customers, fans, or other entities like social media users. Earned media are often generated by followers, product users, fans, satisfied customers, and loyal customers and those who want to recommend a brand or products to other customers (Tornhill et al., 2017). Accordingly, earned media include customer review sites, forum sites, online community sites, online discussion groups, consumers' sharing of content, social media fan pages, influencer and blogger relations (Xie et al., 2018), and online word-of-mouth (WOM) (Tornhill et al., 2017). Especially, organic (voluntary) shares, recommendations or positive comments made by influencers, who have a sizable network and followers in social media, directly affect followers and change attitudes about brands. In this context, some research indicated that earned media are more convincing and reliable than other media. Therefore, earned media have a greater impact on the attitudes of customers and purchase intention, and also provide many advantages to family businesses in terms of cost (Mattke et al., 2019).

Paid media, also known as bought media, refer to traditional advertising and other types of content on which businesses spend money (Hanna et al., 2011: 268; Macnamara et al., 2016). Paid media include online banner/pop-up-advertisements, sponsored content, paid searches (SEO), mobile advertisements, paid influencers and sponsored posts and tweets (Xie et al., 2018). In paid media, businesses can advertise on social media platforms like Instagram and websites so that customers can see brands or products. Also, businesses give money to social media influencers to promote products. Accordingly, influencers promote products with "sponsored posts." Although family businesses invest in paid media, recent research indicates that customers perceive paid media as insecure and often avoid clicking on advertisements. In this context, paid media are less effective than other media relating to customers' attitudes and purchase intention (Mattke et al., 2019).

The term shared media refers to posts of businesses on social media platforms relating to their brands and products. With the advancements and increasing usage of social media, businesses have started to invest more in shared media to reach new customers and markets (Dolan, 2020). Shared media which include posts on social media platforms are open to followers, friends, fans and subscribers to contribute and comment (Macnamara et al., 2016). Social relations, two-way communications and customer engagement are important in shared media and provide lots of advantages to businesses (Xie et al., 2018). In addition, since social media are open access, they also provide cost advantages (Macnamara et al., 2016). In this context, social media management is one of the critical success factors for family businesses today. Approximately 54% of the world population is actively using social media in 2021 (We are social, 2021).

Measurement of Social Media Usage

Social media, which have become an integral part of daily life, play an important role in the marketing strategies of businesses. Social media are frequently used in communication, collaboration, and interaction with customers because they are easy to use, free of charge and fast (Fischer & Reuber, 2011). With these aspects, social media provide many advantages to businesses. In this context, family businesses also need to know how to use social media effectively and efficiently. In addition, family businesses need a plan (roadmap) which determines their usage of social media. Accordingly, the measurement of social media usage is significant in order to show how its use for marketing activities provides benefits to businesses; without such measurement, its benefits and effectiveness could not be properly determined (McCann & Barlow, 2015). Therefore, family businesses should apply the social media measurement process which is indicated in Figure 10.2.

Figure 10.2: Social Media Measurement Process (Adapted from Murdough, 2009)

- Concept: Businesses first need to determine their objectives and what they desire to achieve with the use of social media.

- Definition: Secondly, they should define their social media strategies, measurement and optimization approaches to achieve their goals.
- Design: Thirdly, they should plan and design the use and measurement of social media step by step.
- Deployment: Fourthly, they should implement and launch designed programs providing suitable execution and accurate performance.
- Optimization: Finally, social media usage should be measured by various metrics to analyze social and financial performance, identify proper opportunities, and adjust programs.

On the other hand, to achieve success it is critical to measure the economic returns and benefits of social media usage. On this point, an analysis of the return on investment (ROI) is conducted and it is important to correct the plan and calculation (McCann & Barlow, 2015). In today's tightening economy, family businesses must be sure of getting a return on their social media investments. Accordingly, they need to decide whether family businesses are in the right places, they are applying the right strategies, and working with the right people or suppliers. Businesses that do not answer these questions have no chance of success (Fisher, 2009). In this context, the traditional equation used to measure and define ROI as a percentage (%) is:

$$\text{ROI} = (\text{investment gain} - \text{investment cost})/\text{investment cost}$$

In order to relate the ROI formula with social media usage, it is necessary to determine the gain and cost of social media usage for businesses. Financial gains for using social media are revenue growth and cost reduction, while non-financial gains could be related with personal time, technology, customers, etc. However, while financial gains can be measured in monetary values, non-financial gains from social media cause some beneficial results such as better communication with customers, brand awareness, customer satisfaction, and customer loyalty, etc. An increase in the number of followers of social media accounts like Facebook, Twitter or Instagram generally provides many benefits to family businesses, even if it cannot be measured in monetary value, and this could actually turn into financial gain over time (McCann & Barlow, 2015). In this context, social media measurement metrics for improving customer service, increasing sales, improving brand awareness, reducing costs, improving the promotion of the company, building better relationships with customers (followers), and increasing the volume of traffic to social media accounts or web sites are shown in Table 10.2 (McCann & Barlow, 2015; Murdough, 2009):

Table 10.2: Social Media Measurement Metrics

Customer service	Monitor the level of positive and negative feedback (comments) Analyze customer comments Measure the time to respond to customers (followers)
Sales	Analyze the sales volume base on products, location, and categories Measure clicks and page views
Brand awareness	Count the number of likes, visitors, followers and mentions Analyze the volume of mentions Monitor the level of positive and negative feedback (comments) Analyze customer comments Analyze the source of comments Check the ranking in the SEO
Costs	Analyze the change in costs Compare with the benchmark and competitors
Promotion	Assess feedback from customers Analyze the number of page views Analyze the number of RSS feeds Analyze the number of comments Monitor the level of positive and negative feedback (comments) Analyze customer comments
Customer Relationships	Analyze the amount of user-generated content Analyze the number of visitors/users/customers/followers Analyze the number of unique visitors/regular visitors Analyze customer comments Analyze the source/quality of comments (authors)
Traffic of social media	Analyze the number of incoming links Analyze the number of visitors Track the landing pages/click-throughs from social media platforms Check the ranking in the SEO

While the metrics shown above could be used separately to achieve specific goals like reducing costs or increasing sales, they could also be integrated to achieve the main objectives of social media usage which is the best measurement method for businesses. Accordingly, it is necessary to use some tools for the measurement of social media, i.e., Google Analytics, Klout, Crowdbooster, HowSociable, Visible, Salt Social, Bit.ly Analytics, Similarweb, Gtmetrix, Facebook Analytics, Twitter Analytics, etc. (McCann & Barlow, 2015).

Conclusion

Family-owned businesses make a significant contribution to local economies around the world. It is known that social networks and social relationships are most important for family businesses to make a sustainable economic contribution and achieve goals. This is because social networks act as a bridge for family businesses to reach new opportunities and new markets, use external resources and new technologies and interact with the most suitable suppliers (Seaman et al., 2017). In this context, with the effects of technological advancements, the main method of establishing social networks and better interaction with customers is the use of social media. Therefore, family businesses should invest in and attach importance to social media management in order to be successful (Siakas et al., 2014).

Social media are a significant technological trend with considerable implications on how family businesses communicate with customers (Vlachakis et al., 2015). Besides this, social media also have many benefits to family businesses such as collecting customer data, getting feedback, managing word-of-mouth marketing, reaching new customers and markets, etc. (Royer et al., 2009). Social media management has some challenges as well as benefits for family businesses as social media require lots of knowledge and work and involve risk. Accordingly, it is not easy to use social media correctly and effectively. Effective and efficient social media management generally depends on a business' size, age, type, management style, and desire for hard work (Rugova & Prenaj, 2016). However, family businesses that want to take advantage of these benefits must follow some rules in social media management. This is because the identity of family members and the corporate identity of businesses are generally integrated and intertwined in family businesses. Therefore, when using social media platforms and communicating with customers, content should be shared independently of family members and the corporate identity of the business should be prioritized (Vlachakis et al., 2015).

Family businesses should also implement the following plans for better social media management in order to achieve goals and gain competitive advantage (Kerstin et al., 2017; Rugova & Prenaj, 2016):

- Ensure there are sufficient resources (staff, finance, time).
- Identify and determine those who mostly talk about family and business on social media.
- Identify and collaborate with appropriate influencers on each social media platform for family businesses.
- Create a reward system and reward loyal customers.
- Create customer groups and communities.
- Ensure two-way communication and relationships.
- Respond to customer needs and requests (comments, complaints or feedback) in a timely manner.
- Be consistent when communicating with customers.
- Highly skilled employees should be engaged and trained in social media management in order to correctly respond to customers' questions and complaints.
- Produce new contents and share posts regularly.

As a result, the choice of suitable social media types and platforms is important for family businesses. Selecting social media types and platforms which are suitable for target customers, products and services is inevitable for achievement and one of the most significant steps of social media management for family businesses. For instance, family businesses that offer products and services for young people, should use social media types and platforms that young people are using such as TikTok or Instagram rather than Facebook or LinkedIn (Vlachakis et al., 2015; Kerstin et al., 2017).

Keywords: Family Businesses, Social Media Management, Measurement

References

Alkindi, S. S., & Al-Suqri, M. N. (2013). Social networking sites as marketing and outreach tools of library and information services. *Global Journal of Human-Social Science Research*, *13*(2), 1-14.

Asur, S., & Huberman, B. A. (2010). Predicting the future with social media. Proceedings - 2010 IEEE/WIC/ACM *International Conference on Web Intelligence, WI 2010*, 1, 492–499.

Atzori, M., Koutrika, G., Pes, B., & Tanca, L. (2020). Special issue on data exploration in the Web 3.0 age. *Future Generation Computer Systems*, 112, 1177–1179.

Bach, P. M. (2021). Electronic commerce in the time of Covid-19-perspectives and challenges. *Journal of Theoretical and Applied Electronic Commerce Research*, *16*(1).

Barhorst, J. B., Wilson, A., McLean, G. J., & Brooks, J. (2020). Service encounter microblog word of mouth and its impact on firm reputation. *Journal of Services Marketing*. 34(5), 717-733.

Bickart, B., & Schindler, R. M. (2001). Internet forums as influential sources of consumer information. *Journal of Interactive Marketing*, *15*(3), 31-40.

Borders L., G., & Kirk, R. (2005). Blogs in campaign communication. *American Behavioral Scientist*, *49*(4), 548-559.

Brandtzæg, P. B., & Heim, J. (2009). Why people use social networking sites. In *International conference on online communities and social computing*, 143-152.

Carr, C. T., & Hayes, R. A. (2015). Social media: Defining, developing, and divining. *Atlantic Journal of Communication*, *23*(1), 46–65.

Charlesworth, A. (2014). *Digital marketing: A practical approach*. Routledge.

Constantinides, E. (2009). Social Media/Web 2.0 as marketing parameter: An introduction. In *Proceedings of 8th international congress marketing trends,* 1-25.

Dolan, L. (2020). Leveraging earned, owned, paid and shared media (https://keap.com/business-success-blog/marketing/public-relations/how-to-use-earned-owned-paid-and-shared-media, 27.05.2021).

Fisher, T. (2009). ROI in social media: A look at the arguments. *Journal of Database Marketing & Customer Strategy Management*, *16*(3), 189-195.

Fischer, E., & Reuber, A. R. (2011). Social interaction via new social media: (How) can interactions on Twitter affect effectual thinking and behavior? *Journal of Business Venturing*, *26*(1), 1-18.

Gibbs, C., MacDonald, F., & MacKay, K. (2015). Social media usage in hotel human resources: recruitment, hiring and communication. *International Journal of Contemporary Hospitality Management*. 27(2), 170-184.

Goh, K. Y., Heng, C. S., & Lin, Z. (2013). Social media brand community and consumer behavior: Quantifying the relative impact of user- and marketer-generated content. *Information Systems Research*, *24*(1), 88–107.

Grand View Research. (2021). Social Commerce Market Size, Share & Trends Analysis Report By Business Model (B2C, B2B, C2C), By Product Type (Apparel, Personal & Beauty Care, Accessories, Home Products), By Region, And Segment Forecasts, 2021 – 2028 (https://www.grandviewresearch.com/industry-analysis/social-commerce-market, 25.05.2021)

Gtmetrix. (2021). How fast does your website load? (https://www.similarweb.com, 27.05.2021)

Hajli, N. (2015). Social commerce constructs and consumer's intention to buy. *International Journal of Information Management*, *35*(2), 183–191.

Hanna, R., Rohm, A., & Crittenden, V. L. (2011). We're all connected: The power of the social media ecosystem. *Business Horizons*, *54*(3), 265–273.

Huang, C., Fu, T., & Chen, H. (2010). Text-based video content classification for online video-sharing sites. *Journal of the American Society for Information Science and Technology*, *61*(5), 891-906.

Jones, N., Borgman, R., & Ulusoy, E. (2015). Impact of social media on small businesses. *Journal of Small Business and Enterprise Development*, *22*(4), 611–632.

Jussila, J. J., Kärkkäinen, H., & Aramo-Immonen, H. (2014). Social media utilization in business-to-business relationships of technology industry firms. *Computers in Human Behavior*, *30*, 606–613.

Kaplan, A. M., & Haenlein, M. (2010). Users of the world, unite! The challenges and opportunities of social media. *Business Horizons,* 53(1), 59–68.

Kerstin, S., Errikos, S., & Paraskevi, M. (2017). Applying Social Customer Relationship Management to Three Small Family Businesses. *5thInternational Conference on Contemporary Marketing Issues (ICCMI 2017),21 - 23 June, Thessaloniki, Greece*, (June), 190–197.

Kingsnorth, S. (2017). *Digital marketing strategy - An integrated approach to online marketing*, Nobel Publishing.

Liang, T. P., & Turban, E. (2011). Introduction to the special issue social commerce: A research framework for social commerce. *International Journal of Electronic Commerce*, *16*(2), 5-14.

Lin, X., Wang, X., & Hajli, N. (2019). Building e-commerce satisfaction and boosting sales: The role of social commerce trust and its antecedents. *International Journal of Electronic Commerce*, *23*(3), 328–363.

McCann, M., & Barlow, A. (2015). Use and measurement of social media for SMEs. *Journal of Small Business and Enterprise Development*, *22*(2), 273–287.

Macnamara, J., Lwin, M., Adi, A., & Zerfass, A. (2016). “PESO” media strategy shifts to “SOEP”: Opportunities and ethical dilemmas. *Public Relations Review*, *42*(3), 377–385.

Mattke, J., Müller, L., & Maier, C. (2019). Paid, Owned and Earned Media: A Qualitative Comparative Analysis revealing Attributes Influencing Consumer’s Brand Attitude in Social Media. *Proceedings of the 52nd Hawaii International Conference on System Sciences*, *6*, 802–811.

Michaelidou, N., Siamagka, N. T., & Christodoulides, G. (2011). Usage, barriers and measurement of social media marketing: An exploratory investigation of small and medium B2B brands. *Industrial Marketing Management*, *40*(7), 1153–1159.

Miller, D., Sinanan, J., Wang, X., McDonald, T., Haynes, N., Costa, E., & Nicolescu, R. (2016). *How the world changed social media*, UCL Press.

Murdough, C. (2009). Social media measurement: It’s not impossible. *Journal of Interactive Advertising*, *10*(1), 94-99.

Osatuyi, B. (2013). Information sharing on social media sites. *Computers in Human Behavior*, *29*(6), 2622-2631.

Ramage, D., Dumais, S., & Liebling, D. (2010). Characterizing microblogs with topic models. In *Proceedings of the International AAAI Conference on Web and Social Media*, 4(1), 130-137.

Royer, S., Simons, R., Boyd, B., Rafferty, A. (2009). Promoting Family: A Contingency Model of Family Business Succession, *Family Business Review*, 21(1). 15–30.

Rugova, B., & Prenaj, B. (2016). Social media as a marketing tool for SMEs: Opportunities and challenges. *Academic Journal of Business, Administration, Law and Social Science*, *2*(3), 85–97.

Safko, L. & Brake, D. (2012). The Social Media Bible: Tactics, Tools, and Strategies for Business Success. John Willey & Sons Inc., Canada.

Seaman, C., McQuaid, R., & Pearson, M. (2017). Social networking in family businesses in a local economy. *Local Economy*, *32*(5), 451–466.

Sharifi, B., Hutton, M. A., & Kalita, J. (2010). Summarizing microblogs automatically. In *Human language technologies: The 2010 annual conference of the north American chapter of the association for computational linguistics*, 685-688.

Siakas, K., Belidis, A., & Siakas, E. (2014). Social media marketing for improved branding and valorisation in small family businesses. *International Conference on Contemporary Marketing Issues (ICCMI 2014)*, 18–24.

Similarweb. (2021). Official measure of the digital world (https://www.similarweb.com, 24.05.2021).

Simplysianne (2020). What is the peso model and how it can help your marketing (https://simplysianne.com/what-is-the-peso-model-and-how-it-can-help-your-marketing/, 26.05.2021).

Spence, P. R., Sellnow-Richmond, D. D., Sellnow, T. L., & Lachlan, K. A. (2016). Social media and corporate reputation during crises: The viability of video-sharing websites for providing counter-messages to traditional broadcast news. *Journal of Applied Communication Research*, *44*(3), 199-215.

Stephen, A. T., & Toubia, O. (2010). Deriving value from social commerce networks. *Journal of Marketing Research*, *47*(2), 215-228.

Thornhill, M., Xie, K., & Lee, Y. J. (2017). Social media advertising in a competitive market: Effects of earned and owned exposures on brand purchase. *Journal of Hospitality and Tourism Technology*, *8*(1), 87–100.

Usher, W. (2011). Types of social media (web 2.0) used by australian allied health professionals to deliver early twenty-first-century practice promotion and health care. *Social Work in Health Care*, *50*(4), 305–329.

Vlachakis S., Siakas K., Naaranoja, M. (2015). Internet and Social media: the Main Marketing tools for Small Family Businesses, *International Conference on Contemporary Marketing Issues (ICMI 2015),* London, UK, 30 June – 3 July.

We Are Social. (2021). We are social global digital report 2021 (https://wearesocial.com/digital-2021, 27.05.2021).

Whiting, A., & Williams, D. (2013). Why people use social media: a uses and gratifications approach. *Qualitative Market Research: An International Journal*, *16*(4), 362–369.

Xie, Q., Neill, M. S., & Schauster, E. (2018). Paid, earned, shared and owned media from the perspective of advertising and public relations agencies: Comparing China and the United States. *International Journal of Strategic Communication*, *12*(2), 160–179.

Biography

Osman Özdemir is an Assist. Prof. Dr. in the Department of Business Administration at Şırnak University. His research interests are digital marketing, tourism marketing, corporate reputation, and logistics.

Kadir Özdemir is a Res. Assist. in the Department of Business Administration at Bursa Technical University. His research interests are digital marketing, e-trade, logistics, and multi criteria decision making.

Chapter 11

Family Businesses from Marketing Perspectives

Ismail Simsir & Ilhan Sag

Introduction

Family businesses hold an exclusive position in the world's economies as most businesses that make up countries' economies are family businesses. It is stated that 90% of registered businesses in the USA, 80% in Spain, 95% in Italy, 85% in Switzerland and 95% in Turkey are family businesses (Alkara & Arıcı, 2019) and also that 50% to 90% of the gross domestic product (GDP) is produced by family-owned businesses of various sizes in all economies. While small family firms in the United States generate 60% of all employment, 65% of all private sector assets in India are made up of 16 family groups and more than 50% of the market value on the Santiago stock exchange is represented by 15 family groups in Chile (Kenyon-Rouvinez & Ward, 2005). Even in the USA, where the relative importance of family businesses is considered to be low, there are 20.3 million family firms which provide 49% of GDP, 59% of employment and 78% of newly created employment (Shanker & Astrachan, 1996). Therefore, the sustainability of family firms is of utmost importance not only for the owning families, but also to the whole society (Kenyon-Rouvinez & Ward, 2005).

On top of that, family businesses face severe challenges from operational business areas such as competitive markets, planning, financing, and marketing (Smyrnios, Romano, Tanewski, Karofsky, & Millen, 2002).

