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## Organizational Resilience of Family Business: Case Study

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**ORGANIZATIONAL RESILIENCE OF FAMILY  
BUSINESS: CASE STUDY**

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## **Organizational Resilience of Family Business: Case Study**

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**Keywords:** *organizational resilience; family business; case study*

### **Abstract**

**Research background:** Organizational resilience, understood as an ability to survive in harsh market conditions, captures increased research consideration in recent years. The same applies to family businesses that attracted significant attention lately. Although the interest in the topic grows, there are still remaining questions to be answered.

**Purpose of the article:** In the paper we focus on identifying factors affecting organizational abilities to adapt to dynamic, hostile and complex environment especially when disruptive events occur in the environment. Literature studies in the topic allowed development of research proposition - organizational resilience should help to survive negative occurrences in the environment and family business should focus their attention on building resilience capacity while it may allow and facilitate longevity and well-being of an organization.

**Methodology/methods:** We illustrate this proposition with the use of two family company cases from the Silesian Voivodeship. The first is a case of a large production company that existed between 2010 and 2013, and after receiving increased growth in 2005-2012 period it went bankrupt in 2014 after two large contracts. The second is a case of a developer company from the same region that started its operation in the same period and managed to develop both its market and products in years. We compare the data flowing from interviews with the owners (that are also managers of these companies) using Eisenhardt (1989) methodology and that leads to creation of propositions for future research.

**Findings:** Research results indicate there are several factors influencing ability to cope with critical situations. Firstly, we identified that professionalization of management of family business leads to better chances to survive in the environment. Secondly, we conclude that awareness to weak signals diminishes the probability of risky behaviors and helps to survive in dynamic, hostile environment.

## **Introduction**

Family businesses play important role in the economy. Their significance for societies is widely recognized and attracts increasing research attention in recent years. Despite numerous studies there are still questions to be answered. In particular, still little is known about family business responses to disturbing environmental occurrences. The literature proposes the concept of organizational resilience as the answer to unforeseen critical situations, and numerous scholars contributed to this field of knowledge (Somers, 2009). Organizational resilience is usually identified as the ability to survive in the critical situations by adequately responding to environmental challenges. Although the theory was developed after natural disasters and is based on broadly understood systems theory, we believe it is a valuable approach to study survival of family businesses in harsh market conditions (hostile competition, unreliable clients, etc.).

In the paper we focus our attention on identification of factors influencing family business' abilities to adapt to ever changing, dynamic, hostile and unpredictable environment. In particular, we concentrate on finding the answer on the question of how successful family businesses respond to critical situations and what differentiates them from the ones that fail to find adequate answers. Using literature study and qualitative research data coming from two companies, one successful and one that failed to survive a critical situation (now nonexistent) we identify characteristics, behaviors and decisions made by the both companies. Their comparison leads to formulation of propositions for future research.

## **Family business – importance for the economy and characteristic features**

Family businesses play an important part of the new national and global economy. Due to their specificity, family businesses faced many difficulties, one of which is to plan and implement the succession strategy. In America, Germany and Italy, such firms create an extremely big cumulative contribution to both labor market and export. It can be noticed that during the last decade, the contest of a strong global economy, new technologies, increasing market opportunities and the participation of a new generation of family members have together encouraged to the increased vitality of family businesses (Carlock & Ward, 2001).

There is no doubt that the old industrial model government policy makers, economists, and academics has been replaced by the twenty-first-century global economic model. It turned to be helpful in recognizing that entrepreneurial and family enterprises are a prime source of wealth creation and employment in both developed and emerging economies. Families control 95% of the businesses in Asia, the Middle East, Italy, and Spain. In profound industrial economies such as France and Germany, over 80% of the companies are family supervised. In the United States, with its strong public stock markets, families control 60–70% of the country's commercial organizations (Kets de Vries, Carlock, & Florent-Treacy, 2007). 36 percent. of companies in Poland have been declared as the family businesses, which are able to produce 18 percent of GDP - it results from the report, which was presented in 'Family Company Is A Brand' prepared by the Institute of Family Business (2017). However, about 92 percent. of companies are so called "Potentially family". They do not admit to their family, because they are afraid of some bad associations resulting from the times of a centrally planned economy in Poland.

