Journal of Entrepreneurship & Organization Management

Alsughayir, J Entrepren Organiz Manag 2019, 8:5

Research Article Open Access

The Effect of Family Member Reciprocity on the Family Firm Performance in Saudi Arabia

Abdulrahman Alsughayir*

School of Economics & Administrative Science, Al Imam Muhammad in Saud Islamic University, Riyadh 11431, Saudi Arabia

Abstract

The paper explores the GCC (Gulf Cooperation Council) emerging market to study the emergent factors towards identifying relationships between family member reciprocity and family-owned business' performance. The study was conducted during 2018, wherein, for data collection 280 pre-validated, piloted questionnaires were distributed to family firms. The data inferred a 48.6% response rate representing the substantial prevalence of family-owned businesses in Saudi Arabia. The statistical analysis conducted in SPSS version 18 (SPSS Inc., Illinois, USA) revealed a significance level $p<0.000$. Thus, indicating a positive and significant influence of family member reciprocity on family-owned business' performance. These findings could be attributed to the deep integration of the family within the Arab culture. In several Arab countries, families continue and maintain the tribal and clan legacy which are manifested through strong loyalties.

Keywords: Family firm; Family member; Reciprocity; Family firm performance; Saudi Arabia

Introduction

Family-owned business is a sector, which today has emerged as a significant driver of economic growth. In fact, this factor influences the global economy and according to statistics, family-owned businesses have shown`$7 trillion in annual sales with an employment workforce of more than 25 million people. These enterprises thus not only generate wealth but also long-term employments. It is necessary to start the paper by discussing the definition of a family business, which, according to Beehr [1] is the business where at least one member or the business owner are involved in the business functions, or several members form a part of the management [2] or the key managers are relatives of the owner [3] or an officer, a director, or a stockholder in the family business [4]. Moreover, Barnes and Hershon [5] have said that in family business an individual or the members of a single family control the ownership. Again, Holland and Oliver [6] claim that in family business the relationship of the family members impacts the decisions pertaining to business ownership or management.

As per Marcopolis news agency, in the GCC countries around 90% of the trading activities, are contributed by family-owned businesses, and not only that but also these enterprises constitute 75% of private-sector economic activity, generating 80% of the region's GDP, and employing 70% of the labor force in the region. Correspondingly, the Kingdom of Saudi Arabia holds a very prominent position in the region, with the highest concentration of high net worth (UHNW) families [7]. Studies [8,9] show that in Saudi Arabia majority of companies are family owned– the kingdom has a total of 621,400 family businesses, i.e., 63% of all operating firms–as indicated by Family Governance Forum. The Arab News [10] states that $ 216 billion are contributed by these family-owned businesses to the GDP of Saudi Arabia, as well as 52% of the total workforce belongs to these enterprises.

Conversely, in other (GCC) countries the significance of family-owned business is not that substantial, irrespective of the big size of several Saudi business families. The Arab News [10] also corroborates this fact and claims that almost 5 out of 10 of the Middle East's largest family businesses are owned by Saudi families. In fact, computed in USD billion, the net worth of some of the richest family businesses in Saudi Arabia are: Al Rajhi family - ~11.90; Olayan family- ~12.00; Mohamed Bin Issa- ~12.00; Mohammed Al Amoudi- ~12.30; and Prince Alwaleed Bin Talal- ~20.

Since the 1980s, the subject of family-owned businesses has garnered a huge interest of the management research community. However, these scholarly endeavors have been largely restricted to developed countries, such as the UK, US, Germany and Japan [11,12]. This has brought into focus the clear dearth of research in the Arab World and particularly Saudi Arabia on issues relating to such decisions. Indicating thus, the evident empirical gap in studying the family impact on firm performance and necessitating further research on potential factors affecting the Saudi family-owned businesses' performance, as well as their long-term survivability [13]. Organizational success is defined primarily by performance and as such, to leverage their specific advantages and accomplish these measures, family businesses need to know the main factors can be success drivers. The scarcity of focused research on the factors influencing family business succession has also been highlighted by Kowalewski et al. [14]. Family-owned businesses still constitute a relatively less explored topic and are not as significant in other management fields, in a specific context of a less developed country [13,15] also corroborates the need for an in-depth analysis, due to the lack of studies on the family business in Saudi Arabia and refers to the worthiness of this study.

The existing research shows extensive studies on positive, negative and null measures of the relationship between the two concepts of prosperity and firm performance. As such, no intersect was inferred between these two aspects for the family-owned businesses in the US [12,16,17] and the Italian companies [18]. These conflicting opinions and mixed results have led to uncertainty around the effect of prosperity on family-owned businesses.

***Corresponding author:** Abdulrahman Alsughayir, School of Economics & Administrative Science, Al Imam Muhammad in Saud Islamic University, Riyadh 11431, Saudi Arabia, Tel: +966-11258-5555; E-mail: aaalsughayir@yahoo.com

Recieved August 03, 2019; **Accepted** November 18, 2019; **Published** November 25, 2019

Citation: Alsughayir A (2019) The Effect of Family Member Reciprocity on the Family Firm Performance in Saudi Arabia. J Entrepren Organiz Manag 8: 276.