Regardless of sector, marketing is one of the main elements of customer satisfaction (Blomback & Craig, 2013). Marketing focuses on the needs of customer for businesses to have a long-term presence in the market (Ozdemir & Ozdemir, 2020). According to Michael Porter, customer power influences the nature of competition in firms (Porter, 1980). One of the primary goals of family businesses is to survive and grow as with all companies. Marketing, particularly in family businesses has a significant function especially at the point of both the growth of the enterprise at the establishment stage and its sustainability after reaching a certain scale. Perceptions of family firms in the market and marketing practices are critical to the success of large and small family firms (Reuber & Fischer, 2011).

In this chapter we provide an overview of the relevant literature on family businesses including a review of recent developments in family business marketing practices and theories. Our objective is to identify how marketing practices and theories can be used in family businesses. This objective approach supplies opportunities for researchers, practitioners, and advisers.

Towards Developing an Understanding about Family Businesses

Family businesses have idiosyncratic dynamics that need to be better understood, as they can affect strategic decisions relating to marketing and the competitive advantage of the firm as a whole. Also, their actions are inherently different from those of non-family businesses.

The fact that family-controlled businesses are different requires different insight. Combining family and work brings with it many contradictions, and successful business families reconcile these differences and contradictions with paradoxical thinking and unusual actions (Ward, 2006). Therefore, differentiation in the marketing perception of the family business should not be taken as abnormal. Hence, prior to handling the marketing perspective in a family business, handling its dynamics would make more sense.

When we ask the question “What is a family business?”, we immediately see that there is no consensus about an overarching definition with theoretical and operational implications of a family business.

In some definitions, the conditions of being a family company are determined according to the individuals who take part in the partnership or management (Alkara & Arıcı, 2019). In compliance with this, "family businesses" can be described as “profit-oriented social organizations established by individuals with kinship ties to produce goods or services”. And today, although the concept of family business is commonly defined in this way, its scope and boundaries are also defined in different ways according to different perspectives, taking into account its unique characteristics (Alayoğlu, 2003). (Zimmerer & Scarborough, 1996), on the other hand, describe the concept of family business "as a business structure in which at least two or more members of the family have the power to control the financial structure of the business".

Likewise, in another definition, a family business is described as one that is controlled by a family and features at least one of the following: i) there are three or more family members who are all active in the business, ii) there are two or more generations of family control, and iii) the current family-owned managers have the intention to transfer control to the next generation (Kenyon-Rouvinez & Ward, 2005).

It is seen that researchers generally refer to four basic issues when describing family companies. The first is whether a single dominant family group owns more than 50% of the shares in a business; second, whether members of the “emotional kinship group” perceive their firm as a family business; third, whether a firm is managed by members from a single dominant family group, and lastly, whether the firm has passed ownership to second or subsequent generations within a single dominant family group that owns the business. Moreover, certain researchers have reckoned on some other considerations when describing family businesses (Westhead, Cowling, Storey, & Carole, 2002).

The main distinguishing point in the concept of family business is whether the authority is concentrated in the family members in the execution of the management functions, rather than in their having a majority share. In this sense, the main criterion in defining a family business is to what extent the family intervenes in the management activities and to what extent they take part in these activities (Alayoğlu, 2003). A general definition of the subject can be given as follows:

Family businesses are established for the purpose of providing for the family or preventing the disintegration of an inheritance; they are managed by the breadwinner of the family, most of the senior management positions are occupied by family members; family members are largely effective in making decisions and at least two generations of the family are employed in the institution (Drozdow & Carroll, 1997).

Family businesses are mostly small-scale and have a simple organizational structure. Again, these businesses tend to focus on a single product or a single market. In addition, such family businesses are less open to change and less risk-oriented than other businesses. Therefore, outsourcing in family businesses, such as foreign capital and accepting partners from outside, is not accepted because of the fear that the family may lose control over the business. There are some features that distinguish family businesses from other types of businesses and can only be characteristics of family businesses. These features can be listed as follows (Alkara & Arıcı, 2019):

- Usually, at least two generations of the family are involved in business management.
- Business policy and family interests are generally compatible with each other.
- Family ties can play an important role in determining people in managerial positions.
- People in the family that the owner of the company likes and trusts are close to the entrepreneur within the business.
- The children of the managers are also mostly involved in the management.

Even if most of the family businesses are small-scale, it is worthwhile to remark that a good number of multinational and giant corporations are indeed family businesses. Amongst these are Mars, Ford, Estée Lauder, and Levi Strauss in the USA; Tetra Laval, Hermes and H&M in Sweden; Michelin, Bic and L'Oréal in France; and Seagram and Bata in Canada. In addition, Koç, Sabancı, Ülker, Doğuş, Komili and Eczacıbaşı are amongst examples of family businesses in Turkey (Günel & Yalçın, 2004).

It is a known fact that today's competitive environment is changing very rapidly. Such a dynamic and rapidly changing environment brings the serious problem of adaptation to competition, especially for family businesses where family beliefs and values are at the forefront (Karpuzoğlu, 2001).

Family businesses present an intricate texture to fully grasp. It seems that the more one tries to understand and learn about the phenomenon, the more questions unfold. The reason that family businesses are an enigmatic phenomenon is that they involve the composition of individual, familial and organizational psychology coupled with organizational behavior and economics. This creates an uneasy synthesis of emotionality and rationality enacted in business and family systems across the globe and matters that are related to power, money and love (Murray, 2002).

As a conclusion, family businesses have important features making them discrete and exceptional among other types of organizations, because of the inherent link between family, ownership and business, as expressed in the well-known three-circle model. Although an increasing number of scientists today are interested in studies that relate corporate governance to strategic processes in family companies, studies in this direction should be expanded to include the marketing dimension (Nordqvist & Melin, 2002).

Family Businesses from Marketing Perspectives

Regardless of sector, marketing is one of the main elements of customer satisfaction (Blomback & Craig, 2013). Marketing focuses on the needs of customers for businesses to have a long-term presence in the market (Ozdemir & Ozdemir, 2020). According to Michael Porter, customer power influences the nature of competition in firms (Porter, 1980). One of the primary goals of family businesses is to survive and grow as with all companies. So perceptions of family firms in the market and marketing practices are critical to the success of large and small family firms (Reuber & Fischer, 2011).

Marketing studies of family businesses are generally divided into two groups in recent researches (Reuber & Fischer, 2011). The first group examines consumer perceptions from the perspective of family firms in the market (I. C. Botero & Litchfield-Moore, 2021; Carrigan & Buckley, 2008; Fotea, Pop, & Fotea, 2017; Pimentel, Pires, & Almeida, 2020) and the second group focuses on marketing practices (marketing strategies, growth, marketing communication, branding, logistics…) within family firms (Frank, Kessler, Bachner, Fuetsch, & Suess-Reyes, 2019; González-López, Buenadicha-Mateos, Barroso, & Sanguino, 2021; Tokarczyk, Hansen, Green, & Down, 2007). Family firms are examined in the marketing literature under three marketing perspectives: family business reputation and branding, capital and marketing orientation, and stewardship and longevity (Blomback & Craig, 2013).

Differentiation in Family Firms

Family firms usually promote their family ownership as a means of differentiation (I. C. Botero & Litchfield-Moore, 2021). Fundamentally, family firm researchers focus on the distinction of family firms because of the ownership and management systems in their works (Chrisman, Chua, & Steier, 2005; Parmentier, 2011). There are important links between families and their family firms. For example, Carney (2005) indicates that competitive advantages such as efficiency, social capital, and opportunistic investment are derived from family ownership and management systems' method of incentives, authority structures, and norms of accountability. Family ownership positively influences the firm and family due to planning practices, communication processes and the use of boards because of the relationships between family culture and management practice (Poza, Alfred, & Maheshwari, 1997).

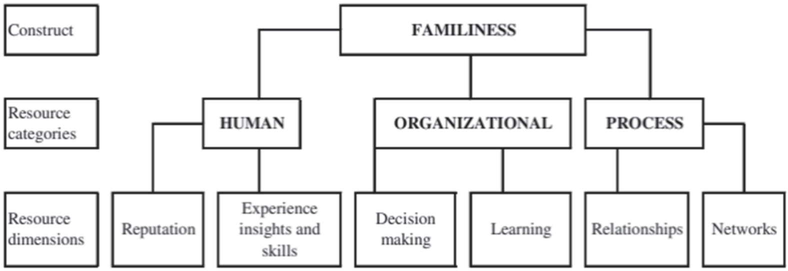

Figure 11.1: The Familiness Resource Model Adopted from Irava and Moores (2010)

The familiness resource model as seen in Figure 11.1, indicates that family firms theoretically explain distinctive competitive advantages that result from resources arising out of family involvement in business. These resources arising out of family involvement in business are defined as, experience – insights and skills, reputation, decision-making, learning, networks, and relationships (Irava & Moores, 2010).

Market Orientation Atmosphere in the Family Firms

Distinctive features of family firms contribute to create an effective market orientation atmosphere in family firms. Market orientation companies apply the marketing concept in their strategic and tactical marketing decisions (Jaworski & Kohli, 1996). Market orientation creates customer value, increases competitive capacity, and enhances financial performance (Ho, Nguyen, Adhikari, Miles, & Bonney, 2018; Tajeddini & Ratten, 2020). Market orientation has a significant role through competitive advantage in companies' performance (Baker & Sinkula, 2009; Ngo & O'Cass, 2012; Udriyah, Tham, & Azam, 2019). Market orientation consists of the dimensions of customer orientation, inter-functional coordination and competitor orientation in firms (Narver & Slater, 1990).

According to Ozdemir and Ozdemir (2020), companies understand that the needs, wants and demands of the market create a market-oriented culture. Family firms have close relations and frequent interactions among family members. These relationships provide the cultural background to create an effective market orientation. We can see in Figure 11.2 how family firms' resources (strategic orientation, family relation, customer orientation, operational benefit) create an effect on market orientation strategies and competitive advantage performance, albeit not necessarily limited to these resources. Familiness qualities collectively contribute to an effective market orientation (Tokarczyk et al., 2007).

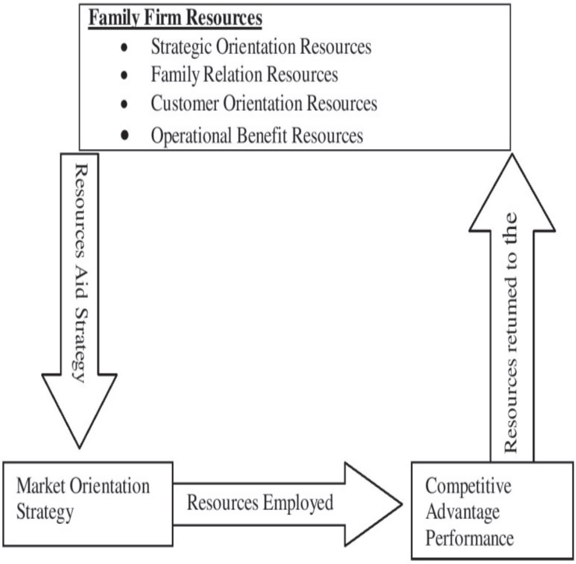

Figure 11.2: Model of the Nature of Familiness' Contribution to Developing a Market Orientation Adopted from Tokarczyk et al. (2007)

Family Business Reputation and Branding in Family Firms

Distinctive features of family firms contribute to create an effective reputation and branding in family firms (Beck, 2016). Capabilities such as higher product quality, genuine motivation to provide outstanding customer service, and strong customer relationships put family firms in a unique position to create sustainable competitive advantage (Cooper, Upton, & Seaman, 2005; O'Donnell, Gilmore, Carson, & Cummins, 2002).

In a general sense, a brand can be defined as a "name, term, sign, symbol, or design, or combination of them" (Kotler, 2009). The brand helps consumers to identify the products and services they like, and buy and remember the products that they consumed before (Keller, 1993). Brand equity is the amount of financial benefit that a brand represents to a company and how the brand adds to the competitive advantages of a firm based on the responses that consumers have to the brand (Laforet, 2009). In recent years, scholars have used the branding framework to understand family businesses' market (I. Botero & Blombäck, 2010). Branding in family businesses depends on internal (industry, stakeholders, cultural and geographical values, communication) and external factors (the family's wishes and abilities, organizational structure, family contribution, intensity of family inclusion in the brand, reflection of strong family values) (Şenerol & Işık, 2020).

A family's reputation is very important for a family firm because of the inextricable connection between the family and the business (Tokarczyk et al., 2007). But defining a family firm as a family business brand is not a success factor or a source of competitive advantage for every family business (Astrachan & Astrachan, 2015). So, the effects of the clarity of and interdependence between family identity and business identity in family businesses should be evaluated with their positive and negative aspects when creating a new family brand.

Astrachan and Astrachan (2015) created a theoretical framework of family business branding from the perspective of the family firm, as shown in Figure 11.3, by conducting interviews and benefited from the theoretical story and the findings from the current studies. According to the model seen in Figure 11.3, family business branding consists of factors such as pride identification, positive differentiation, stakeholder benevolence, superior image, personification, visibility, and relevance. Behavioral outcomes reinforce brand-related effects. Total family firm performance consists of this theoretical process.

Brands are important not only for companies but also for the identity of consumers. Brand authenticity consists of originality, continuity, reliability and naturalness (Bruhn, Schoenmüller, Schäfer, & Heinrich, 2012) and is used in the construction of the consumer's self-identity (Beverland, 2009). Family firms create brand authenticity with the current of nostalgia by closely linking their products and services to the family's legacy. Family businesses are very advantageous in creating authentic brands. This advantage brings strategic competitive advantage to family firms (Şenerol & Işık, 2020).

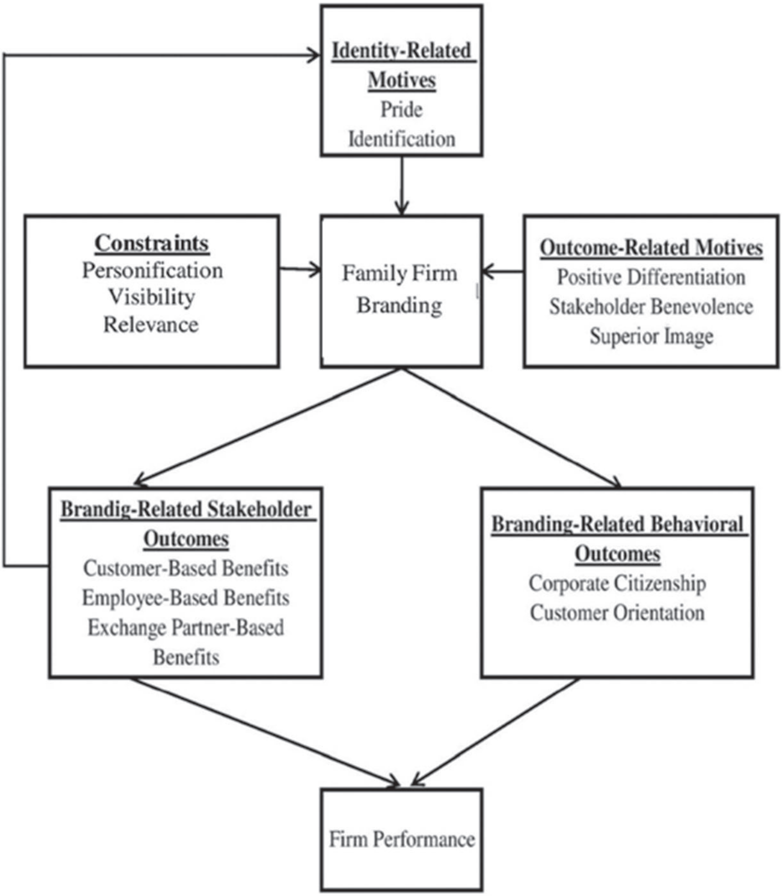

Figure 11.3: Theoretical framework of family business branding, Astrachan and Astrachan (2015)

Stewardship and longevity in a marketing perspective in family firms

Blomback and Craig (2013) focus on the terms of stewardship and longevity in a marketing perspective in family firms. Stewardship theory provides an alternate perspective to look at corporate governance issues, and stewardship theory considers comprehensive strategic decision-making, participative governance, long-term orientation, employee human capital, and family-to-firm unity (Ashwin, Krishnan, & George, 2015). According to Zahra, Hayton, Neubaum, Dibrell, and Craig (2008) stewardship culture occurs through long-term orientation, aligned values between the family and business, and family identification with the business in family firms.

Stewardship is generally handled in family firms in three ways; continuity of the business, employees, and customer relationships (Miller, Le Breton-Miller, & Scholnick, 2008). In the first, the continuity and longevity of the business, family firms' owners are more inclined toward stewardship over the continuity of the business by making more future-oriented investments in product research and development, reputation development, and market share development. Family owners, especially firms' founders, have interest in the continuity and longevity of their firm and invest in projects which bring long term value to the firm. In the second, community, a stewardship community culture is created by building a group of talented and motivated employees who are loyal to the firm. Lastly, the third is the connection of stewardship with customer relationships. Family business leaders aim to create customer loyalty while moving from a transactional link with customers towards a broader, more enduring relationship.

Family business leaders can broaden their relationships with customers by taking a more personal approach to marketing. The relationship between customers and family firms can be improved by using assiduous trade shows, direct marketing, internet marketing and social media, mobile marketing, public relations, and engagement marketing (Dos Santos, Contreras, & Mahto, 2021; Firfiray & Gomez-Mejia, 2020; Raman & Menon, 2018; Ungerman, 2015).

The internet is a marketing communication tool that enables a family firm to have a direct and close relationship with its customers and in this way a company has a competitive advantage through better applied business marketing (Ungerman, 2015). The internet is used for the benefit of marketing communication such as creating a relationship between a company and a fan, building a long-term relationship with customers and sharing information at relatively low cost, interaction with the target group and getting to know their views and opinions (Stefko, Bacik, & Fedorko, 2013). This relationship turns potential customers into real customers. Using internet technology allows companies to target and measure the marketing of products and services. There are many methods used by family businesses in digital marketing, but not all family business can benefit equally from these opportunities. In digital marketing, the transactions carried out by family companies at the beginning, middle and advanced level are different (Erkan, 2020).

Successes include, for example, a family business having access to the internet at the beginning level, a mid-level family business being able to sell products and services on the internet, and a high-end family business advertising and observing the feedback. If a family business wants to develop a close relationship with its customers with digital marketing methods, the family business should be a good social media user by allocating the necessary time to digital marketing activities through trained employees (Erkan, 2020).

Family firms need detailed information on their customers for a closer relationship with them. For this reason, the way to deepen the relationship with customers is to limit the target customer group. Firms use criteria in the consumer market such as demographic, product-based, psychographic and geographical criteria, as well as organizational structure, and customer size with target market selection strategies such as the whole market, segmented market, concentrated market, niche market, local market, individual market, and self-market (Kotler, 2008). Family businesses should choose the most attractive market segment for them (Yerden, 2020). Family businesses could use their marketing strategies skillfully to be successful in the market. These strategies are positioning and target market selection.

Conclusion

Family businesses with their own culture and rules are in the majority in Turkey as well as all over the world. Small- and medium-sized firms constitute 98% of family businesses in Turkey. Family businesses contribute to the economy of countries and play an important role in increasing their welfare level. These economic and social contributions of family businesses in the national and international arena make it more important to ensure the sustainability and success of family businesses. As in every business, family businesses are expected to survive and make a profit on their current activities to fulfill these large-scale social and economic expectations. One of the main ways to make a profit in family companies is to have marketing perspective knowledge and skills.

The complex structure of family businesses sometimes makes them more fragile than other businesses in terms of sustainability and longevity. Marketing is a powerful tool that protects and sustains family firms. Family businesses and managers who have marketing perspective knowledge and skills make their companies sustainable and ensure longevity. Besides ensuring sustainability and longevity, marketing perspective knowledge and skills also provide institutionalization and growth in a family business.