### **Organizational resilience – the state of the art and the family business context**

It is not denied that organizations operate in dynamic, highly competitive, and very difficult to foreseen, as well as unstable, environment. This environment is created and shaped by institutions, markets, trends, and sometimes by natural disasters (Boin & van Eeten, 2013). Research attention has been recently directed towards these unpredictable occurrences (for example: 9/11 terrorist attack, Katrina Hurricane, etc.) (see: Butts, Acton, & Marcum, 2012) and currently, scholars and entrepreneurs are searching for managerial solutions that should help organizations in recovering after disruptive events. One of the concepts created recently, that focuses on organizational features and processes allowing quick response to disasters, is organizational resilience, and the research in the topic has grown rapidly in number and quality within last years.

Organizational resilience has its roots in the concept of individual resilience and as such is the anthropomorphisation of individual posture and characteristics (Shin, Taylor, & Seo, 2012); the second basis for studying resilience resides in the field of ecology, as stated by Holling (1973).

Kachaner, Stalk and Bloch (2012) clearly argue that family businesses, in most cases, are strongly focused on creating resilience capabilities and

long-term performance. They direct their attention to controlling expenses by not spending more than they earn, they frequently carry limited debt, acquire fewer and smaller companies, diversify their activity to the higher extent than larger companies, are very ambitious in regard to internationalization, and focus on retaining best employees – talents – more frequently than large organizations. Also, in respect to family business resilience, Danes et al. (2009) emphasize, on the basis of National Family Business Panel data, that organizational resilience is strongly related to contribution of employees (human resources), social support, financial capital, exposure to natural disaster and federal assistance given to business-owning families. They conclude, that federal assistance is negatively correlated to firm resilience in case of companies owned by males, while positively in case of female-owned companies. Amann and Jausaud (2011) argue and find empirical evidence that in economic downturns family businesses are more capable of organizing and mobilizing their resource in comparison to non-family business. Their resilience lays in facing down business reality, active searching for meaning of changes and ritualized ingenuity. In sum, on the basis of short review of the literature, it may be argued that family business are better prepared for the unexpected than non-family businesses.

## **Research methodology**

To meet the aim of the paper we decided to use qualitative approach focused on identification and understanding of mechanisms by which family business respond to disruptive events. We adopted the approach proposed by Eisenhardt (1989) and we combined it with grounded theory approach as suggested by Charmaz (2011). On the basis of literature review an open-ended questions list was prepared, and it contained 18 questions to which respondents were asked to answer. We focused on understanding what actions respondents chose and why they decided to act in a particular way in a crisis situation, allowing respondents to freely speak about their intents, situation they faced, actions and results. Every interview lasted about two hours.

After the analysis process, in total more than 350 nodes and 25 categories were created. Next, we focused our attention on linking categories to create a model and the theory behind owners' actions. At this stage we contacted both owners to gather additional information (mainly during informal meetings). Finally, we conducted cross-case analysis to identify similarities and differences between companies and confronted two created models describing behaviors. This allowed us to identify

differences between resilient and non-resilient organization and formulate research propositions.

As the concept of resilience is widely studied recently, we used theoretical framework to compare both companies, following Kantur and Say (2015) directions.

### **Characteristics of companies and respondents**

We purposefully chosen two medium sized, family businesses, both of which were operating in the field of construction, both operating in the same region – Silesian Voivodeship (southern Poland), one of them was closed recently, and the second is growing rapidly. The owners (and CEO's) of the companies are at the same age, mid 40, and have similar experience in business. Both companies started operation at approximately the same time, and hire similar number of employees (the company A – 170 employees in 2014; the company B – 120 employees in 2014, and 150 currently).

The first company, called A in the paper, founded in the 1999, which was producing windows and doors for individual and institutional clients, was closed in 2015, 5 years after significant financial problems arising from signing contracts with fraudulent clients. It was a company well known in the field, and it was awarded “Business Gazelle” award in 2010 and 2011, as the fastest growing, innovative business.

The second company, called B in the paper, founded in the early 1990ies, is currently operating in the field of construction (developer company). Recently founder and CEO decided to expand the scope of activity and opened high standard tennis and fitness club with two restaurants and more than 30 employees (the basic rationale for the business was personal interest in tennis and sport activities).

### **Research results: how family businesses react to disturbing events**

#### ***Description of disturbing events in chosen companies***

In both cases disturbing events were caused by clients, and strictly speaking their destructive behaviors in relation to the business. However, the crisis faced by the company A has a broader background. As an owner claims, it was all due to the financial crisis in the USA back in 2008/2009. It was financial “bubble” in the USA that caused problems for companies from that field. Banks were reluctant to fund future investments, there were limited investments in progress and firms had to rely on their accumulated

capital to survive this period. Both in case of a company A and B the main cause of organizational problems were clients and their lack of willingness to pay for services or products.