This raises curiosity for Saudi Arabia (as this region is distinct from Italy, US, Poland, and India), which should provide an interesting case study to explore the influence of family member reciprocity and performance on the Saudi family-owned businesses. As such, the current paper aims to explore is the exact aspect of focused and pointed research. The study aims to augment the existing body of research with an improved insight for emerging economies in the family-owned business domain, with improved clarity in the current ambiguous and imperfect literature, in particular, for Saudi Arabia. The research outcome aims to focus on the question: "How family member reciprocity affects and contributes to company performance goal?" The paper focuses on explicating the family influence aspects in substantiating the arguments and contributes to selective studies available.

Literature Review

Family-owned businesses are demonstrative of a distinct complexity due to the unique intersect between emotional, inclusive familial traits and rational linear business processes. An extensive research body [19-21] focuses on the main relationship between the founder and heir in exploring the succession and management issues in family firms. Scholars [22,23] evidence mixed results in comparative studies for family-owned businesses with other business types (based on ownership), which show mixed results and conflicting opinions regarding the impact of family control. Moreover, Daily and Dollinger [24] claim that performance advantages are evident in family-run businesses, irrespective of the measure, i.e., overall performance or financially-oriented growth rates. In addition, according to Anderson and Reeb [25] non-family businesses in comparison to family firms show significantly lower performance. However, family firms have been deemed inherently inefficient due to family-oriented conflicts towards managing the enterprise [26,27].

It has been claimed that relationships constitute the "building blocks of organizational structure" [28]. An individual's sense of belonging and importance are reinforced with the exchange of reciprocal behaviors and contribute towards creating a shared purpose and identity [28]. However, agency problems could be a result of self-interests and individualistic goals in family firms laden with family members [29].

According to Klein [30] mutual reciprocity and family members' support for organizational tasks is indicative of family influence. In fact, when these are manifested as shared responsibilities, assistance to other members, and helping one another in achieving organizational tasks; it institutes the family members as stewards of the firm. In particular, this mechanism of family member reciprocity facilitates stewardship behavior because in the interest of the firm the family members put aside their personal interests. As such, family member reciprocity serves as a medium for channelizing altruism and familial bonds in support of family firm [31]. As per Sigmund [32] the human relations center on reciprocity even in situations suggesting competition and isolation strategies. That is, a variety of situations show reciprocity, by creating an analogous environment, something akin to a self-promoting facility. Fredrick [33] states that the trust implicit in reciprocal altruism – both in combination bring together larger social groups into a moral community. Congruently, Howard Becker refers to man as Homo reciprocus, thereby, positing reciprocity at the core of human existence [34]. Deckop et al. [35] state that individuals are motivated to and best served by the reciprocity of favorable treatment [35]. In a family firm, the aspects of family members' willingness to contribute, support, and desire to be a part of the business are essential and thus, it is imperative to focus on family member reciprocity, which is the relational aspect of family influence [30,36]. It becomes necessary to not only focus on the potential influence of the family on the firm but measure family influence towards the assessment of the family's active participation in business function [20]. As such, the paper study the mutual support of the family members and underpinned by Seers [28] research argues that commitment, teamwork, and family support are family influences that manifest family member reciprocity.

The paper takes into cognizance several scholars' opinions [37-39] that it is necessary to independently consider the several family influence dimensions. As shown in (Figure 1) the concept of family member reciprocity motivates coming together of family members to achieve firm goals, align individual interests with the business interest and thereby, reduce agency costs and opportunism. As such, the family firm performance presents a direct intersects with family member reciprocity. The study thus hypothesizes a direct and positive correlation between family member reciprocity and firm performance. Figure 1 also showcases the firm performance determinants typically discussed by several studies.