A family business needs to have good knowledge of its current and potential customers' opinions and feedback on its products and services in order to be successful in marketing. This is because customers are the only factor that will generate revenue for the business. The family business will strengthen its relationship with customers according to how well it gets to know its customers, how rapidly it responds to customers’ requests, and how quickly it realizes the customers' expectations. Family businesses that understand the customer can easily reach new consumers by using marketing communication tools and strategies well, changing the attitudes of consumers positively, increasing their sales and gaining competitive advantage.

Branding in family businesses differs from that that of traditional businesses. Family businesses, with their unique differences, also have positive privileges in terms of branding in marketing. Family businesses can easily achieve both financial and consumer-based branding. They are also advantageous in personal and authentic branding. However, whether the family is associated with the brand or not is something to be considered in brand studies. While family businesses can benefit from family identity in marketing, family identity can turn into a disadvantage in some cases.

Family companies that use technology well in their marketing activities appear to be in a more advantageous position in competition. Although there is a traditional tendency not to use technology in family businesses at the beginning, technology is used intensively especially in second-generation family management and newly established family companies. Digital marketing offers today's family businesses unique marketing opportunities at low cost, creating equality in competition, especially for family businesses that are just starting out.

Finally, to summarize, in this chapter we have emphasized the importance of marketing for family businesses and provided an overview of the relevant family business’ literature including a review of recent developments in family business' marketing practices and theories. Our objective is to identify how marketing practices and theories can be used in family businesses. This approach supplies opportunities for future researchers, practitioners, and advisers.

Keywords: Family business, Marketing, Customer power, Competition

References

Alayoğlu, N. (2003). *Aile şirketlerinde yönetim ve kurumsallaşma (1st Ed.)*: Müsiad Yayınları.

Alkara, İ., & Arıcı, A. (2019). Aile İşletmelerinde Yaşanan Pazarlama ve Markalaşma Sorunları: Bozüyük TSO Üyeleri Üzerine Bir Araştırma [Marketing and Branding Issues in Family Businesses: A Research on the Members of Bozüyük Chamber of Commerce and Industry]. *İşletme Araştırmaları Dergisi, 11*(3), 1313-1331.

Ashwin, A., Krishnan, R. T., & George, R. (2015). Family firms in India: Family involvement, innovation and agency and stewardship behaviors. *Asia Pacific Journal of Management, 32*(4), 869-900.

Astrachan, C. B., & Astrachan, J. (2015). Family business branding. Leveraging stakeholder trust. *London: IFB Research Foundation, 46*.

Baker, W. E., & Sinkula, J. M. (2009). The complementary effects of market orientation and entrepreneurial orientation on profitability in small businesses. *Journal of small business management, 47*(4), 443-464.

Beck, S. (2016). Brand management research in family firms. *Journal of Family Business Management*.

Beverland, M. (2009). *Building brand authenticity: 7 habits of iconic brands*: Springer.

Blomback, A., & Craig, j. (2013). *Marketing from the family business perspektive in M. Leif, N. Mattias, S. Pramodita (Ed.), The sage handbook of family business*. Sage publications, London p. 423-441: Sage.

Botero, I., & Blombäck, A. (2010). *Leveraging the family brand: using brand management to highlight the advantages of family firms.* Paper presented at the 10th annual IFERA world family business research conference.

Botero, I. C., & Litchfield-Moore, S. R. (2021). Customer perceptions about family firms and their effects on customer behaviors. *Journal of Small Business Strategy, 31*(2), 19-35.

Bruhn, M., Schoenmüller, V., Schäfer, D., & Heinrich, D. (2012). Brand authenticity: Towards a deeper understanding of its conceptualization and measurement. *Advances in consumer research, 40*.

Carney, M. (2005). Corporate governance and competitive advantage in family–controlled firms. *Entrepreneurship Theory and Practice, 29*(3), 249-265.

Carrigan, M., & Buckley, J. (2008). 'What's so special about family business?'An exploratory study of UK and Irish consumer experiences of family businesses. *International Journal of Consumer Studies, 32*(6), 656-666.

Chrisman, J. J., Chua, J. H., & Steier, L. (2005). Sources and consequences of distinctive familiness: An introduction. *Entrepreneurship Theory and Practice, 29*(3), 237-247.

Cooper, M. J., Upton, N., & Seaman, S. (2005). Customer relationship management: A comparative analysis of family and nonfamily business practices. *Journal of small business management, 43*(3), 242-256.

Dos Santos, M. A., Contreras, O. L., & Mahto, R. V. (2021). Marketing strategies in family firms. *Journal of Small Business Strategy, 31*(2), 1-5.

Drozdow, N., & Carroll, V. P. (1997). Tools for strategy development in family firms. *MIT Sloan Management Review, 39*(1), 75.

Erkan, I. (2020). Aile İşletmelerinde Marka Ve Ailenin Marka Değerine Etkisi in O. Yılmaz, O. Ozdemir (Ed.), Aile İşletmelerinde Pazarlama ve Marka Yönetimi. *Kırıter Basın Yayın Dağıtım*.

Firfiray, S., & Gomez-Mejia, L. R. (2020). In pursuit of socioemotional wealth: The affordances of social media in family firms *Understanding Social Media and Entrepreneurship* (pp. 193-216): Springer.

Fotea, S., Pop, N. A., & Fotea, I. (2017). *Developing an understanding of Romanian Consumers' perception of family firms*. Paper presented at the Proceedings of 13th European Conference on Management, Leadership and Governance.

Frank, H., Kessler, A., Bachner, C., Fuetsch, E., & Suess-Reyes, J. (2019). Principles for innovation management in family firms: An analysis of long-term successful good practices with a practitioner validation of the principles. *Journal of Family Business Management*.

González-López, Ó. R., Buenadicha-Mateos, M., Barroso, A., & Sanguino, R. (2021). Evaluation of the online presence of family firms: A comparative analysis between Ibero-America and the US. *Journal of Small Business Strategy, 31*(2), 36-52.

Günel, R., & Yalçın, A. (2004). Aile İşletmelerinde Yönetimin Bir Sonraki Kuşağa Devrinde Karşılaşılan Sorunlar ve Çözüm Önerileri, 1. Aile İşletmeleri Kongresi Kitabı. *İstanbul Kültür Üniversitesi*, 17-18.

Ho, K. L. P., Nguyen, C. N., Adhikari, R., Miles, M. P., & Bonney, L. (2018). Exploring market orientation, innovation, and financial performance in agricultural value chains in emerging economies. *Journal of Innovation & Knowledge, 3*(3), 154-163.

Irava, W. J., & Moores, K. (2010). Clarifying the strategic advantage of familiness: Unbundling its dimensions and highlighting its paradoxes. *Journal of family business strategy, 1*(3), 131-144.

Jaworski, B. J., & Kohli, A. K. (1996). Market orientation: review, refinement, and roadmap. *Journal of Market-Focused Management, 1*(2), 119-135.

Karpuzoğlu, E. (2001). Aile şirketlerinde stratejik planlama ve aile şirketlerine özgü planlar. *Öneri Dergisi, 4*(15), 115-124.

Keller, K. L. (1993). Conceptualizing, measuring, and managing customer-based brand equity. *Journal of marketing, 57*(1), 1-22.

Kenyon-Rouvinez, D., & Ward, J. L. (2005). *Family business*: Springer.

Kotler, P. (2008). *Test Item File [to Accompany] Principles of Marketing, [by] Philip Kotler, Gary Armstrong*: Pearson Prentice Hall.

Kotler, P. (2009). *Marketing management: A south Asian perspective*: Pearson Education India.

Laforet, S. (2009). *EBOOK: Managing Brands*: McGraw Hill.

Miller, D., Le Breton-Miller, I., & Scholnick, B. (2008). Stewardship vs. stagnation: An empirical comparison of small family and non-family businesses. *Journal of management studies, 45*(1), 51-78.

Murray, B. (2002). Understanding the emotional dynamics of family enterprises. *University of Illinois at Urbana-Champaign's Academy for Entrepreneurial Leadership Historical Research Reference in Entrepreneurship*.

Narver, J. C., & Slater, S. F. (1990). The effect of a market orientation on business profitability. *Journal of marketing, 54*(4), 20-35.

Ngo, L. V., & O'Cass, A. (2012). Performance implications of market orientation, marketing resources, and marketing capabilities. *Journal of Marketing Management, 28*(1-2), 173-187.

O'Donnell, A., Gilmore, A., Carson, D., & Cummins, D. (2002). Competitive advantage in small to medium-sized enterprises. *Journal of Strategic Marketing, 10*(3), 205-223.

Ozdemir, K., & Ozdemir, O. (2020). *Aile İşletmelerinde Pazrlama İletişimi in O. Yılmaz, O. Ozdemir (Ed.), Aile İşletmelerinde Pazarlama ve Marka Yönetimi.* Diponegoro University, Kırıter Basın Yayın Dağıtım

Parmentier, M.-A. (2011). When David met Victoria: Forging a strong family brand. *Family Business Review, 24*(3), 217-232.

Pimentel, D., Pires, J. S., & Almeida, P. L. (2020). Perceptions of organizational justice and commitment of non-family employees in family and non-family firms. *International Journal of Organization Theory & Behavior*.

Porter, M. (1980). 1980 Competitive strategy. New York: Free Press.

Poza, E. J., Alfred, T., & Maheshwari, A. (1997). Stakeholder perceptions of culture and management practices in family and family firms-A preliminary report. *Family Business Review, 10*(2), 135-155.

Raman, R., & Menon, P. (2018). Using social media for innovation–market segmentation of family firms. *International Journal of Innovation Science*.

Reuber, A. R., & Fischer, E. (2011). Marketing (in) the family firm: SAGE Publications Sage CA: Los Angeles, CA.

Shanker, M. C., & Astrachan, J. H. (1996). Myths and realities: Family businesses' contribution to the US economy—A framework for assessing family business statistics. *Family Business Review, 9*(2), 107-123.

Smyrnios, K. X., Romano, C. A., Tanewski, G. A., Karofsky, P., & Millen, R. (2002). Work-to-family conflict: a comparison of American and Australian family and non-family business owners KO SMASX. SMYRNIOS, CL AU DIOA. RO MANO, GEO RG EA. TA NEWSKI: A comparison of American and Australian family and non-family business owners *Understanding the Small Family Business* (pp. 75-88): Routledge.

Stefko, R., Bacik, R., & Fedorko, R. (2013). Spendings on social media as part of marketing budgets. *Polish journal of management studies, 8*, 243--250.

Şenerol, H., & Işık, F. (2020). Aile İşletmelerinde Marka Ve Ailenin Marka Değerine Etkisi in O. Yılmaz, O. Ozdemir (Ed.), Aile İşletmelerinde Pazarlama ve Marka Yönetimi. *Kırıter Basın Yayın Dağıtım*.

Tajeddini, K., & Ratten, V. (2020). The moderating effect of brand orientation on inter-firm market orientation and performance. *Journal of Strategic Marketing, 28*(3), 194-224.

Tokarczyk, J., Hansen, E., Green, M., & Down, J. (2007). A resource-based view and market orientation theory examination of the role of "familiness" in family business success. *Family Business Review, 20*(1), 17-31.

Udriyah, U., Tham, J., & Azam, S. (2019). The effects of market orientation and innovation on competitive advantage and business performance of textile SMEs. *Management Science Letters, 9*(9), 1419-1428.

Ungerman, O. (2015). Social media as a marketing communication tool used by family firms. *Acta academica karviniensia, 15*(2), 148-162.

Ward, J. (2006). *Unconventional wisdom: Counterintuitive insights for family business success*: John Wiley & Sons.

Westhead, P., Cowling, M., Storey, D. J., & Carole, H. (2002). *The scale and nature of family businesses. In D. E. Fletcher (Ed.), Understanding the small family business (pp. 32–45). Routledge.* (Vol. 8): Routledge.

Yerden, N. K. (2020). Aile İşletmelerinde Marka Ve Ailenin Marka Değerine Etkisi in O. Yılmaz, O. Ozdemir (Ed.), Aile İşletmelerinde Pazarlama ve Marka Yönetimi. *Kırıter Basın Yayın Dağıtım, 26*.

Zahra, S. A., Hayton, J. C., Neubaum, D. O., Dibrell, C., & Craig, J. (2008). Culture of family commitment and strategic flexibility: The moderating effect of stewardship. *Entrepreneurship Theory and Practice, 32*(6), 1035-1054.

Zimmerer, T., & Scarborough, N. M. (1996). *Entrepreneurship and new venture formation*: Prentice Hall.

Biographies

Ismail Simsir is an Assist. Prof. of Health Management at Sakarya University of Applied Sciences, Turkiye, where he teaches in all study cycles of undergraduate, graduate and postgraduate studies. He received his master's and PhD degree in business management. His research interests include health policy and economics, quality management, corporate management in SMEs and family businesses. He has authored or co-authored around 12 research articles, 5 edited books and various conference papers. Dr. Simsir is deputy editor-in-chief of the Journal of MEYAD Akademi (Association for Mobbing Education and Aid).

Ilhan Sag graduated with a public administration BS, a business administration MBA and a marketing PhD. He is currently employed at the Health Sciences University Training and Research Hospital in Bursa, Turkey. He has worked in various administrative positions at the Turkish Social Security Administration and the Turkish Ministry of Health; including the medical tourism department, in the management of personnel, training, and administrative responsibilities. He has authored various research articles, edited books and conference papers. He has worked as a visiting research intern in the Department of Health Services Administration, University of Alabama in Birmingham AL, USA.

CHAPTER 12

INNOVATION MANAGEMENT STRATEGIES IN FAMILY FIRMS

ÖZGÜR ÇARK

Introduction

Although change is a process that has been going on since the birth of the universe, its speed has increased compared to previous times with the improvements in IT technologies and globalization. Therefore, the most prominent elements of this period are; technology, speed and competition. For this reason, being able to adapt to and innovate for change has become much more vital for businesses compared to the past. Only businesses that are aware of the change in their environment can take steps to realize the innovation they need.

The period when production moved from homes and small workshops to large workshops with the invention of the steam engine in the 17th century and mechanization was called the first industrial revolution. In this period, coal was used extensively as an energy source. With mass production systems, oil and electricity were favored by energy markets, production moved from workshops to factories, and this transformation was called the second industrial revolution. In the period known as the third industrial revolution at the end of the 1960s, with developments in information technologies and automation systems, production processes became programmable with computer software, and it was observed that nuclear energy was rapidly becoming widespread in industrial societies in energy markets (Çark et al., 2019).

Today, the world is changing and transforming at a greater and faster rate than it was yesterday. New generation digital technologies are constantly being added to industry 4.0 components such as robotics, artificial intelligence, nanotechnology, big data, the internet of things, cloud computing and cybernetic physical systems. Almost every day, a new concept, approach or assumption is added to the literature, which is a richness of concepts for some and a confusion of concepts for others. While the ecosystem created by these new technologies is named “Industry 4.0” in Germany, the transformation that these components will create in the social system has been named the “Super Smart Society 5.0” in Japan.

This new ecosystem has changed employers’ expectations of employees, and in this direction, management sciences have developed new theories and approaches in order to adapt to existing technological developments and changes in production methods (Çark, 2019). Businesses are turning to digital transformation in order to gain competitive advantage, to respond quickly to customer expectations and demands, to increase productivity and profitability, to be unique, to find new market share and customers, to increase customer loyalty, to innovate in products, to create new opportunities, to accelerate decision processes and to integrate into new markets (Akyürek, 2021).

Today, innovation is seen as one of the main factors of national or international economic development and global competition at the macro level. Due to the developments in information communication technologies, it is seen that the labor-intensive production approach is now replaced by new generation technology-based enterprises and industrial trends. In this direction, it is noteworthy that countries have established technopreneur and innovation systems that will support such entrepreneurs. Especially in Asian countries, the national innovation systems established by these countries are seen as the main driving force of the current economic growth based on competitive technology (Chen et al., 2019). A similar trend to this transformation in the national strategic policies of countries is also experienced in businesses.

Thanks to innovation management, businesses turn into organizations that can manage their adaptation to the economic, sociological and technological changes that are constantly occurring in their environment. In addition, innovation management is a very important application in terms of ensuring that innovation activities are carried out according to goals and objectives. As businesses are innovation-oriented organizations, knowledge has gained more importance and it has become necessary to evaluate it in different ways. It is only possible for businesses to realize innovation activities that cannot be easily imitated by their competitors if they have effective knowledge management.

Today's family businesses are faced with disruptive technological developments and the global competition caused by those developments. Family businesses have been the subject of much research due to the economic effects and functions that they cause, as well as being important entities and the most common type of business in the world. These enterprises are considered to be one of the important resources in the economic development and growth of a country. At the same time, they contribute to economic life with the new products, services and processes that they introduce.

Family businesses are faced with technological developments and global competition. Thanks to the big data provided by digital technologies and the analysis of these big data, making more rational strategic decisions is seen as a virtue that makes businesses superior to their competitors. Organizations that cannot keep up with transformation and change, that is, the innovation they need, are exposed to entropy over time and may have great problems in sustaining their existence. For this reason, innovation management is a vital issue in family businesses, which are an important part of economic life. It is seen that scientific researches on innovation management in family businesses have appeared quite recently and very different opinions have emerged in this field. In this section, the issue of innovation management in family businesses is discussed descriptively.

According to the results of the descriptive research carried out, it is understood that innovation management in family businesses is a very important activity for their survival. In today's world, where the speed of change and consumption is much higher than before, it is understood that family businesses can only keep up with this change with effective innovation management.

Innovation Concept

In today's fiercely competitive conditions, sustainability is the main condition for organizations to continue their existence. Therefore, the way for businesses to gain a sustainable competitive advantage is to think differently from others and be innovative. Innovation is a concept that has found a place in every field in recent years. People try to express themselves with their innovative aspects, while businesses try to express themselves with the innovative products and services that they produce or innovations in their processes. In fact, the concept of innovation is used in every speech by politicians. Innovation is now seen as the only way toward sustainability and development for organizations (Kahn, 2018). Many definitions in the literature deal with the concept of innovation in academic, industrial and public administration terms in line with their own discipline (Taylor, 2017). However, it is noteworthy that the concept of innovation has developed and expanded semantically since the day it was first used.

The concept of innovation essentially started under the leadership of the economist Joseph A. Schumpeter, after which the increasing interest of behavioral scientists expanded studies on the concept (Robertson, 1967). According to the Cambridge dictionary, the concept of innovation means "a new idea or method that is being tried for the first time, or the use of such ideas or methods" (Cambridge, 2021). While the first part of this definition deals with innovation as a result, the second part expresses it as a process. In line with this explanation, it is important to think of innovation not only as an output but also a process. Institutions that define innovation only as an output or only as a process will be insufficient in innovation. Organizations that focus solely on output can lead to inefficiencies such as excessive resource consumption while trying to minimize the process, whereas organizations that focus solely on the process can often produce organizational bureaucracies that make it difficult to produce an output. For this reason, it is very important to consider innovation as a balanced phenomenon that covers both the result and the process (Kahn, 2018).

There is confusion in the literature regarding the concept of innovation. The concepts of invention and innovation are often confused. Invention is the creation of something that does not exist, while innovation means innovating above the present (O'Sullivan & Dooley, 2008); or, in other words, invention or creativeness is the production of a new idea, while innovation is the steps or stages followed to develop products, applications and processes (Tüzüner, 2020). When the literature is examined, it is seen that some individuals and organizations tend to accept innovation as a completely new and radical change instead of minor changes (Kahn, 2018). But innovation is not only big change in every situation and every circumstance, but also covers a wide spectrum from small steps to radical changes. It is seen that the use of innovation, which initially refers to development activities related to products, services or processes, has recently expanded to include organizational and managerial processes such as being an information society, technological development and social transformation (Taylor, 2017).