### ***Companies' reactions to disturbing events – problems with clients***

Owners of two companies declared they reacted to disruptive events in slightly diverse manner. Although there are numerous similarities in actions and decisions, there are also some clearly distinguishing reactions. In general, it may be argued that this reluctance to listen to customers, clients and other stakeholders differentiates both companies. While the first owner made decisions all by himself, the owner of the company B had advisors at the initial stage – several specialists from the field, from other companies, and they helped him make all the important, initial decisions.

Broad material gathered during interviews allows for in-depth comparison (table 1). We chose the extended and modified framework proposed by Kantur and Say (2015) to compare both companies. We enriched it with the attitude towards opportunities and threats, locus of organizational attention, the level of professionalization, and familiness, as important for family businesses. The comparison presented in table 1 contains a list of propositions that should be tested empirically to better understand actions and behaviors of companies in the face of crisis. In particular, research attention should be focused on aspects that differentiate successful and unsuccessful company. We decided not to formulate propositions explicitly, while there would be lots of them. Instead, we present a comparison that is a good starting point for creating concrete research propositions (hypotheses).

**Table 1.** Comparison of companies' reactions to destructive events

	<b>Company A</b>	<b>Company B</b>
Attitude to Opportunities	Active seeking and creating of opportunities	Active seeking and creating of opportunities
Attitude to Threats	Faith in other stakeholders, lack of safeguarding mechanisms for unreliable clients	Continuous examination of potential clients for threats
Locus of organizational attention	Attention focused on client search	Attention focused on client search and client verification
Level of professionalization	Low to medium (strategic management issues carried by owner, operational	Low (most of strategic and operational decisions made by the owner)



	management delegated)	
Familiness	High level of familiness, wife working in a company, company prepared for owners' children	High level of familiness, wife working in a company, company prepared for owners' children
Preserving position activities	Trying to minimize consequences for the staff by finding them new jobs; transferring capital to other companies; searching for help in external business angel; legal process with clients; "escaping" with the capital; searching for help in banks (with no luck)	Continuous monitoring and demands for payments, focus on searching for new clients, investing own money, searching for help in other companies, among friends, using "capital slack" that was at the disposal of the company, bank credits
Diversification	Concentration on current business	Searching for other possibilities (opening tennis and fitness club)
Rapidity	Quick, immediate actions	Quick, immediate actions
Alternatives to benefit from	Initially smaller clients and slowly starting to serve larger companies (B2B business), usually one or two at a certain moment	Initially large clients, and slowly evolving and concentrating on smaller clients to safeguard the processes and wellbeing of a company
Agility	Large investments in relation specific assets, low agility	High agility and diversified knowledge, low investments in specific assets
Employee commitment	High commitment and loyalty of a staff	High commitment and loyalty of a staff
Acting as a whole	Changes in the company fully understood, employees transferred to two other companies	Changes in the company fully understood, the staff well integrated, decisions made only by the owner
Resistance and continuance	Resignation, feeling cheated and robbed; the attempt to "save" the company during the crisis, and later – attempts to guarantee future for employees	Proactive posture, motivated to action, trying to understand and explain behaviors of customers; patience and waiting for a right moment to demand for payment

Source: self-elaborated

The comparison presented above shows differences and similarities, and there is no simple explanation why the first company failed and the second

survived. The approach to management, taking care of the company, treating employees are very similar. However, what strikingly astonishes is the attitude towards clients and the strategy in the search of the opportunities (as well as perception of threats). During critical situation more attention should be placed on safeguarding mechanisms and double-checking reliability of clients. Also, although low level of professionalization of management does not diminish the chances to survive, consultations with experienced institutions may help in making right decisions.

## Conclusions

Resilience, understood as the ability to survive in harsh environmental conditions and respond effectively to adversities, clearly requires more research attention. Although the topic is considered as requiring attention there are still gaps in the literature that require filling in with relevant theory. The study aimed at searching for the answer to the question of how family businesses cope with critical situations and what helps them to survive. The comparison of two cases has led to creation of distinguishing features of successful companies (see table 1), however this proposition needs further proofs and testing. We believe our study opens discussion in the field of small and medium family businesses behaviors during critical situations.

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