Based on all these explanations, the concept of innovation has a holistic perspective; It can be defined as producing new products, services, processes and models or transforming existing products, services, processes and models into new and applicable results. Examining innovation types will make the concept of innovation more understandable. Generally, six types of innovation are mentioned, these being (Kahn, 2018):

- ***Product innovation:*** Although only the concept of "product" is used, product innovation is related to all kinds of products, services and programs that can be put on the market. Product innovation can be achieved in seven different ways. The first is *"cost reductions"*, which refers to reducing the production costs of products, services or programs. The second is *"product improvements"*, which refers to an improvement in the form or function of the product, service or program. The third is *"line extensions"*, which refers to the addition of new features and options to existing ones. The difference between this and product improvements is that in line extension innovation, the customer can buy the old product, but in product improvements, the old product is no longer available. The fourth is *"new markets"*, which refers to the introduction of new markets with minor changes in the product, service or program. The fifth is *"new uses"*, which means finding a new usage that is different from the current usage without making any changes in the form of an existing product. The sixth is *"new category entries"*, which means adding a product, service or program to its portfolio that is new to a brand but not new to a customer. The seventh is *"new-to-the-world products",* also called radical innovation, which refers to original products, services and programs that produce an entirely new market that has never been seen before.

- ***Process innovation:*** This refers all kinds of methodological changes in production, service or organizational operation to reduce costs and increase efficiency and performance. The concepts of "process innovation" and "product innovation" are often confused. Whereas "process innovation" focuses more on removing cost-increasing factors from production processes and thus providing cost reduction and productivity increase, "product innovation" searches for new products and new areas of use rather than reducing costs and generally uses more resources while doing so. In this respect, while "product innovation" is market and output oriented, "process innovation" is more process and cost oriented.
- ***Marketing innovation:*** This is the search for new communication and connection methods for the product, service and program for the customer and the market. It includes all the product, service or brand image development activities in order to increase demand with new promotional methods and the development of promotional and presentation methods that may attract the attention of customers and consumers to products, services and programs.
- ***Business model innovation:*** This radical innovation changes the business sector or the way that business is done. There are three kinds of business model innovations. These can be used individually or together. The first is *"industry model innovation"*, which refers to revamping the industrial value chain by redefining existing industries or producing a completely original one by leveraging the unique assets of the institution. The second is *"revenue model innovation"*, which means targeting revenue

growth by re-adjusting the product, service, value mix and pricing models. The third is *"enterprise model innovation"*, which refers to the renewal of the role played by a business in the value chain by changing many of its aspects, including relationships, connectivity, and talent and asset configuration, including employees, suppliers, customers, and others.

- ***Supply chain innovation:*** This refers to innovation that can be carried out in three different dimensions such as the supply chain network structure, supply chain technology and supply chain business processes in a function of the business or within a business or an industry or in a supply chain to create new value for stakeholders.
- ***Organizational innovation:*** This includes innovation in organizational structure, functioning, management styles, working styles, business environments and communication channels.

Figure 12.1: 4Ps of Innovation (Kim, 2020)

There are various classifications of innovation in the literature. Although these classifications are named as different concepts, they have similar meanings. In Figure 12.1, the four-dimensional classification of the innovation is presented visually.

Ortt and Duin (2008), who examined the historical development of innovation in 4 phases, stated that the first phase is from the end of the Second World War to the middle of the 1960s, the second phase is from 1965 to the 1970s, the third phase is from the end of the 1970s to the early

1990s and the fourth phase is from the 1990s to the early 2000s. The classification created by the researchers, who stated that each stage has its own characteristics and difficulties, is presented in Table 12.1.

Table 12.1: The innovation management phases, their context, perspective and disadvantages (Ortt & Duin, 2008)

Phase	Organizational Context of Innovation	Innovation Perspective	Disadvantages
From 1945 to 1965	It is generally technology-centric and growth-oriented. Functionally, organization is common.	*Technology (science) push* The action of commercialization of tech is seen as an additive advancement from scientific invention to the market. Plenty R&D sections are structured personnel departments like scientific institutions.	Not much attention is paid to the whole process or to the role of the marketplace. Innovation actions do not benefit planned objectives and business outlooks are included late. Executive project administration apps are not implemented.
From 1965 to the 1980s	In general, diversification is emphasized to grow, achieve economies of scale and decrease fiscal threats.	*Market pull (need-pull)* Technological transformation is pragmatized. Scientific and technological advancement is seen as less important than demand for innovation. As innovation action are administrated as projects, R&D departments are organized in a matrix. Departments have turned into internal customers who straightly invest R&D. Innovation is often arranged in multidisciplinary projects.	Due to the disregard of long-period innovation schedules, "incremental" innovation has been adopted. The focus is on historical progress rather than revolutionary changes. Projects are singular sections, strategic relations and institutional goals have not been established between these projects.

From the 1980s to the 1990s	Often the focus is on expense rein or decrease. Enterprises are more elastic and less hierarchical. Liabilities have been transferred to departments.	*Unified market pull and technology push* The data of technology and market demands is used along the innovation action. Connection systems are established with interior and exterior stakeholders to obtain this information. Innovation projects are made part of a project portfolio in line with the corporate strategy. A sequential process model is developed that includes feedback loops, market needs and interaction with the latest technology.	It focalized on produce and process innovation rather than sectoral or institutional innovation. The focus is on creating innovation rather than taking advantage of the innovation of others.
From the 1990s to the 2000s	Often the focus is on core competencies. Strategic alliances and environmental networks are significant. Time to market happens more significant. Team-based and project-based forms are mostly adopted by organizations.	*Innovation in alliances; parallel and integrated innovation, from innovation to new business development (NBD)* In this phase, innovation administration now stands for managing study contacts and exterior study environments. Parallel operates are employed to cover multiple agreements and boost the pace of development. Business and market models are used for the coordinated innovation process in an alliance network. The necessary coordination is usually provided by system integration and parallel development.	Innovation processes are becoming increasingly difficult to manage, as they become very complex. Making innovation open is not suitable for all industries and can jeopardize even the basic research that often underpins innovation.

When Table 12.1 is examined, it is seen that innovation has developed from organizational growth to cost control, from cost reduction to a lean organizational structure focusing on basic capabilities. It is understood that the direction of innovation in the historical development process has developed from the product to the customer and from the customer to strategic alliances. This orientation is similar to the historical development trend of the discipline of management and organization.

Salam et al. (2020), according to the bibliometric analysis results of 2160 articles published between 1970 and 2019 on the concept of innovation in WoS databases, understood that innovation research had increased considerably especially since 2008. According to the keyword analysis results, it is seen that the concepts of "knowledge management", "total quality management", "performance management", "process management", and "research & development" are closely related to the concept of innovation management. According to this result, it is understood that innovation management is a concept that is in close relationship with knowledge, research, education and development.

In addition to the definition, types and historical development process of the concept of innovation, there are also studies in the literature in which it is discussed in terms of its style or depth. In these studies, two main types of innovation are mentioned. These are (O'Sullivan & Dooley, 2008);

- ***Radical innovation:*** Radical innovation means making radical changes to something conventional and established, and making these changes is a bit risky. The concept of radical refers to the change in the habit and occurrence of a significant change in the yield or income level,
- ***Incremental innovation:*** Incremental innovation means less but continuous innovation in a product, service or process compared to radical innovation, and these changes are less risky than those of radical innovation. In incremental innovation, businesses frequently resort to techniques such as total quality management, Kai-zen, and lean manufacturing.

Radical innovations are fundamental changes that require huge investments, while incremental innovations continue gradually, with smaller steps for change. For example, while it is a radical innovation for a car factory producing fossil-fuel-consuming cars to produce electric or hybrid motor cars, efforts to increase the battery capacity or the maximum range can be expressed as an incremental change. Naturally, when evaluated in terms of cost, labor and time, the risk of radical innovation is much higher than that of incremental innovation.

Generally, when radical innovation is carried out, it is seen that there is a disruptive effect that eliminates the previous technology. In fact, it is seen that radical innovation is called disruptive innovation in many studies (Chen et al., 2019; O'Sullivan & Dooley, 2008; Tidd & Bessant, 2009), that is, innovation that destroys and eliminates the old. Technologies such as the mobile internet, computing automation, the IoT, cloud computing, advanced robotics, autonomous vehicles, next generation genome sequencing, energy storage, 3D printing, advanced nano-tech, advanced oil exploration and recycling techniques, and renewable energy are considered disruptive innovations (Chen et al., 2019). In addition to the dual categorization of radical and incremental innovation, a quadruple categorization of radical – incremental – modular – architectural innovation is also found in the literature (Tidd & Bessant, 2009).

In general, the realization process of innovation consists of the "*discovery*", "*development*" and "*deliver*" stages. The stage where the organization identifies opportunities by making a situation analysis constitutes the *"discovery stage"*, the stage where the innovation to be made is designed and the technical details are determined is the *"development stage"*, and the stage where the innovation is explained, presented to the market and spread constitutes the *"deliver stage"* (Kahn, 2018). Although different stages related to the innovation process are expressed, in general, the discovery of innovation, the development and implementation of innovation, and the stages of the diffusion of innovation are enough to describe an innovation process in general terms.

Innovation Management in Family Businesses

In addition to being the most common type of business in the world, family businesses have been the subject of many studies due to their economic effects and the functions they perform. Family businesses are very important in the world's economic life. Especially since the Second World War, the importance of family businesses in economic life has increased even more compared to previous times. In the field of family businesses, which is stated to constitute approximately 75% of the enterprises in the world (Göker & Üçok, 2004), studies especially on institutionalization take the lead. Although the family business is such an important entity in economic life, it is seen that there is no full consensus on its definition (Çark, 2020; Çetinkaya et al., 2017).

A family business is described as an enterprise in which the owners and policy makers are family members or where one or more family members have a say in decision-making (Kobal & Yildirim, 2016). A family business can be defined as a family-owned and managed business that employs some associates and is based on the supposition that more youthful persons of the family will take over the administration of the firm after the older members retire (Bakan & Okumuş, 2020).

Family businesses have some advantages and some weaknesses compared to non-family businesses. Although quick decision-making and dynamism thanks to the close and constant interaction of partners, managers and loyal employees; and the relations developed with the social and economic environment by the well-known family title, providing a significant amount of capital and continuity in management, are superior aspects of family businesses, they are also evaluated as the centralization and concentration of authority in one hand, suffering from nepotism, a lack of clear determination of authority and responsibilities, father-masculinity, conservatism, hard competition between family members, family disputes in profit sharing, a limitation of career opportunities for non-family employees and intergenerational differences as a transfer problem which are considered as weaknesses (Çelik & Çiçeklioğlu, 2020; Kaplan, 2020).

At the point reached today, the world is on the verge of a new transformation and change. Industry 4.0 is the concept used to express this new stage experienced in the technological, economic and sociological field. Technologies such as the internet of things, cloud computing, artificial intelligence and cybernetic systems constitute the components of the Industry 4.0 paradigm. The concept that expresses the sociological reflection and effects of opportunities and developments such as big data, virtual reality, simulation and mobility, which are included in human life together with Industry 4.0 technologies, is “super smart society 5.0”. It is inevitable that this new sociological paradox will spread to family businesses as well as to every aspect of life, and change and transform them, just like other revolutionary transformations (Bayramoğlu & Hasdemir, 2021; Çark, 2021). Considering the shift of today's management approach towards network-based structuring, innovation, new and creative knowledge supported by information and communication technologies, teamwork and administrative systems, it will be understood that businesses are obliged to manage change by adapting themselves to current conditions and growing, strengthening and maintaining their existence (Aybar, 2021). To adapt to such internal and external conditions, the innovation management of family businesses has gained much more importance compared to previous times.

Organizations benefit from several innovation strategies to be successful in their competitive struggles and to gain an advantage over their competitors. Organizations determine their innovation strategies based on the current situation assessment of their external and internal environments. These strategies and their explanations are as follows (Durna, 2002):

i. ***Offensive Strategy:*** This is a high-risk strategy that uses research, communication and information intensively, based on producing new products to gain market leadership and surpass competitors.

ii. ***Defensive Strategy:*** This is a research-intensive but less risky strategy than the offensive strategy, which is based on adapting successful innovations by observing rather than initiating innovation or giving defensive responses to competitors' innovations such as low prices, product differentiation, minor technical changes, etc.

iii. Imitative and Dependent Strategies: These strategies are often followed by weaker organizations that cannot afford original innovation. Unlike the defensive strategy, the imitative strategy is based on imitating the original innovation without changing it, while the dependent strategy has become the satellite of a stronger organization or acts as a sub-branch or sub-contractor of the main organization.

iv. Traditional and Opportunistic Strategies: The traditional strategy is continued, without any change in products, services or processes, only by reflecting talent and expertise in production, thus resisting temporary fashion changes. Opportunistic strategies are defined as the tendency of organizations to implement one or more of the innovation strategies in line with the changing situations and conditions to achieve their main goals such as maintaining their existence, making profit or growth.

Family businesses, just like all other businesses, determine an innovation strategy depending on their position and situation in the economic, technological, social and political environment with their production factors such as labor, capital, natural resources and technology. This is because innovation strategies are directly and indirectly influenced by the external and general environment in which the enterprise is located, and related to the power of both material and human resources. For this reason, the family business should be able to analyze the current internal resources and the external environment in order to choose the optimal innovation strategy and/or other strategies for itself.

Innovation activities provide maximum efficiency only when they can be managed very well and rationally, and very useful outputs can thus be obtained for the family business. In order to benefit more from innovation management, it is necessary to monitor and evaluate the innovation performance and improve the deficient and defective parts with feedback (Bayram, 2020).

Although studies on the innovation issue in family businesses have increased in recent years, the current literature reveals controversial findings in the historical process. Compared to previous studies in the literature, family businesses are considered to be more conservative and loyal to their traditions. In addition, the relationship between investment and the results of family businesses in innovation is a controversial issue (Şentürk & Kartal, 2021). Recent studies indicate that family businesses have a higher innovation potential. In other words, some studies state that family enterprises are traditional and distant toward innovation with their traditional characteristics, while other studies state that the most innovative businesses in the world are family enterprises.

Examining the differences in innovation behavior between family organizations and non-family organizations through humanistic, collective and marketing capital, Llach and Nordqvist (2010), conducted their research on 99 family and 52 non-family organizations in Spain. Unlike the traditional understanding of the previous literature, which sees family enterprises as less innovative compared to non-family enterprises, investigators found that family organizations are more innovative than non-family organizations in some areas.

By the results of their research on the distinctions between family and non-family businesses in terms of product and process innovation outputs and workforce productivity, Classen et al. observed differences at each stage of the innovation process. Research findings reveal that although family businesses have the potential to make higher innovation investments, they invest less intensively in innovation compared to non-family rival businesses. When innovation investments are examined, although family businesses tend to outperform non-family businesses in terms of process innovation output, when the product and process innovation level is considered, family businesses show lower performance in terms of labor productivity compared to non-family businesses.

Kraus et al. (2012), examined the innovation behavior differences between family firms and non-family firms. Findings showed that there was no difference between the two groups in the relationship between product innovation intensity and corporate success, and the relationship between organizational innovation and product innovation intensity. In line with this and similar studies, it is understood that there are no significant differences between the innovation behaviors of family firms and non-family firms. Since innovation in general is positively associated with business performance, sustainability, and long-term value creation, the issue of innovation in family businesses needs to be examined in more detail to resolve this confusion in the literature (Feninger et al., 2019).

Conclusion

Businesses have to adapt to change in order to continue their existence. Adaptation to change starts with being aware of change. However, it is not always easy to foresee the change before it occurs and to take the necessary position. There are many organizational, environmental and social factors that bring about change. While some changes are more local and incremental related to the demands and expectations of customers or the strategies displayed by competitors in the market, other changes may be more disruptive such as global trends, sectoral and public regulations or technological innovations and developments. Especially in recent years, the concept of Industry 4.0, which has been intensely discussed and studied, and the new generation technologies developing under this concept, have deeply affected businesses. In addition, the Covid-19 pandemic, which the world has been struggling with since 2019, has had serious effects on businesses, as well as social effects.

Family businesses, which are an important entity in the world's economic life, need to either be the initiator of change or keep up with the changes that occur in their environment to make profit and continue their existence, just like other businesses. They need to adapt to the changes in order to be protected from their disruptive effects and to benefit more from their constructive effects. Innovation is a very critical activity for the initiator or follower of change. When previous studies in this field are examined, family businesses are more conservative in terms of change and innovation, while recent studies show that family businesses have high innovation potential and are successful in innovation. It is very important to benefit more from this potential by directing positive emotions such as organizational commitment and organizational loyalty, which are high since managers are family members, to increase the tendency towards organizational innovation.

Keywords: Innovation, Family business, Innovation management, Transformation

References

Akyürek, S. (2021). İşletmenin Çevre Analizi Dijitalleşme ile Dijital Dönüşümün İşletme ve Bazı Çevre Unsurları Üzerindeki Potansiyel Etkileri [Business Environmental Analysis Potential Impacts of Digitalization and Digital Transformation on Business and Some Environmental Factors]. In S. Özbey (Ed.), *Dijital İşletme Yönetimi ve Yapay Zekâ [Digital Business Management and Artificial Intelligence]* (pp. 31-74). Detay Publishing.

Aybar, S. (2021). Aile İşletmelerinde Dönüşümcü Liderlik ve Dijital Dönüşüm [Transformational Leadership and Digital Transformation in Family Businesses]. In O. Yılmaz, Ö. Çark, & C. Tınaztepe (Eds.), *Aile İşletmelerinde Dijital Dönüşümün Yönetimi [Digital Transformation Management in Family Businesses]* (pp. 55-72). Nobel Publishing.

Bakan, İ., & Okumuş, M. T. (2020). Aile İşletmelerinde Girişimcilik [Entrepreneurship in Family Businesses]. In O. Yılmaz & F. Kılıç (Eds.), *Aile İşletmelerinde Stratejik Yönetim [Strategic Management in Family Businesses]* (pp. 73-93). Kriter Publishing.

Bayram, A. (2020). Aile İşletmelerinde Bilgi Yönetimi ve İnovasyon [Knowledge Management and Innovation in Family Businesses]. In O. Yılmaz & F. Kılıç (Eds.), *Aile İşletmelerinde Stratejik Yönetim [Strategic Management in Family Businesses]* (pp. 263-278). Kriter Publishing.

Bayramoğlu, G., & Hasdemir, E. (2021). Toplum 5.0 ve Aile İşletmeleri [Society 5.0 and Family Businesses]. In O. Yılmaz & Ö. Çark (Eds.), *Aile İşletmelerinde Dijital Teknolojiler [Digital Technologies in Family Businesses]* (pp. 33-62). Nobel Publishing.

Cambridge. (2021, May 15). *Innovation*. https://dictionary.cambridge.org/us/dictionary/english-turkish/innovation

Chen, J., Viardot, E., & Brem, A. (2019). Innovation and innovation management. In J. Chen, A. Brem, E. Viardot, & P. K. Wong (Ed.), *The Routledge Companion to Innovation Management* (pp. 3-16). Routledge. https://doi.org/10.4324/9781315276670-1

Çark, Ö. (2019). *Kurumsal Kaynak Planlama Sistemleri [Enterprise Resource Planning Systems]* (1st ed.). Gazi Publishing.

Çark, Ö. (2020). Aile İşletmelerinde Stratejik Karar Alma Süreçlerinde Dijital Dönüşümün Etkisi [The Effect of Digital Transformation on Strategic Decision-Making Processes in Family Businesses]. In O. Yılmaz & F. Kılıç (Eds.), *Aile İşletmelerinde Stratejik Yönetim [Strategic Management in Family Businesses]* (pp. 275-297). Kriter Publishing.

Çark, Ö. (2021). Endüstri 4.0 ve Aile İşletmeleri Üzerindeki Etkileri [Industry 4.0 and Its Impact on Family Businesses]. In O. Yılmaz & Ö. Çark (Eds.), *Aile İşletmelerinde Dijital Teknolojiler [Digital Technologies in Family Businesses]* (pp. 1-31). Nobel Publishing.

Çark, Ö., Yıldız, İ., & Karadeniz, A. T. (2019). Sanayi 4.0 Kapsamında İşletmeler Açısından Büyük Veri [Big Data for Business in the Context of Industry 4.0]. *International Journal of Multidisciplinary Studies and Innovative Technologies*, *3*(2), 114-120.

Çelik, R., & Çiçeklioğlu, H. (2020). Aile İşletmelerinde Büyüme Stratejileri [Growth Strategies in Family Businesses]. In O. Yılmaz & F. Kılıç (Eds.), *Aile İşletmelerinde Stratejik Yönetim [Strategic Management in Family Businesses]* (pp. 97-118). Kriter Publishing.

Çetinkaya, F. F., Şener, E., & Korkmaz, F. (2017). Aile İşletmeleri ve Kayırmacılık: Nitel Bir Araştırma [Family Businesses and Nepotism: A Qualitative Research]. *PESA International Journal of Social Studies*, *3*(4), 119-133.

Durna, U. (2002). *Yenilik Yönetimi [Innovation Management]* (1st ed.). Nobel Publishing.

Feninger, M., Kammerlander, N., & De Massis, A. (2019). Family business innovation: A circular process model. In G.M. D'Allura, A. Colli, S. Goel, (Eds.), *Family Firms and Institutional Contexts* (pp.187-209). Edward Elgar Publishing. https://doi.org/10.4337/9781788970181.00017

Göker, A. Z., & Üçok, T. (2004). Aile İsletmeleri ve Karar Verme Süreci, Köklü Aile İsletmelerinde Bir Uygulama [Family Businesses and Decision-Making Process, An Application in Established Family Businesses]. *Proceedings of the 2nd Family Business Congress, İstanbul,* 45-57.

Kahn, K. B. (2018). Understanding innovation. *Business Horizons*, *61*(3), 453-460. https://doi.org/10.1016/j.bushor.2018.01.011

Kaplan, M. (2020). Aile İşletmelerinde Dinamik Yetenekler [Dynamic Capabilities in Family Businesses]. In O. Yılmaz & F. Kılıç (Eds.), *Aile İşletmelerinde Stratejik Yönetim [Strategic Management in Family Businesses]* (pp. 45-58). Kriter Publishing.

Kim, H. (2020). The Analysis of Innovation Management in Google. *Journal of Economics and Management Sciences*, *3*(4), 10-19. https://doi.org/10.30560/jems.v3n4p10

Kobal, K. S., & Yildirim, O. A. (2016). Aile İşletmelerinin Kurumsallaşma Sürecinde İkinci Kuşağın Yaşadığı Sorunlar Üzerine Bir Araştırma [A Research nn Institutionalization Problems of Second Generation in Family Business]. *Oneri Journal*, *12*(46), 97-120. https://doi.org/10.14783/od.v12i46.1000010006

Kraus, S., Pohjola, M., & Koponen, A. (2012). Innovation in family firms: An empirical analysis linking organizational and managerial innovation to corporate success. *Review of Managerial Science*, *6*(3), 265-286. https://doi.org/10.1007/s11846-011-0065-6

Llach, J., & Nordqvist, M. (2010). Innovation in family and non-family businesses: A resource perspective. *International Journal of Entrepreneurial Venturing*, *2*(3/4), 381. https://doi.org/10.1504/IJEV.2010.037119

Ortt, R., & Duin, P. (2008). Generations of Innovation Management. *European Journal of InnovationManagement*, *11*(4), 522-538. https://doi.org/10.4324/9781315687131-1

O'Sullivan, D., & Dooley, L. (2008). *Applying innovation*. Sage Publications. http://www.nuigalway.ie/staff-sites/david_osullivan/documents/2011_ai_booklet.pdf

Robertson, T. S. (1967). The Process of Innovation and the Diffusion of Innovation. *Journal of Marketing*, *31*(1), 14-19. https://doi.org/10.1177/002224296703100104

Salam, S., Senin, A., Sheeraz, M., & Zainab, S. (2020). Innovation Management: A Bibliometric Analysis. *Journal of Public Value and Administration Insights*, 169-182. https://doi.org/10.31580/jpvai.v3i4.1656

Şentürk, E. E., & Kartal, C. (2021). Diijital Dönüşüm Sürecinde Aile İşletmelerinde Yenilik (İnovasyon) [Innovation in Family Businesses in the Digital Transformation Process]. In O. Yılmaz, Ö. Çark, & C. Tınaztepe (Eds.), *Aile İşletmelerinde Dijital Dönüşümün Yönetimi [Digital Transformation Management in Family Businesses]* (pp. 55-72). Nobel Publishing.

Taylor, S. P. (2017). What Is Innovation? A Study of the Definitions, Academic Models and Applicability of Innovation to an Example of Social Housing in England. *Open Journal of Social Sciences*, *05*(11), 128-146. https://doi.org/10.4236/jss.2017.511010

Tidd, J., & Bessant, J. R. (2009). *Managing Innovation: Integrating Technological, Market and Organizational Change* (4th ed.) John Wiley & Sons Ltd.

Tüzüner, V. L. (2020). Organizational Innovation in the Context of Knowledge Management. In G. Mert, E. Şen, & O. Yılmaz (Eds.), *Data, Information and Knowledge Management*. Nobel Publishing.

Biography

Özgür ÇARK is an Asst. Prof. at Bolu Abant İzzet Baysal University in the Management and Organization department. He served in the Turkish Armed Forces between 2003 and 2017. He has a master's degree in Human Resources Management and Organizational Change and a Ph.D. degree in Business Administration. Dr. ÇARK has published a book titled *Enterprise Resource Planning Systems*, a series of three books that he edited on digital transformation in family businesses, seven book chapters on digital transformation and its effects, and articles and papers in international and national scientific refereed journals and congresses.

CHAPTER 13

TALENT MANAGEMENT STRATEGIES IN FAMILY FIRMS

AHMET KAYA

Introduction

One of the most important issues to be considered in family businesses is to ensure their continuity. One of the ways to ensure continuity in the family business is to act as required by the business world and to take rational steps. Like other businesses, family businesses also experience some significant difficulties in having sufficient and skilled employees. One of the biggest factors that creates these difficulties is the intense demand for talented employees (Michaels, Handfield-Jones and Axelrod, 2001). In addition, some reasons specific to family businesses may prevent the family business from employing the skilled human resources it needs.

Many family businesses have a group of highly loyal employees who are part of the leader's core team. However, these old loyal family business members may not have developed the technical and human skills required to adapt to the growing size and complexity of the business and the speed of change. While the leader continues to support them as a reward for their trust and loyalty, they may not be the right people for some of the top roles they occupy at the end of the day. As a result, performance and motivation variables can be damaged throughout the organization. In short, the existence of this core group, which has goodwill, loyalty and reliability, sometimes cannot be a guarantee of business success (Bhalla and Bratton, 2015). Of course, loyalty and trust in the employees are important issues for a business. However, as stated above, family businesses need even more than that in order to be successful in the sector.

1. Strategic Talent Management

Today, the concept of talent management still maintains its importance and its development still continues. The term "talent war" is used because of the fierce competition between businesses to have talent (Michaels, Handfield-Jones and Axelrod, 2001).

It is possible to state that today, businesses are in the "talent age" (Shukla, 2009). Developments from the agricultural age to the talent age can be summarized as follows (Shukla, 2009):

- In the agricultural age, the economy was based on land which is a physical and tangible asset.
- The industrial age was followed by an economy driven by manufacturing. High business performance was achieved through the efficient use of distribution networks and factories.
- In the knowledge age, through integrated communication and computer technology, "information" has become a determinant and very important element in terms of economic value. Today, the demand for talented employees (best people), in other words, "true value creators" is quite high. There is a war between businesses in order to have talent.

In another study, the factors leading to the emergence of talent management are listed as follows: (Bahadınlı, 2013: 27-37).

- Changes in the demographic characteristics of employees.
- The changing employee mobilization and profile.
- A decrease in the organizational commitment levels of employees.
- The increasing importance of a work-life balance.
- The increasing importance of information technologies and information.
- Globalization and competition.
- Organizational changes.

1.1 Talent Management Concept

Before giving the various definitions regarding talent management, it would be appropriate to briefly define the concept of "talent".

The concept of talent can mean the following: (Dictionary.Com, 2021).

- A special aptitude or natural ability.
- A capability for success or achievement.

The concept of talent, which has a distinctive innate feature, is a special potential or skill that one can do better than another in the relevant field (Akar, 2012).

In the learning environment, the talent of a person evolves into skills and competencies, thus enabling the person to achieve high performance and success (Gagné, 2004, as cited in Tatlı and Üstün, 2018: 895).

The concept of talent is described as a whole by the following features: (www.insankaynaklari.com, as cited in Doğan ve Demiral, 2008:151).

Triumph,
Ability,
Leadership,
Easiness,
New-fangled,
Time.

As in the case of talent, various definitions have been made regarding the concept of talent management. The approaches put forward regarding talent management are as follows (Powell and Lubitsh, 2007):

- Process Perspective
- Competitive Perspective
- Cultural Perspective
- Human Resource Planning Perspective
- Developmental Perspective.

Talent management definitions based on the relevant perspectives are included in Table 13.1.

Table 13.1. Talent Management with Different Perspectives

PERSPECTIVES	TALENT MANAGEMENT (TM)
Process	TM should cover all the processes needed to optimize employees.
Competitive	TM is about identifying talented employees, revealing their needs and presenting those needs to the talented employees.
Cultural	More than a range of activities, TM is a mindset.
HR Planning	TM is about having the right staff matched to the right position at the right time and doing the right things.
Developmental	TM is about accelerated development pathways for people with the highest potential.

Source: Adapted from (Powell and Lubitsh, 2007)

1.2 Transition from Traditional Talent Management to Strategic Talent Management

In a business world whose environment is challenging, one of the ways that businesses can survive, make a profit, and in short, achieve their main objectives, is to strategically manage their talented employees (Collings and Mellahi, 2009).

In this context, with current developments, there is a transition from traditional talent management which has dimensions such as attracting, selecting-placing, developing and retaining talent (Çelik, 2019; Gülbahar, 2019; Khilji, Tarique, and Schuler, 2015; Stahl et al,2007) to strategic talent management, where organization's top talent is managed strategically (Chen, 2012; Kaya, 2019; Schreuder and Noorman, 2019).

Comparison of STM and Generic TM is given in Table 13.2.:

Table 13.2. Comparison of STM and Generic TM

Strategic Talent Management	**Generic Talent Management**
Starting point is organizational strategy (Demand-Driven)	Starting point is talent (Supply-Driven)
It starts with answering the and why questions.	It starts with answering the how questions.
Exclusive approach on positions	Inclusive approach on people
What matters is strategic talent.	What matters is all talents.
Top talent on strategic (pivotal) positions is the most important assets for the organization.	All employees of the organization are the most important assets.
Meritocracy strategy	Hierarchy structure
Organization focuses on Stars.	The focus of the organization is mostly all employees.

Source: (Schreuder and Noorman, 2019)

The comprehensive definition of strategic talent management made by Collings and Mellahi is as follows (Collings and Mellahi, 2009):

- Strategic talent management is a process whereby key (strategic) positions that contribute to the sustainable competitive advantage of organizations, are systematically identified and a talent pool consisting of high-potential and high-performance employees is created to fill strategic positions.
- Strategic talent management is a process that includes the development of a differentiated human resources architecture that will facilitate the filling of key positions by competent employees and ensure their commitment to the organization.

In this context, managers who are involved in the decision-making mechanism in the organization need to acknowledge the importance of a differentiated human resources architecture that facilitates the filling of key positions within the organization with competent employees and ensures their commitment to the organization (Collings and Mellahi, 2009). It can be stated that family businesses can achieve success with strategic talent management practices that they implement (Williams, 2015).

In the related literature, there is no consensus among researchers on strategic talent management subsystems. In some studies, subsystems related to strategic talent management under talent management are considered (Kaya, 2019). Based on the strategic talent management literature, five subsystems (dimensions) of strategic talent management can be seen in Figure 13.1. :

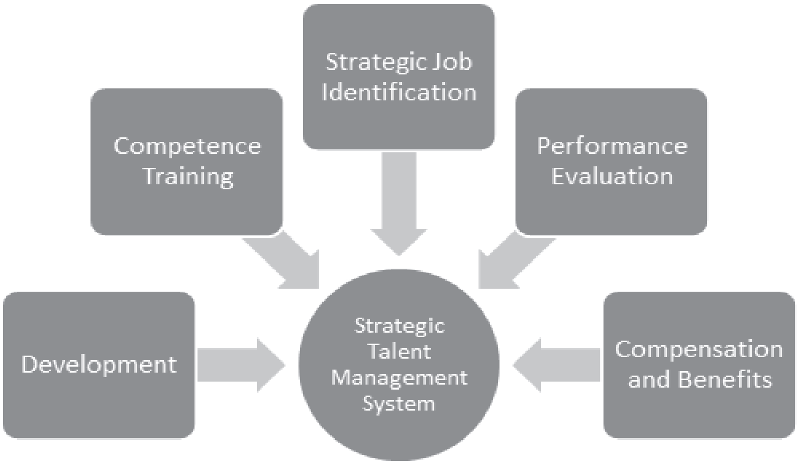

Figure 13.1. Strategic Talent Management System
Source: (Chen, 2012).

2. Talent Management Strategies in Family Businesses and Their Importance

Family businesses that have a considerable place in the global economy include well-known large businesses. Some of the most well-known companies in the world, including Walmart and Samsung, are considered to be family businesses. They can form a large part of both the American and global economy. However, they often face some dangerous risks that they cannot overcome; risks such as not being able to acquire and retain the best talent (TalentManagement360, 2015).

As in every business, some important problems arise in family businesses. The problem of succession is one of the biggest problems experienced in family businesses. Only 30% of businesses are expected to survive to the first generation and 15% to the third generation. The proportion of businesses expected to survive to the fourth generation is less than 3% (CFB, 2016).

The results of a study emphasizing that attracting talented employees is critical to the survival of family-owned businesses are quite striking (Ceja and Tàpies, 2009). In the study, MBA students' perceptions of family-owned businesses compared to non-family businesses were examined. The sample of the study consists of 213 MBA students from 20 different countries. The findings of the study are as follows (Ceja and Tàpies, 2009):

- According to the perceptions of the participants, family-owned businesses are not as good at attracting talented managers to the business as other businesses (non-family businesses).
- According to the perceptions of the participants, there is less job rotation in family-owned businesses compared to other businesses.
- According to the perceptions of the participants, family-owned businesses are slower in the internationalization process.
- Family-owned businesses are slower in implementing new technologies according to the perceptions of the participants.
- According to the perceptions of the participants, family-owned businesses have more trouble in issuing equity.

One important issue that can be experienced in family businesses for incumbents is the loss of power and another is confronting mortality. In order for the control mechanism to be waived, the family business owner must rely on the abilities of their child or children. This depends primarily on the child's or children's skills, past experience outside the organization, and commitment to the organization (CFB,2016).

Of course, the control mechanism in family businesses does not only change hands when the founder of the business transfers his authority as a result of trusting his children. In some cases, especially in family businesses that have achieved institutionalization relatively, some important powers can be given to people who do not have blood ties with the family but are highly skilled and successful. In such family businesses, the noticeable increase in performance, as a result of placing talented employees in important positions in the business, is accepted as an indicator that reveals the importance of strategic talent management in family businesses. With the implementation of talent management strategies, businesses gain significant benefits. Examples of these benefits include gaining sustainable competitive advantage, increased business performance, getting strategic value and being an attractive business for talented employees (Chen, 2012; Chen, Lee and Ahlstrom, 2019; Collings and Mellahi, 2009; Deb, 2005; Kaya, 2019; Schreuder and Noorman, 2019). Family businesses, like other businesses, can reap the benefits exemplified above when successfully implementing talent management strategies, taking into account their characteristic structures (Williams, 2015).

Each family firm is unique and has a distinctive culture. However, every family firm faces certain fundamental challenges, such as attracting, developing and retaining talented employees and adapting to change. In a study, talent/human resources emerged as one of the top 5 priorities for boards of directors in the following 12 months (Consultancy.com.au, 2020).

As businesses grow and employees evolve, many family firms may need to avoid hierarchical structures. Some investments need to be made in both family members and non-family employees (Consultancy.com.au, 2020).

3. Challenges in Talent Management Strategies in Family Businesses

Like every business, family businesses have a number of advantages and disadvantages. Some strengths and weaknesses of family businesses can be listed in the Table. 13.3:

Table 13.3. Strengths and Weaknesses of Family Businesses.

Strengths	**Weaknesses**
Long-term perspective	Limited access of family businesses to capital markets
Freedom of activity	Nepotism
The culture of the family as a origin of pride.	Spoiled and troubled child syndrome
Show more resilience in difficult times	Reflection of family dispute / conflict to the workplace
Impersonal and limitation in bureaucracy	Autocratic and Paternalistic rule
Financial interests	Financial tensions / difficulties
Comprehensive business knowledge	The difficulties of succession planning in the family businesses
	Complexity in the organizational structure

Source: (Kets de Vries, 1993: 61)

In family businesses, there may sometimes be significant difficulties in achieving leadership and strong HR and keeping them within the business. Some important difficulties encountered are as follows (Aile Şirketlerinde Sürdürülebilir Başarının Anahtarları, 2016):

- The family business is growing fast. However, the think tank cannot grow at the same rate compared to the body.
- When family businesses fail to make the necessary progress in professionalization and institutionalization, the duration of professionals staying in the business is short.
- Wasting resources due to mistakes made in choosing the right manager at the point of professionalization is an indication of the lack of quality HR in family businesses.

There are some reasons underlying the occurrence of problems and differences in human resources practices in family businesses. In the background of the problems and differences, the dynamics of family businesses that contain two different systems such as the family system and the business system, and a number of factors related to them have an effect (Alayoğlu, 2012).

Figure13.2. contains some examples of the relevant differentiation in terms of human resources practices (Leach and Bogod, as cited in Alayoğlu, 2012):

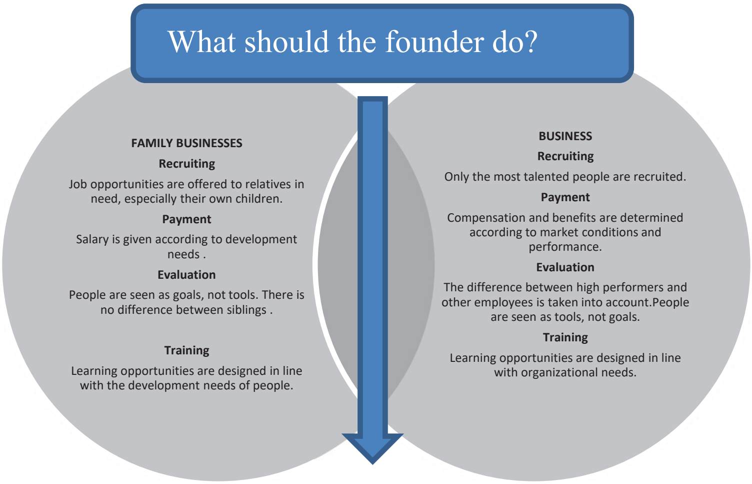

Figure 13.2. Family and Business Systems and Human Resources Practices
Source: (Leach and Bogod, as cited in Alayoğlu, 2012)

As can be seen from Figure 13.2., while relatives who need to be in a business in the family system, especially the owners' own children, are provided with job opportunities, only the most talented people are employed in the business system. While the need for development in the family system determines the payment, the compensation and benefits are determined in the business system according to performance and market conditions. At the point of evaluation, individuals are seen as goals in the family system, while individuals are seen as tools in the business system. While learning opportunities are designed in accordance with the needs of the organization in the business system, they are designed in accordance with the development needs of the people in the family system (Leach and Bogod, as cited in Alayoğlu, 2012).

The factors below provide some insight into how family businesses behave in the market (Akça, 2010:5):

- There are differences between the goals of the family and the goals of the business.
- The family must live in harmony and equal opportunities are offered to every member of the family. However, this is not the case in businesses. It is very important to be successful and fair in business.
- Based on the sense of unity, each family member is asked by the family to be employed in the business. But businesses cannot take such a risk. They must be selective in terms of the individuals to be employed and must bring qualified employees to the business. The concepts of safety, well-being and comfort are important to the family. On the contrary, it is necessary to make risky decisions in order to provide competitive advantage in businesses and to adapt to changes in the market.

As in every business, there are many managerial problems in family businesses. In fact, these problems can be more challenging in family businesses compared to other businesses. Some issues in family firms can be listed as follows (FSO Technologies, 2003):

- Understanding who will participate in the management level of the company and under what conditions.
- Preparing the company owner or managers who will guide the company in the future and have a say in decision-making, for the future.
- Deciding how much the employees who are connected to the family by blood will receive from the company.
- Knowing how and by whom the successors will be selected.
- Strengthening family adaptation.

- Attracting, recruiting and retaining professional employees who are not tied to the family by blood.

As stated before, many of the difficulties encountered when applying talent management strategies in non-family businesses are also valid for family businesses. Some variables such as the approach of the founder of the family business, family dynamics, relations between family and non-family members, nepotism, growth policy, openness to innovation and change can be effective in the emergence of difficulties that may arise in the strategic talent management implemented in family businesses. One of the obstacles for family businesses to retain competent employees is their inability to compete in some areas with other, larger, non-family businesses (Williams, 2015).

The harmony between the family business and the talented employees who are not related to the family by blood is very important. In order to bring these talented employees to the business, it is very important to focus on the employer brand. Another important point that should not be forgotten is that there must be a cultural harmony between the family business and talented employees for the successful implementation of talent management strategies (Harsch and Festing, 2019).

3.1. Talent Management Strategies and Nepotism

According to the Turkish Language Association, nepotism means favoring relatives and close friends (TDK, 2021). Conceptually, nepotism generally means treating employees in a biased way, giving positive discrimination to some employees during recruitment or work, and this perception of nepotism is at its core. Nepotism often evokes the choosing the bad while over good (Demirel and Savaş, 2017: 140).

In family businesses, more emphasis is placed on being linked to the family by blood, rather than criteria such as performance, success and talent (Karabulut, 2008).

Nepotism practices in businesses can have negative effects on the qualified employees of the enterprise. In a study evaluating the relationship between nepotism and employees' perceptions of organizational justice, a significant and negative relationship was found between non-family business accommodation’s employees' perceptions of nepotism and their perceptions of organizational justice (Arslaner, Erol and Boylu, 2014). In the study, unlike other studies in the literature, there is no significant relationship between the perceptions of nepotism and organizational justice of employees of accommodation businesses serving as family businesses.

The reason for this result is that employees who are not family members are hired more often in accommodation businesses operating as family businesses. In this study conducted for employees in accommodation businesses in Eskişehir, the reasons for the negative effects of nepotism practices on other employees are listed as follows (Arslaner, Erol and Boylu, 2014):

- Unqualified employees are hired due to their nepotism practices.
- Employees are treated in a “biased” way due to their nepotism practices.
- Promotions are not justified.

Although it is known that nepotism has negative effects in general, sometimes its positive sides can also emerge. For example, in a study examining the relationship between nepotism, talent management, and innovation variables, it was concluded that relative nepotism, equality, and professionalism, which are among the dimensions of nepotism, positively affect innovation management. In this study, which was carried out for a total of 385 people consisting of managers and employees in two separate businesses, it was also found that the role of non-family members and professionalism sub-dimensions, which are among the dimensions of nepotism, positively affect talent management (Demirel and Savaş, 2017).

As stated above, nepotism sometimes has positive sides. But at other times, possible negative sides of nepotism may arise, and family businesses can implement strategic talent management practices in order to eliminate these negativities. If there are no family members with the necessary competencies for employment, it would be a very rational choice to give some important powers to people who do not have family blood ties but are highly skilled and successful. In such a case, a noticeable increase in performance will likely occur as a result of placing talented employees in important positions in the business, as previously stated in the light of the literature.

Conclusion

In today's business world, where there is a high level of competition, it is not easy for businesses, especially family businesses, to achieve their basic goals and to make their existence sustainable. In order for a family business that produces goods or services to achieve success and permanence in the sector in which it operates, it must fulfill every activity meticulously and make strategic and accurate decisions. Compared to their competitors, businesses need to do something different, get noticed, and satisfy the buyers they serve. At the point reached today, one of the most important resources that will make businesses successful, provide superiority against their competitors and help sustain their existence is the pool of competent, talented, qualified and distinguished human resources (Atlı, 2012; Benligiray and Kurt, 2016; Collings and Mellahi, 2009; Köse, 2018; Michaels, Handfield-Jones and Axelrod, 2001) .

As stated before, based on the relevant literature, some of the important activities that create value and bring success to businesses today are carried out by qualified employees. The "need for talented employees" that is valid for other businesses also applies to family businesses. Both the continuity of the family business and the desired performance of the business depend on the ability to attract talented employees to the business, placing them in key positions in line with business strategies. Family businesses should present themselves as equally attractive as non-family organizations in terms of employment opportunities to achieve the success (Ceja and Tàpies, 2009).

In order for family businesses to attract talented employees who are not family members, family businesses need to abandon their low salary policy. At the same time, family businesses must provide the development opportunities to their talented employees at an adequate level. It can be emphasized that by acting in this way, family companies will contribute to their continuity (Tabor and Vardaman, 2020).

It can be stated that strategic talent management practices such as training and development activities of talented employees, a compensation and benefits system, and the implementation of performance evaluation and career development opportunities will lead family businesses to success.

Keywords: Talent management, Strategy, Family Firms

References

Aile Şirketlerinde Sürdürülebilir Başarının Anahtarları. (2016). https://www2.deloitte.com/content/dam/Deloitte/tr/Documents/risk/aile-sirketlerinde-surdurulebilir-basarinin-anahtarlari.pdf (Accessed: 29.04.2021)

Akar, F. (2012). Yetenek Yönetiminin Bazı Türk Üniversitelerinde Uygulanmasına İlişkin Öğretim Üyelerinin Görüş Ve Önerileri [The opinions and recommendations of academic staff on the implementation of talent management at some Turkish universities]. *Ankara Üniversitesi Eğitim Bilimleri Enstitüsü Yayımlanmış Doktora Tezi*, Ankara.

Akça, N. (2010). Aile İşletmelerinin Tanımı, Özellikleri ve Aile İşletmelerinde Kurumsallaşma, Denizli İlinde Bir Araştırma [General Characteristics of Family Enterprises and Institutionalization a Research in Denizli]. *Pamukkale Üniversitesi Sosyal Bilimler Enstitüsü, Yüksek Lisans Tezi,* Denizli.

Alayoğlu, N. (2012). Aile İşletmelerinde İnsan Kaynakları Uygulamaları: Farklılıklar, Sorunlar ve Öneriler, 5. Aile İşletmeleri Kongresi, İstanbul 213-230.

Arslaner, E., Erol, G. & Boylu, Y. (2014). Konaklama İşletmelerinde Nepotizm ve Örgütsel Adalet Algısı Üzerine Bir Araştırma [A Research on Nepotism and Organizational Justice Perception in Hospitality Businesses]. *Muğla Sıtkı Koçman Üniversitesi Sosyal Bilimler Enstitüsü Dergisi*, *32*, 62-77.

Atlı, D. (2012). *Yetenek Yönetimi,* İstanbul: Crea Yayıncılık.

Bahadınlı, H. S. (2013). İşletmelerde Yetenek Yönetimi Uygulamalarının Çalışanların İş Tatmini ve Örgüte Bağlılıkları Üzerindeki Etkisi (İlaç, Tekstil ve Otomotiv Sektörlerinde Araştırma) [The effects of talent management applications on employee's job satisfaction and organizational commitment (A reserach in pharma, textile and automotive industry)]. *Marmara Üniversitesi Sosyal Bilimler Enstitüsü Doktora Tezi*, İstanbul.

Benligiray, S. & Kurt, Y. (2016). Havacılık Sektöründe Stratejik İnsan Kaynakları Yönetiminin Rolü: Sürdürülebilir Rekabet Avantajı Elde Etme [The Role of Strategic Human Resource Management in the Aviation Industry: Achieving Sustainable Competitive Advantage]. Proceedings of SOCIOINT 3rd International Conference on Education, Social Science and Humanities.

Bhalla, V. & Bratton, J. Managing Talent in a Family Business, https://www.bcg.com/publications/2015/leadership-talent-human-resources-managing-talent-family-business (Accessed: 10.04.2021)

Ceja, L. & Tàpies, J. (2009). Attracting Talent to Family-Owned Businesses: The Perceptions of MBA students. IESE Business School Working Paper No. 815.Available at SSRN: https://ssrn.com/abstract=1482962 or http://dx.doi.org/10.2139/ssrn.1482962 (Accessed: 17.05.2021)

CFB (2016). Talent Management in Family Business, https://www.dcu.ie/sites/default/files/centre_for_family_business/Talent%20Management.pdf (Accessed: 03.05.2021)

Chen, S-Y. (2012). A Study of Strategic Talent Management System-Workforce Differentiation Perspectives. National Sun Yat-sen University, Doctorate Dissertation, Kaohsiung.

Chen, S-Y., Lee, A. Y-P. & Ahlstrom, D. (2019), Strategic talent management systems and employee behaviors: the mediating effect of calling. *Asia Pacific Journal of Human Resources*, 84–108.

Collings, D. G. & Mellahi, K. (2009). Strategic talent management: A review and research agenda. *Human Resource Management Review, 19*, 304-313.

Consultancy.com.au.(2020).https://www.consultancy.com.au/news/1573/talent-and-human-capital-a-key-priority-for-family-businesses (Accessed: 19.03.2021)

Çelik, S. (2019). Dünyada Ve Türkiye'de Yetenek Yönetimi Uygulamaları: Bir Model Önerisi [Talent management practices in the world and in Turkey: A model proposal]. *İstanbul Üniversitesi Sosyal Bilimler Enstitüsü Yüksek Lisans Tezi*, İstanbul.

Deb, T. (2005). *A Conceptual Approach to Strategic Talent Management*, New Delhi: Indus Publishing Company.

Demirel, Y. & Savaş, Y. (2017). Nepotizmin Yenilik ve Yetenek Yönetimi Üzerine Etkisi [The effect of nepotism on innovation and talent management). *Manas Sosyal Araştırmalar Dergisi, 6* (1), 129-142.

Dictionary.Com.(2021).https://www.dictionary.com/browse/talent#:~:text=Talent%20is%20an%20exceptional%20natural,acquired%20and%20developed%20through%20practice. (Accessed: 28.05.2021)

Doğan, S. & Demiral, Ö. (2008). İnsan Kaynakları Yönetiminde Çalışanların Kendilerine Doğru Yolculuk Yöntemi: Yetenek Yönetimi [Employees' journey method towards themselves in human resources management: talent management]. *Ç.Ü. Sosyal Bilimler Enstitüsü Dergisi*, *17* (3), 145-166.

FSO Technologies, (2003). Your Business Succession: How To Plan For It. http://fso.cpasitesolutions.com/Premium/BS/fg/fg-succession.html (Accessed: 21.04.2021)

Gülbahar, Ç. A. (2019). Özel Okullarda Görev Yapmakta Olan Yöneticilerin Yetenek Yönetimine İlişkin Görüşlerinin İncelenmesi [Analysing the views of private school administrators about talent management]. *Hacettepe Üniversitesi Eğitim Bilimleri Enstitüsü Yüksek Lisans Tezi*, Ankara.

Harsch, K., & Festing, M. (2019). Managing non-family talent: Evidence from German-speaking regions. *German Journal of Human Resource Management*, *33*(3), 249–279.

Karabulut, A. T. (2008). Aile işletmelerinin Kurumsallaşmaya ve Yönetim Fonksiyonlarına Yönelik Yönetim Sorunları: İstanbul'da Tekstil Sektöründe Üretim Yapan Aile İşletmesi KOBİ'ler Üzerinde Bir Araştırma[Management problems of family businesses in the fields of institutionalization and management functions: A research on family businesses as SMES which manufacture in textile sector in İstanbul]. *Marmara Üniversitesi İktisadi ve İdari Bilimler Fakültesi Dergisi, 25* (2), 643-676.

Kaya, A. (2019). Sürdürülebilir Rekabet Avantajı ve Stratejik Yetenek Yönetimi İlişkisinde Örgütsel Bağlılığın Aracılık Rolü [The mediating role of organizational commitment on the relationship between sustainable competitive advantage and strategic talent management]. *Ankara Üniversitesi Sosyal Bilimler Enstitüsü Doktora Tezi*, Ankara.

Kets De Vries, M. F. R. (1993). The Dynamics of Family Controlled Firms: The Good and Bad News. *Organizational Dynamics, 21* (3), 59-71.

Khilji, S. E., Tarique, I. & Schuler, R. S. (2015), Incorporating the macro view in global talent management. *Human Resource Management Review, 25* (3), 236-248.

Köse, G. (2018). İnsan Kaynaklari Yönetiminin Derin İçgörüsü: Yetenek Yönetimi Ve İşveren Markasi İlişkisi [Deep insight of human resources management: talent management and employer brand relation]. *Uluslararası Sosyal Araştırmalar Dergisi, 11* (56), 823-833.

Michaels, E., Handfield-Jones, H. & Axelrod, B. (2001). *The War For Talent*, McKinsey &Company Inc., Boston:Harvard Business School Press.

Powell, M. & Lubitsh, G. (2007). Courage in the face of extraordinary talent Why talent management has become a leadership issue. Strategic HR Review, 6 (5), 24-27.

Schreuder, R. & Noorman, S. (2019). Strategic talent management: creating strategic value by placing top talents in key positions. *Development and Learning in Organizations, 33* (1), 1-4.

Shukla, R. (2009). *Talent Management: Process of Developing and Integrating Skilled Workers*, New Delhi: Global India Publications PVT LTD.

Stahl, G. K., Björkman, I., Farndale, E., Morris, S. S., Paauwe, J., Stiles, P., Trevor, J. & Wright, P. M. (2007). Global talentmanagement: How leading multinationals build and sustain their talent pipeline. Faculty &Research Working Paper, INSEAD Working Paper Series.

Tabor, W. & Vardaman, J. (2020). How Family Businesses Can Attract Non-Family Talent. https://hbr.org/2020/02/how-family-businesses-can-attract-non-family-talent# (Accessed: 17.05.2021)

TalentManagement360. (2015). Tackling Difficult Talent Management Challenges in Today's Family Business, https://talentmanagement360.com/wp-content/uploads/2015/03/TalentManagementChallengesinFamilyBusinesses.pdf (Accessed: 20.05.2021)

Tatlı, M. & Üstün, F. (2018). Yetenek Yönetiminin Örgütsel Sinizm Üzerindeki Etkisinde Örgüt Kültürünün Düzenleyici Rolü: Aksaray İli Kamu Çalışanları Örneği [Moderating role of organizational culture on effect of talent management to organizational cynicism: organizational aksaray public]. *İşletme Araştırmaları Dergisi, 10*(3), 892-918.

TDK (2021). Türk Dil Kurumu. https://sozluk.gov.tr/, (Accessed: 28.05. 2021)

Williams, S.K. (2015). Talent management and retention in small family-owned business: A multiple-case qualitative study. *Capella University, Doctoral dissertation*, Minneapolis.

Biography

Asst. Prof. Dr. Ahmet Kaya graduated from the department of business administration at the faculty of economics and administrative sciences in Çağ University. He worked as a banker between 2007-2009. He completed his master's degree (2013) and PhD degree (2019) from Ankara University, Faculty of Political Sciences, Business Administration Program. He is still working as an Asst. Prof. Dr. at Ardahan University, Faculty of Health Sciences. His research interests include administration and organization, organizational behavior, strategic human resource management, strategic management, health management, family firms and strategic talent management.

CHAPTER 14

WOMEN'S ENTREPRENEURSHIP AS CORPORATE CULTURE IN TURKISH FAMILY BUSINESSES AND ITS DEVELOPMENT PROCESS IN TURKEY

AHMET TURAN ÖZTÜRK

"You can tell the condition of a nation by looking at the status of its women"
—Pandit Jawaharlal Nehru

Introduction

Their unique identity, their way of doing business, and the shared values of businesses, in short, their culture has an important place among the factors that make them resistant. In today's world, where knowledge is considered to be "the fifth production factor", the role and importance of women's entrepreneurship have been understood, albeit very late, in Turkey as in the rest of the world. Years ago, when Stuart Mill stated that "if you want to gauge the level of a civilization, you should check the living conditions of women", he was also pointing to a starting point paradoxically (Gürol, 2000). In the USA, particularly in the service sector, two-thirds of the newly established enterprises are founded by women. Turkey, on the other hand, is a paradox in this regard. In addition, the phenomenon of globalization makes it necessary for businesses and entrepreneurs to operate in an increasingly fierce competitive environment. Injustice in the distribution of income, regional differences in terms of development, unemployment, poverty reaching horrifying levels, insufficient growth, and an inability to create an effective competitive environment (Müftüoğlu, 1998) have all increased the importance of entrepreneurship today and raised expectations. Through entrepreneurship, production and sharing activities are carried out, and economic values in the development of the country and region are created (Paleno & Kleiner, 2000).

As is the case in developed and developing countries, the entrepreneurship culture in Turkey has been developing and becoming widespread in recent years on an individual and corporate scale, and this has been supported by way of various incentives. The 1980s were the years when entrepreneurship developed and entered into the women's domain of interest. While the duties of women were clearly determined to be housework and handcrafts in the historical process until the industrial revolution, significant changes were experienced in terms of women's place in society in the following periods (Nayır, 2008).

When global developments are considered, it is seen that the owners of 25-33% of enterprises in the registered economy are women (Schindehutte et al., 2003: 94). As regards the situation in Turkey, it has been emphasized in the Global Entrepreneurship Survey (2007) conducted in 42 countries that while women's participation in the workforce was 30% in Turkey in 2006, this figure receded to 24% in 2007, and that men were three times more entrepreneurial than women in Turkey (Özçelik, 2008). As can be inferred from the data, it is evident that women's participation in the workforce compared to that of men is far from the desired level. Nevertheless, it is also observed that women are increasingly becoming more active in economic life. In order to eliminate the gaps in this field and to activate the unused potential, policies and programs that will support women's entrepreneurship should be developed, and women should see the strength within themselves to use their potential in social life (Çakıcı, 2003).

Purpose and Scope of the Study

In the study, the importance of women's entrepreneurship was mentioned in terms of good management of the inevitable phenomenon of change, and in parallel with the developments in the world, mental models for women entrepreneurs in Turkey to get the position they deserve socially, culturally and financially were put forward and discussed in the context of modernization theories. In this respect, in the study, the development process of women's entrepreneurship in Turkish family businesses as a corporate culture was discussed.

The Dimensions and Results of Studies Previously Conducted

When the relevant literature is scanned, it is seen that many issues related to women's entrepreneurship have been examined. When it is considered that there exist around eight million women entrepreneurs in the USA alone, it can be seen that the studies related to the subject are significant. The European Women's Lobby (European Women's Lobby, 1990) sponsored by the EU is the widest integration movement with more than 4,000 members formed by the EU and non-governmental organizations, and it is a communication organization focusing on the issues of reducing differences between women and men and ensuring equality and economic and social rights for women. However, it is observed that studies on organizational culture, which is a powerful source that affects organizational decisions and strategies, and its effects on women's entrepreneurship in this regard are very limited. As a matter of fact, it can be stated that culture has an important effect in terms of identifying and evaluating the entrepreneurial potentials and opportunities of employees of organizations. When the results of some studies conducted are examined, it is noteworthy that businesses owned by women are successful in terms of certain criteria (Çelik & Özdevecioğlu, 2001).

The gender factor in entrepreneurship is an issue particularly emphasized in recent years. Entrepreneurship literature did not initially give much consideration to gender. However, today, the adopted view is that this field explains a world which is dominated by men, and there are different dynamics at work in women's entrepreneurship. The fact that there is a considerable increase in entrepreneurial activities realized by women and that women entrepreneurs significantly contribute to the economy brought the necessity to conduct detailed examinations in order for this concept to be better understood (Akdoğan and Mirap, 2010). It has been observed that in the studies conducted, issues such as determining the sociodemographic characteristics of women, the reason for establishing businesses, the problems they encounter while establishing and sustaining businesses, and their tendency to organize were mainly investigated. Besides, the characteristics that distinguish women entrepreneurs from men entrepreneurs were discussed in these studies (Zapalska and Fogel, 1998; Zhao, 2005). In addition, the World Bank also conducted studies on women's entrepreneurship and workforce, and in these studies, the highest increase in the number of women in the workforce was revealed to be in industrialized countries. In the "Global Entrepreneurship Survey" (2007) conducted in 42 countries, it was determined that women's entrepreneurship was three times lower than men's entrepreneurship. Similarly, in the 2007 statistics of TURKSTAT, it was revealed that women's participation in the workforce decreased in rural areas, while this rate increased in cities. Women's Status and Problems General Directorate also supported the "Development of Women's Employment Projects" and was assigned the task of producing policies in this field (New Production Processes and Women's Labor, 1999). In recent years, entrepreneurship centers have been established in Turkish universities, and studies have been carried out on women's entrepreneurship (Gürol, 2000; TOBB President Hisarcıklıoğlu, 2008). It has finally been understood in the Turkish business world, albeit late in the day, that the way to becoming wealthy, activating untapped potential, and creating new fields of business bypasses encouraging women's entrepreneurship. As a result of this determination, the Women's Entrepreneurship Board was established under TOBB, and an exemplary woman entrepreneur, Aynur Bektaş was chosen as its president. Women, who started to be active in the business world in the 1980s, moved up to top level management positions in the 1990s, and in the 2000s, it was seen that the achievements of women's entrepreneurship reached a noteworthy level. Finally, at the "Southeast Europe Women's Entrepreneurship Conference", the level that women's entrepreneurship reached in Turkey was academically discussed.

Entrepreneurship Culture, Women's Entrepreneurship, and Its Development Process in Turkey

In today's society, which is incessantly transforming into an information society, while the weight of human labor in production is decreasing, the weight of information-based labor in production is continuously increasing. Entrepreneurship can be claimed to be a derivative function of innovation, creativity, and managerial activities. It is defined as the ability to bring together the resources that serve creative and innovative purposes in order to meet the needs in the use of business techniques and business development, and to solve problems (Özgener, 2003). According to another definition, entrepreneurship is the creation of novel and unknown knowledge as well as noticing existing opportunities or creating opportunities (Hisraich and Peters, 2002).

While an entrepreneur is making and developing innovations on the one hand, s/he obtains a result by transforming these opportunities into marketable ideas on the other hand. S/he turns these efforts into cash by adding value to these ideas through his/her labor, money, and skills and by taking the risks of the competitive market (Kutanis & Alparslan, 2006).

Entrepreneurship can also be defined by categorizing it into “opportunity entrepreneurship”, which is explained as investing in profitable areas and noticing potential opportunities, and “creative entrepreneurship”, which can be expressed as offering an idea or an invention to the market or presenting an existing commodity or service to the market by improving it in terms of design, price, and quality (Ulaş, 2006).

One of the best definitions of entrepreneurship has been made by Jeffrey A. Timmons, a professor on entrepreneurship and the author of the work titled “The Entrepreneurial Mind”: “Entrepreneurship is a creative effort unique to human beings which creates something with a value out of something with no value in practice...it is to chase the opportunities without considering the available resources or their inadequacy. Entrepreneurship requires a vision put forward as a design of the future and the backbone that will make the others to go after this vision, as well as taking the foreseen risks” (Timmons, 1994).

There are also views which argue that entrepreneurship is the product of four variables that are expressed as demand, the influence of the government, the influence of the private sector, and political influences. In this sense, entrepreneurship requires taking risks (Palleno and Kleiner, 2000). Besides, it has important advantages such as independence, financial opportunities, social service, job security, family employment, and challenge (Kutanis & Alparslan, 2006).

Baron and Shane (2008) state that an entrepreneur perceives opportunities to create something new but does not have to offer a new product or service as a result of this perception; on the contrary, s/he can be an entrepreneur by creating a new market, using a new raw material, or by developing a new production method. According to Baron, successful entrepreneurs are individuals who have full trust in their judgment, can successfully interact with other people, have high social perception, and quickly adapt to new situations.

The common and personal characteristics and profiles of entrepreneurs who take calculated risks, produce new things, and emphasize innovation, can transform a new idea into a commercial commodity, have a competitive personality, and have high social added values, and the factors that motivate women entrepreneurs are discussed in the following section. In recent years, courses on entrepreneurship have begun in EU countries starting from primary school. In many universities, “entrepreneurship centers” have been established as well. In addition, entrepreneurship courses are offered, and cooperation between the university and the industry is at a developed level. Similar developments can be observed in Turkey in recent years. Entrepreneurship centers are being opened in universities, entrepreneurship courses are offered in business departments, and students taking these courses are awarded with certificates by KOSGEB (Small and Medium Industry Development Organization) and thus gain qualifications. Moreover, in addition to such centers, "Entrepreneurship and Innovation Societies" are being established. In cooperation with KOSGEB, efforts continue to be found "incubator without walls centers". Thus, university students are guided towards this field (Tileylioğlu, 2010).

Common Characteristics of Entrepreneurs

In line with the above definitions and explanations, the outstanding characteristics of entrepreneurs can be listed as follows (Öztürk, 2010).

- A need for achievement,
- Risk-taker,
- Supervision oriented (Erdoğmuş, 2000),
- Audacious,
- Creativity (Zhao, 2005),
- Ability to foresee issues,
- Ability to analyze and to make quick decisions,
- Self-confidence, and
- Ability to instill trust and rationality (Çelik and Akgemici, 2007).

Considering the common characteristics listed above, entrepreneurship is "along with a personal value system, the ability to bring together the resources that serve creative and innovative purposes in order to meet the needs in the use of business techniques and business development, and to solve the problems" (Özgener, 2003).

Entrepreneurs' Profiles

Entrepreneurs' profiles can be characterized as follows (Özgener, 2003):

- Personal characteristics (intrinsic motivation, working hard, thinking positive, creativity, etc.),
- Business and management skills,
- Capacity to make use of available resources and to look for new resources,

- Knowledge about making use of business enterprises (entrepreneurial vision), and
- Establishing effective communication with others, and skills related to understanding the social effect of business development.

Factors Motivating an Entrepreneur

In their study conducted in 11 countries, Scheinberg and MacMillan (1988) categorized the motivating factors that encourage entrepreneurs to be entrepreneurs under six headings (Kapu, 2004):

- A need to be recognized,
- Seeing it as a tool for obtaining income,
- Considering it as a tool for improving the self,
- A need for being independent,
- The desire to improve society, and
- Seeing it as a way out.

In general terms, factors that motivate entrepreneurs can be listed under the following headings:

- The desire to be one's own boss,
- The desire for financial and moral earnings,
- The desire and effort to determine and shape one's own future,
- The desire to be autonomous or to have a flexible working environment, and
- The desire to make use of business opportunities.

Personal Characteristics of Women Entrepreneurs who are:

- Dynamic,
- Independent,
- Self-confident,
- Competitive, and
- Result-oriented (Zapalska and Fogel, 1998). In addition, it should be noted that women entrepreneurs possess such features as being passionate, taking risks, and controlling their own businesses (Zhao, 2005).

Women's Entrepreneurship in the Context of Modernization Theories

Modernization theories have associated the development of the west with the entrepreneurial spirit of the western individual, while they explained the backwardness of the east with the fatalism of eastern people. Though this judgment can be open to criticism, it is possible to state that the personality structure of entrepreneurship, even as a form of life, is descriptive of all women. Traditionally, women are the people who take over the management of the household, which is the most basic "enterprise", ensure the maintenance of income with very limited sources in most cases, and create many innovations. One of the characteristics bestowed to women by God is their fertility, that is, their productivity. However, the society sees these characteristics as a barrier to working and entrepreneurship and considers them as the "natural" responsibility of women without an economic value (Gürol, 2000).

Although women have proven themselves over time in issues such as finance, manufacturing, research, and development, Francesko states that "women are confronted with the 'glass ceiling' effect in practice in western cultures, where they are encouraged to be organization leaders and managers, and equal pay for equal work practices are adopted in principle, and even in the USA where laws regarding employment are applied equally for both genders." This effect, resulting from a group of preventive factors that contradict cultural values, prevents women from reaching top management ranks even today (Francesco, 1998). Among the factors that generally drive women to establish a business, unemployment problems stemming from the country's economic conditions, unsuitable working conditions for women, and especially gender discrimination as regards wages can be listed. In addition, pull factors such as a desire for independence, being the boss of one's own business, a desire to realize self, and a desire to establish a balance between family and work responsibility lead women to establish their own businesses. Hisrich and Brush (1989) categorized the factors that lead women to be entrepreneurs under the following headings:

- The participation of more women with higher educational status in the workforce as a result of the changes in the sociocultural structure,
- The preference of women working in the middle level management positions of businesses to establish their own businesses and

become their own boss with the belief that they could be affected by the staff reduction policies of their organizations,

- The increase in the number of people whom women look up to as exemplary as a result of the increase in the number of successful women entrepreneurs,
- Women, who are deprived of moving up the ladder due to the “glass ceiling” effect that prevents them from reaching top management ranks just because of their gender, put forward their potential despite everything and make an effort to establish their own businesses.

Women become entrepreneurs due to various factors that can be grouped under “pull factors” and “push factors”. Women’s entrepreneurship is women establishing a business, collecting all resources, taking risks, encountering challenges, employing others, and managing the business independently. Today, approximately one-third of entrepreneurs worldwide are women (Agarwal, 2018). Among the reasons leading women to be entrepreneurs in recent years, governments seeing women as an important factor in revitalizing the local economy and supporting them is a significant issue. Especially in rural areas, it is aimed for women who have difficulty in finding capital to gain income through the microfinance method. This issue is discussed in the following sections.

Women’s Entrepreneurship and Its Development Process in Turkey

When the history of modernization is examined, it is possible to see efforts aimed at improving the status of women in society. As Meral Akşener emphasized at the World Conference on Women held in Beijing in 1995, today, this is an issue that is not considered as concerning a certain gender and should not be limited to only one gender (Öztürk, 2010). This is now an issue of the individual that aims at liberalizing the individual as much as possible and enabling the individual to realize his/her material and moral existence at the highest level possible. Unfortunately, most of the world is far from this point. The civilized world in which Turkey is included has a tendency to perceive and analyze the issue of women’s rights within the framework of individual rights (Akşener, 1998). The 1980s were the years when the liberal economy approach and entrepreneurship culture were adopted in Turkey as in the majority of the western countries. Considering the historical development process, women who started to become active in working life in Turkey in the 1980s reached top management ranks in the 1990s and started to manage businesses. In the 2000s, people began to talk about the achievements of women's entrepreneurship. Starting from the 1980s, small business entrepreneurship was seen as a way of getting rid of poverty and unemployment. The issue of women's entrepreneurship was dealt with comprehensively in 1992 for the first time in Turkey, and issues such as training and credits to encourage women's entrepreneurship, organization, and support services began to be discussed (Tütek, 1998).

The following factors can be said to have been effective in the more active participation of women in working life in this process (Kocacık & Gökkaya, 2005):

- The increase in the number of laws and practices that protect and support working women across the world,
- Demographic developments,
- The increase in urbanization rates,
- The increase in educational opportunities,
- The emergence of non-standard (atypical) working forms,
- Financial difficulty and economic hardships,
- The decrease in marriage rates, and increase in divorce rates,
- Positive developments in the attitudes of societies regarding women's working, and
- Improvements in child care and other services.

Researchers examining women's movement in Turkey mention three phases: the Ottoman period, the early years of the Republic and the period after 1980. Tekeli (1993) states that although Atatürk's reforms are considered as the beginning of women's movement in Turkey, the movement actually has historical roots that date back to the 19th century. Although women in Turkey became more active in the economic and social sphere after the 1980s, this process was not as fast as it was in western countries. However, today, a woman exists not only as a performer of a profession or a laborer who assumes responsibilities in various fields, but also as an entrepreneur (Narin & Marşap, 2006). As mentioned above, problems are experienced due to the limited number of studies conducted on women's entrepreneurship in developing countries such as Turkey and a culture not being created in this field in its full sense. The limited participation of women in economic activities in Turkey can generally be explained by their roles in the family, preferences based on these roles, and patriarchal relations within the family (Soysal, 2009).

It can be argued that the reasons that drive women to be entrepreneurs are not factors such as women starting to have more liberal and egalitarian values, their trust in themselves, and their ability to find more suitable jobs for themselves in the diversifying commodity and service markets, but, on the contrary, are as a result of decreased negative effects of the macroeconomic conditions of the country on the income of the households. Regarding this issue, in the study conducted by Çelik and Devecioğlu (Çevik & Devecioğlu, 2001), it was determined that women entrepreneurs established their businesses with their own capital, and continued their entrepreneurship in order to economically contribute to their families without interrupting their women's roles.

With the "Employment and Training Project", which started to be implemented on 5 April 1994 as per the Loan Agreement between the Turkish Government and the World Bank, it was aimed to increase the effectiveness of employment services by diversifying them, to employ a non-working and unqualified workforce in productive works, to collate statistical data on the workforce market, and to develop policy recommendations by revealing the barriers to women's participation in employment (Prime Ministry, 1999). In line with the agreement, it is seen that there has been an increase in the number of institutions and organizations for supporting women's entrepreneurship in Turkey in recent years. The institutions and organizations working within the scope of developing and supporting women's entrepreneurship are as follows (Toksöz, 2007).

- Prime Ministry Women's Status General Directorate (KSGM),
- Banks (Vakifbank, Ziraat Bank, Halk Bank, Garanti Bank),
- Turkey Employment Agency (IŞKUR),
- KOSGEB Business Development Center,
- The Project for Reducing Social Risk (SRAP),
- Multi-purpose Community Centers (ÇATOM),
- Entrepreneur Support Centers (GIDEM),
- Foundation for Evaluating Women's Labor (KEDV),
- Women Entrepreneurs' Association (KAGIDER),
- Foundation for Women's Solidarity (KADAV),
- Women's Center (KA-MER),
- Turkey Development Foundation (TKV),
- Turkish Grameen Development Microcredit Project,
- Turkey Foundation for Preventing Waste (TISVA).

Besides, works carried out in recent years by various institutions and organizations in this field are noteworthy. With the changes made to the Income Tax Law in 2007, incomes obtained from domestic works were exempted from tax. In the 9th Development Plan covering the 2007-2013 period and the National Action Plan for Social Gender Equality, certain measures were taken in order to increase women's employment and support women's entrepreneurship. Turkey Halk Bank initiated the "Entrepreneur Support Package." Supporting entrepreneurship and SMEs was seen as a priority subject in the "European Union Lisbon Agenda" in order to contribute to economic growth and create employment.

In the EU, a series of support programs was developed in order to improve small businesses, increase their competitive power, and internationalize them and encourage entrepreneurship, and special emphasis was placed in these support programs on supporting women's entrepreneurship. In this context, programs were prepared, and projects were developed in order to make women entrepreneurs visible and ensure the sustainability of businesses owned by women. For example, the "Women's Entrepreneurship Support Project", implemented by the Turkey Tradesmen and Artisans' Confederation (TESK) with EU funding in the period between July 2007 and April 2009 through the Tradesmen and Artisans' Chamber Association (ESOB) in 25 provinces, is one of the most comprehensive projects supporting women's entrepreneurship implemented in Turkey, in terms of both the number of participants and the width of the geographical scope. Within the scope of the project, to which approximately 10,000 women applied to make use of the services, 6,500 women received business establishment and development training and consultation, and at the end of the project, 255 women established their own businesses mainly in areas traditionally described as women's work and in the service sector (Ünaldı, 2010). TOBB founded the Women Entrepreneurs' Board. In this context, public institutions, occupational organizations, and non-governmental organizations launched collaboration projects that aim to increase women's entrepreneurship. Organizations such as KOSGEB, the Ministry of Agriculture, the Ministry of Labor, and IŞKUR are also active in the issue of women's entrepreneurship. Local governments, non-governmental organizations, and public training centers offer entrepreneurship training in places and periods on a basis of need. The number of women of working age in Turkey is about 26 million. Only 23% of these women, that is, 6 million women, are actively working in working life and only 800 thousand of these women are running their own businesses. Out of this figure, around two hundred thousand contribute to employment by employing workers in their businesses. Obviously, this figure is far from being sufficient (Tileylioğlu, 2010).

The Social Support Program (SODES) and its Activities Regarding Women

The Social Support Program (SODES) is one of the important tools for increasing the human capital of the disadvantaged segments of the society and preventing poverty from being inherited through the generations. It is also obvious that in policies fighting against poverty, limited resources must be used effectively. In this regard, many activities were held through SODES in order to contribute to social development in all Turkey starting from the regions by using the resources effectively in GAP and DAP regions and developing the human capital of the disadvantaged segments (Güder & Kurtepe, 2010).

Within the scope of social policy practices that aim to prevent poverty culture and provide individuals with opportunities with which they can express themselves as a value and reveal their skills by developing their abilities, the purpose of SODES is to activate the local dynamics towards finding the solution to such problems as poverty, immigration and urbanization so as to realize social development and increase social welfare. In this context, within the scope of SODES, it is envisaged to increase employability, ensure social inclusion, and support cultural, artistic, and sportive activities.

SODES covers three main headings, which are employment, social inclusion, and culture, art, and sports. With the projects to be prepared under the heading of employment, it is expected to increase employability, to train a qualified workforce in fields suitable for the province and region, to develop professional knowledge and accumulation, to facilitate access by the disadvantaged segments of the society to employment, and to support those who can establish their own businesses. With the projects to be prepared under the heading of social inclusion, the expectation is to reduce poverty, to support the poor segment that receives social assistance so they can earn their own living, to increase the living standards of the priority segments of the society such as the elderly, the disabled, women, and children, and to increase the quality of the services provided to them. Through the projects to be prepared under the heading of culture, art, and sports, it is aimed to develop cultural, artistic and sportive activities which the society needs, and to especially give support to guiding the children and the youth toward such activities.

One of the most important targets of SODES is women. Many activities were realized through SODES projects that increase the employability of all women in the GAP region, especially the disadvantaged ones, through opportunities such as professional training and microcredit, projects that increase knowledge and awareness levels through training on mother-child health and women's rights, and projects that enable particularly women and their families to socialize by having access to opportunities in the fields of culture, art, and sports. In 2008, within the scope of SODES, 70 projects with women in the target group were provided with support. The total amount of these projects is about 6.7 million TL. In 2009, 138 projects with women in the target group were supported as well. The total amount of these projects is around 17.2 million TL. So, in 2008 and 2009, 208 projects with women in the target group, which amounted to a total of approximately 23.9 million TL, were supported (Güder & Kurtepe, 2010).

Empowering human capital and regional development policies occupy an important place in the fight against poverty. In this context, there are significant references made in the Development Plans. As a matter of fact, it was emphasized in the 9th Development Plan that public services for disadvantaged groups should be increased in the context of the fight against poverty and the improvement of income distribution. Besides, it was stated that poverty and imbalance in income distribution could be permanently reduced through sustainable growth, employment, education, and health policies, and that transfer policies could be effectively used in ensuring the re-distribution of income in favor of the poor (DPT, 2006).

SODES is seen as an important tool in increasing regional social development and human capital, the fight against poverty, preventing the transfer of poverty from generation to generation, and the fight against poverty culture. Determining especially the disadvantaged groups and women, youth, and children as the priority target group and supporting the projects that aim to increase the human capital of these target groups within the scope of SODES are considered to be an important tool in the fight against poverty in Turkey, particularly in the GAP region. Another important feature of SODES is evaluated as its activation of local dynamics. The success of the structure of SODES, which gives important responsibilities and duties to governors and aims to be successful with the active participation of local actors such as NGOs in the first place, then municipalities, and universities can be clearly seen in the considerable increase in the number of projects that apply to get support within the scope of SODES and receive this support.

Microcredit Applications and their Effects on Women

Microcredit provides an opportunity for the poor who have a business idea and need a small amount of starting capital in order to be involved in an income producing activity. Microcredit is an effective strategy for the poor to get rid of poverty on their own (Açıkalın, 2010). The purpose of microcredit is to ensure economic and social development by enabling those who cannot get a loan through classical channels to be involved in an income yielding activity for their families and the loan receiver so as to decrease poverty, injustice in income distribution, and unemployment. The idea of microcredit first emerged during the research that Muhammed Yunus was conducting in the villages of Bangladesh, and it was developed as a project under the sponsorship of the Central Bank and other commercial banks. This led to the establishment of a microcredit bank named Grameen Bank in 1983 which gave loans to the poor (Yunus, 2003). Factors such as pawnbrokers loading the poor with heavy loan debt, thus ensuring the cycle of poverty was not broken, and the distrust of financial institutions in the poor in terms of giving loans, were important for Yunus to come up with the idea of the microcredit practice. Yunus discusses prejudices against the poor as follows (Yunus, 2003):

- The poor should be educated before they enter an income-generating activity.
- A loan by itself is useless; it must definitely be supported by education, marketing, transportation facilities, technology, and training.
- The poor cannot save money.
- As the poor have immediate consumption needs, they have a habit of consuming everything.
- The poor cannot work together.
- Chronic poverty has a devastating effect on the minds and goals of the poor, just like a bird that has spent all its life in a cage not wanting to fly when it is released.
- Poor women do not have any skills; therefore, there is no use in mentioning programs aimed at poor women.
- The poor are too hungry and desperate to make rational evaluations.
- The poor have a narrow perspective of life, and they are not interested in anything that could change their own lives.
- The impact of religion and traditions on the poor (especially on women) is so powerful that they cannot move an inch in any direction.

- The social hierarchy in rural areas is too powerful and established to allow such a loan program to be successful.
- Loans for the poor are anti-revolutionary. They kill the revolutionary spirit in the poor and have a bribery effect for them to accept the status quo.
- Women cannot save the loan they receive or the income they generate for themselves. When necessary, their husbands will torture them to death and get this money from them.
- When women are given a loan, their traditional role in the family and their relations with their husbands will be negatively affected.
- A loan can bring a temporary benefit, but in the long term, it will not yield any results, and the equal structuring of the society cannot be achieved.

These claims that support the cultural poverty thesis that the poor are powerless, unsuccessful, and characterized by common violence and inequality in household relations (Lewis, 1975) totally ignore the fact that the poor are trying to survive with the very low and irregular incomes they obtain from irregular and temporary jobs. In this respect, as revealed by the findings of the study along with the results of the studies conducted in many countries, even very small loans provided to women not only contribute to the finance of their homes, but also improve their self-confidence, bring out their creative and entrepreneurial spirit, cause the traditional roles in the household relations to change, and make important contributions to the education of their children. The implementation of the microcredit project, which was brought to the agenda for the first time in Turkey in 2013 by the Diyarbakır deputy Aziz Akgül, began with the 500-million-dollar loan secured from the World Bank and the 130-million-dollar budget allocated by the Prime Ministry (Akgül, 2005). In this application which started on 22 June 2007, 419 loans were given to women as of 2009 (YIMIK, 2009).

There are different approaches regarding microcredit application, including claims that its application has reinforced the traditional gender roles of women and strengthened the patriarchal family structure, thus imprisoning women in their homes, on the one hand; and on the other hand, that it has increased women's self-confidence by giving them the spirit and courage of entrepreneurship, that household relations have been directed towards a more egalitarian structure, and that a more egalitarian approach has started to be adopted in terms of having girls/boys benefit from opportunities. According to Mayoux, who deals with the issue of empowerment of women through microcredit application, the program has both positive and negative effects on the individual life of a woman; while a woman has control over the small amount of income she obtains, the total income of the woman in the household income decreases and her workload increases. It cannot be concluded from the statistical data on the payback levels or entrepreneurial performance of women who have benefited from microcredit application that women have obtained an income and have control over that income. Besides, it cannot be inferred that a woman's level of welfare has increased by considering her increased income due to her commercial activities or the increase in the household income.

Organizational Culture and Barriers to Women's Entrepreneurship

It has been determined as a result of studies conducted that there exist differences in the businesses owned by women within the scope of entrepreneurship activities in economic life in terms of perceiving problems of the business, leadership characteristics, the performance of the business, the financial structure, and the organizational culture (Çelik & Özdevecioğlu, 2001). In the study they conducted on women's entrepreneurship in 37 countries, Minniti and Arenius (2003) gathered the factors that affect women's entrepreneurship under the following headings:

- Demographic environment and family structure,
- Literacy and education,
- Socioeconomic environment,
- Workforce and employment,
- Gender and organizational forms, and
- Sectoral employment and economic development.

Since the 1980s, as in many developing and developed countries, many studies have been conducted in Turkey on the problems encountered by woman entrepreneurs. The common point of the studies is that in addition to the problems encountered by women as entrepreneurs in general, unlike men, they experience several other problems (Narin et al., 2006). To give an example, in the study they conducted in Nevşehir, Çelik and Özdevecioğlu (2001) grouped the general problems experienced by women entrepreneurs as follows:

- Role conflict,
- Distrust,

- Sexual expectations,
- Lack of experience,
- Traditional pressure,
- Expectation of failure,
- Different treatment, and
- Difficulty in finding partners.

Another issue that plays an important role in women becoming entrepreneurs is organizational culture. Culture can be defined as "a cluster of certain behaviors that covers the beliefs developed by a community and shared basic values" (Şişman, 2002). Organizational culture is a powerful source that affects organizational decisions and strategies. It can be stated that culture has an important effect in terms of identifying and evaluating the entrepreneurial potential and opportunities of an organization's employees (Zahra et al., 2004). In fact, in businesses where employee expectations of the future are considered positively and they are supported in every sense, employees can be said to be more innovative and entrepreneurial. On the contrary, in businesses where the organizational culture and climate prevail, it will be difficult for employees, particularly women, to activate their entrepreneurial potential. On the other hand, the connection between women and development is in a mutual interaction. As economic development accelerates, the economic and consequently social and societal status of women will be strengthened. As a result, women being more powerful in economic, social, and societal terms will result in an increase in economic development (Şimşek, 2008). No matter what activity a woman is involved in during her working life, she is not relieved of her responsibilities in the house. With this common denominator, she maintains her life by assuming too many responsibilities in rural areas or in the city, inside or outside the home, and in agriculture, industry, or the service sector.

According to Gönüllü and Içli (2002), the number of women benefiting from social and economic development varies depending on the development levels of societies. Especially indicators in the fields of education, health, employment, and working life demonstrate that women in developing countries are left behind men (Tutar, 2009).

Conclusion

As is the case in developed and developing countries, in recent years, entrepreneurship culture has been developing and becoming widespread on an individual and corporate scale in Turkey, and it is supported through various incentives. The 1980s were the years when entrepreneurship developed and entered into women's domain of interest. While the duties of women were clearly determined as housework and handcrafts in the historical process until the industrial revolution, significant transformations were experienced in terms of women's status in society in the following periods (Nayır, 2008).

When the global developments are considered, it is seen that the owners of 25-33% of enterprises in the registered economy are women (Schindehutte et al., 2003). As regards the situation in Turkey, it has been emphasized in the Global Entrepreneurship Survey (2007) conducted in 42 countries that while women's participation in the workforce was 30% in Turkey in 2006, this figure receded to 24% in 2007, and men were three times more entrepreneurial than women in Turkey (Özçelik, 2008). As can be inferred from the data, it is evident that women's participation in the workforce and entrepreneurial activities compared to men is far from the desired level. In the entrepreneurial activities of women entrepreneurs, there are barriers that stem from being a woman, as well as barriers resulting from organizational and environmental factors. However, it is believed that this problem can be overcome along with cultural change, which is a cluster of certain behaviors and outcomes. In order to eliminate these deficiencies and activate the unused potential, it is important to support women's entrepreneurship (Çakıcı, 2003). The 1980s were the years when the liberal economy approach and entrepreneurship culture were adopted in Turkey as in the majority of the western countries. Considering the historical development process, women, who started to become active in working life in Turkey in the 1980s, reached top rank management levels in the 1990s and started to manage enterprises. Now in the 2000s, policies and programs that support women's entrepreneurship are being produced, and there is discussion that the time has come for women to value their own strengths to use their potential in social life. Starting from the 1980s, small business entrepreneurship was seen as a way of eliminating poverty and unemployment.

An important characteristic of the 21st century that distinguishes it from other centuries is that everything changes rapidly. Along with the phenomenon of globalization, there have been paradigmatic changes in business life, and it has been observed that men's domination has been broken, and women have been empowered. Especially through practices such as the improvement of working conditions, the "humanization" of work, and "flexibility", etc., the effectiveness of women, whose participation in working life is limited, has increased and this issue has become a "strategic necessity" for developing economies. Developments show that entrepreneurship has become the driving force of economic development and one of the various ways of creating new business fields. Women entrepreneurs, with their characteristics mentioned above, have assumed the role of a *leverage force* in order to develop the economies of countries and create a multiplier effect. The increased strengthening of the status of women entrepreneurs in society will increase the development levels of societies and become the instrument that will pave the way for sustainable development by eliminating the injustice in income distribution. Women, who were exposed to violence, had money taken from them, and were oppressed under social pressure until yesterday, have become a part of the production system. The TOBB President Hisarcıklıoğlu (2008) stated that the road to being wealthy in the Turkish business world, activating unused potential and creating new fields of business, passes through the support of women's entrepreneurship. One cannot agree more with this statement. In the graduation ceremony for 29 women entrepreneurs at Ozyeğin University in Turkey, which carried out the "10 Thousand Women Entrepreneurs Program" that the USA Investment Bank Goldman Sachs organizes in 20 countries in cooperation with world-famous universities such as Harvard University, London Business School, and Colombia Business School, Goldman Sachs' London Office Director Deepak Jayaraman said, "Investing in women contributes to the growth of gross domestic product" (Hürriyet, 2010). Finally, the organization of the "Southeast Europe Women's Entrepreneurship Conference", which was held in Istanbul on 21-22 September 2010, is an important step in terms of demonstrating the level that women's entrepreneurship has reached.

Byron states, "Education is the greatest need of a nation after bread" (Nalıncı, 1997: 12). The increase in momentum of women's entrepreneurship in Turkey has been possible through the creation of organizational culture, which is a paradigm and mental structure that allows the truth to be seen (change in the workplace culture, avoiding gender discrimination in job announcements, and public workplaces creating example programs related to the issue). Regarding the power of women, Mahatma Gandhi's statement that "If by strength, moral power is meant, then women are immeasurably men's superior" is a clear expression of the belief that women can achieve anything. Consequently, the most effective and shortest way to sustainable development is to use the limited resources effectively. Humans are the inevitable element in economic development. If the workforce of women, who constitute half of the human population, is not used effectively, and women's entrepreneurship is not supported as a corporate culture, wealth cannot be extended. Organizational culture has doubtless had an important effect in terms of identifying and evaluating the entrepreneurial potential and opportunities of an organization's employees, and this issue became possible in Turkey in the 1980s along with the paradigm change.

Keywords: Organizational culture, cultural poverty, family businesses, woman entrepreneur

References

Açıkalın, N. (2010). Increasing Human Capital in Combating Poverty, International Symposium on Anti-Poverty Strategies: Experiences and New Ideas, Proceedings Book, 600-604.

Agarwal, J. (2018). Women Entreneurship in India: Problems and Essential Strategies, *International Journal of Research Culture Society*, Special Issue,228.

Akdoğan, A., & Mirap, S.O. (2010). The Factors Affecting the Performance of Women Entrepreneurs: A Study in Kayseri Province. International Conference On Entrepreneurship, Family Business and Innovation, 319.

Akgül, A. (2005). Legislative Proposal on Microfinance Institutions, Merits No: 2/413.

Akşener, M. (1998). 8th Interpellation, General Discussion, Parliamentary Investigation and Parliamentary Research, Discussions with the Research Commission at its 164th Session, March 3, 1998. Grand National Assembly of Turkey, Report of the Commission of Inquiry on the Status of Women.

T.R. Prime Ministry General Directorate of Status and Problems of Women, 1998.

Baron, R. A., & Shane, S. C. (2008). *Entrepreneurship: A process perspective* (2nd ed.). Thomson.

Prime Ministry General Directorate of Women's Status and Problems Publication (1999). New Production Processes and Women's Labor, 6.

Çakıcı, A. (2003). The Story of Mersin Women Entrepreneurs. Business Creation and Recommendations for the Women Who will Launch a Business", Management and Organization Congress Proceedings,73.

Çelik, A. & Akgemici, T. (2007). *Culture of entrepreneurship and SMEs* (2nd ed.). Gazi Bookstore.

Çelik, C.A., &. Özdevecioğlu, M. (2001). A research on the demographic characteristics and problems of women entrepreneurs in Nevşehir. 1st Central Anatolian Congress, 488.SPO, Ninth Development Plan, 2006.

Erdoğmuş, N. (2000). A Study on the Career Development of Entrepreneurial Businessmen through the Analysis of Autobiographies, Proceedings of the 11th Management and Organization Congress.

European Women's Lobby. Equal Rights, Equal Voices Migrant Women İn the European Union,
https://www.womenlobby.org (E.T.23.04.2009).

Francesko, A.M., & Gold, B.A. (1998). *lnternational organizational behavior. Text, readings, cases and skills.* Prentice- Hall Inc.145.

Gürol, A. (2000). *Female Entrepreneur and Her Small Business in Turkey*. Atılım University Publication no. 2. 17.

Güder. & Kurtepe. (2010). Increasing Human Capital in Combating Poverty, International Symposium on Anti-Poverty Strategies: Experiences and New Ideas, Proceedings Book. 58-60.

Hisarciklioglu, R. Let's Put Forward Women to Be Rich. Hürriyet Newspaper, 16 November 2008.

Hisrich, R.D.& Brush C.G. (1989). *The women enterpreneur. Starting, financing and managing a successful business (*Lexington Boks).

Hisrich, R. D., & Peters, M.P. (2002). *Enterpreneurship* (Mc. Graw- Hill Irwin).

Investing in Women Grows the Country.
http:www.hürriyet.com.tr/ekonomi/15338751.asp (E.T. 20.07.2010).

Kapu, H. (2004). Entrepreneurship Values of Anatolian Entrepreneurs. Proceedings of the 12th National Management and Organization Congress. 32.

Khander, S.R. (1998). The Impact of Group-Based Programs on Poor Households in Bangladesh: Does the Gender of Participants Matter? *Journal of Political Economy*, 106(5),985-995.

Kutanis, R. Özen. & Alparslan S. (2006). Are the Profiles of Entrepreneur and Executive Women Different?, *Afyon Kocatepe University FEAS (Faculty Of Economics And Administrative Sciences Magazine*, 8(2),139-153.

Minniti, M., & Arenius P. (2003). Women in Entrepreneurship, The Entrepreneurial Advantage of Nations. First Annu Global Entrepreneurship Symposium (United Nations Headquarters),

Müftüoğlu, T. (1998). *Small and medium-sized enterprises in Turkey, SMEs*. Turhan Bookstore.

Nalıncı, A.N. (1997). *Human Engineering*. Kent Press.

Narin, Muslim, Marşap, A. et al. (2006). Targeting the Maximization of Global Women's Entrepreneurship, Organizing and Networking in the International Arena,*Gazi University FEAS. Journal,* 8(1) ,65-78.

Nayır, D. Z. (2008). Woman Between Work and Family: Solution Strategies for Textile and IT Entrepreneurs to the Role Conflict, *Ege Akademik Bakış,* 8(2),631-650.

Özçelik, B. (2008). Global Entrepreneurship Research 2007 Results. Hürriyet Newspaper HR Business and Management: 2.

Özgener, Ş. (2003). A Strategic Approach in Entrepreneurship: Technology Incubators.11. National Management and Organization Congress Proceedings, 100.

Öztürk, A.T. (2010). Role and Importance of Women Entrepreneurship as Corporate Culture in Turkish Family Businesses. International Conference On Entrepreneurship, Family Business and Innovation, 345.

Paleno, D.J., Kleiner, B.H. (2000). An Entrepreneurial Decision Process Model Describing Opportunity Recognition*, European Journal of Innovation Managem*ent, 9(1) ,61-78.

Rankin, K.N. (2001). Governing Development: Neoliberalism, Microcredit, and Rational Economic Woman. *Economy and Society*, 30(1),18-37.

Schindehutte M. Morris, M. Lord MJ Brennan C. et all. (2003). Entrepreneurs and Motherhood: et all lmpacts on Their Children in South 350 Proceedings Book. International Conference on Entrepreneurship, Family Business and Innovation, *The United States, Journal of SmaIl Business Management,* 4(171),94-107.

Timmons, J.A. (1994). *The Entrepreneurial mind*. The University of Michigan.

YIMIK. (2009). Micro Credit Project For The Poor, T.C. Mersin Special Provincial Administration.

Yunus M. (2003). *Towards A World Without Poverty*. Altan Printing, 93-95.

Soysal, A. (2009). Women Entrepreneurs in Turkey: An Evaluation In The Context of Obstacles and Opportunities. *A.Ü, SBF,* 65(1), 4.

Şimşek, M. (2008). *The Economic Position of Women In The Globalizing World.* Ekin Publishing and Distribution, 1.

Tileylioğlu. A. (2010). Knowing How To Use Money Is As Important As Finding It*, Çankaya University Gündem Magazine,* Issue: 36, 3-5.

Toksoz, G. (2007). Analysis of The Labor Force Market from a Gender Perspective and Imbalances Between Regions*,Work and Society*, 4.75-76.

Tutar, F., & Yetişen, H. (2009). The Role of Women in Economic Development in Turkey, *Niğde University Journal of FEAS,* 2(2), 116-131.

Tutek, H. (1998). *Women Managers in The World and Turkey; Is glass ceiling cracking?* (Ed.), Zafer Gören, 255.

Ulaş, D. (2006). Evaluation of Franchising System in terms of Entrepreneurship,*G.Ü. FEAS. Journal,* 8(3), 133-151.

Ünaldı, Z. (2010). We Support Women's Entrepreneurship,*Çankaya University Journal of Agenda,* No.36,25.

Production Processes & Women's Labor (1999).TC. Prime Ministry General Directorate of Status and Problems of Women.

Zahra, S.A., Hayton, C., & Salvato, C. (2004). Entrepreneurship in Family vs. Non Family Firms: A Resource-Based Analysis of Organizational Culture, *Entrepreneurship Theory and Practice, 2*8(4).

Zhao, F. (2005). Exploring the Synergy Between Entirepreneurship and İnnovation, *International Journal of Entrepreneurial Behaviour & Research,* 11(1),25-41.

Zapalska, A., & Fogel G.K. (1998). Characteristics of Polish and Hungarian Entrepreneurs, *Journal of Private Enterprise*,19(2),132-144.

Biography

Ahmet Turan Ozturk is an Asst. Prof. Dr. in Business Science at the University of the Turkish Aeronautical Association's Faculty of Business Administration, Department of Management where he teaches in all study cycles of undergraduate, master's, and doctoral studies. His research interests include entrepreneurship, small business management, family businesses, strategic management, public administration, the defense industry, defense and peace economics, professional ethics, leadership, organizational behavior, and human resources management. He authored or co-authored around 15 research articles, one textbook, and 10 edited books. Dr. Ozturk, in addition to his academic duties, has worked as an administrative manager and administrative and academic manager in state and private universities.