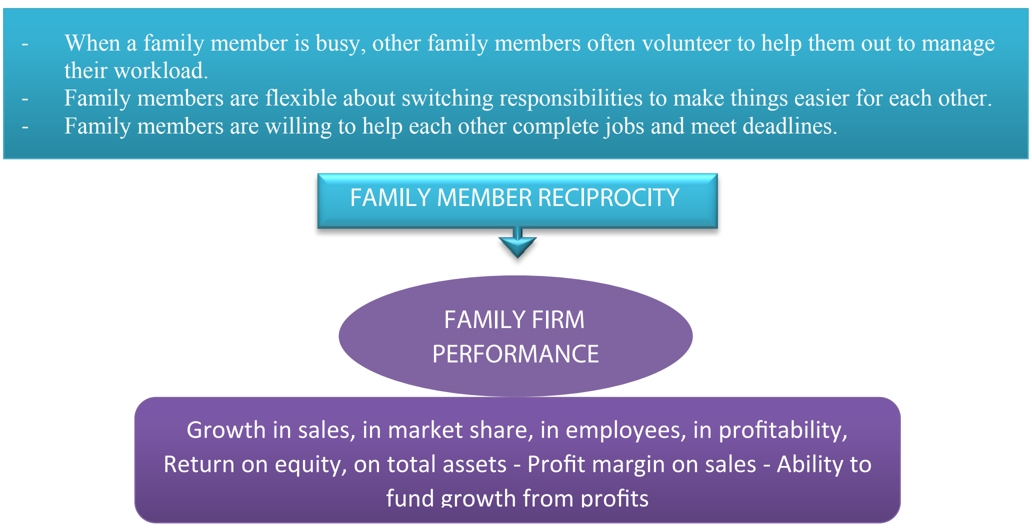

Figure 1: Family influence and family firm performance.

Research Methodology

For study purposes, data collection was carried out using the self-structured questionnaire. During the research, between the period of April-September 2018, a total of 289 surveys were communicated to family firms. The communication data was sourced from the Saudi Chamber of Commerce and Industry. In order to initiate the data collection process, the firms' CEOs were contacted through phone to share the study purpose, following which, their email IDs were compiled for soliciting their participation and registering as study participants/volunteers. The questionnaire was translated from English to Arabic by two bilingual (Arabic and English) Arabian lecturers because the survey was administered in Saudi Arabia. This double-translation exercise served multiple purposes: (i) accurate translation, (ii) prevent confusion or misinterpretation, (iii) sufficient representation of English questionnaire in the Arabic version. A five-member academic panel of management experts from Saudi universities was approached for ensuring the face validity of the questionnaire and correspondingly, necessary modifications were made in accordance with their valuable recommendations. Of the total 289 surveys, 136 questionnaires were returned, thus indicating a 48.6% response rate. For potential non-response biases were performed. Between the early and late respondents, no statistical differences were observed. Prior to the main survey, a pilot survey was executed which revealed a 0.001 level of significance. Seers [28] scale on teamwork was adapted to measure the variables related to family member reciprocity. A five point Likert scale was used to focus on the quality of exchange among family members ranging from strongly disagree to strongly agree.

A subjective self-reported assessment was used to measure firm performance [40]. The survey questionnaire contained eight performance-related questions, which were related to growth in market share, sales, and funds from profits. Each question in accordance with the Likert scale had the choice of 'much worse,' 'about the same,' and 'much better'. The results were aggregated to create a performance score, and the higher values were attributed to indicate better performance [41]. SPSS version 18 (SPSS Inc., Illinois, USA) was used to conduct all statistical analysis and the significance level was set at $p<0.000$ level.

Results

The analysis results in context with the firm characteristics are collated and presented in (Table 1) which shows that 6 out of 136 firms demonstrate that >41 family members are involved in the enterprise ownership or business control is within the family. Moreover, in the study sample, as the majority of establishments were started in around 1970, the first generation is still a part of the management.

Firm Characteristics	Data Range	Proportion from total sample
Number of Family Members	<5	85
	Between 6 and 20	34
	Between 21 and 40	11
	>41	6
Year of Establishment	<1970	73
	Between 1971 and 2000	45
	>2001	18
Generation	1st	104
	2nd	29
	3rd	3

Table 1: Firm characteristics.

In order to define the association between family member reciprocity and the family firm performance, Pearson's correlation coefficient analysis was used. The analysis inferred a significant link between the family member reciprocity and the family firm performance (Pearson's correlation coefficient; $r=0.697$, $p<0.001$). The results are presented in (Table 2).

Further in the study analysis, a linear regression analysis technique was used to test our main effects H1, that is, to examine the effect of family member reciprocity on the performance of the family businesses. As presented in (Table 3) the results show a positive effect of family member reciprocity on family firm performance ($\beta=0.679$, $p<0.01$). A significant change in R^2 was observed. The robustness of the main effect H1 is evidenced through the analysis of variance of the fitted regression equation, which was computed at a significant F value of 798.825. Because the p-value is less than 0.001, there is a statistically significant relationship between the variables, at a 62.7 percent confidence level.

Discussion

Clearly, the analysis presents a positive and significant relationship between family member reciprocity with family firm performance. The main effect H1 was clearly substantiated, thereby indicating a proven impact of family influence on family firm performance. This was found to be attributed to the key role, participation, and involvement of ownership or heir in the day-to-day activities. Also, the exchange between the family members towards family firm success and survival emerged as positive determinants of performance measures [12,16,42].

It was also seen that unique opportunities and challenges were evident in family firms due to the specific characteristics of a family business [16,43]. Also, legacy systems transferred from one generation to another gain traction, and serve as a source of socio-emotional wealth through unique training and duties from parents [16]. It was also seen that firm survival prospects increase in family firms [44]. Also, a constant flow of dividends is facilitated through family members who show keen participation and interest in firm management [42,45].

However, studies have also demonstrated a marginal association between family member reciprocity and family firm performance [16]. Also, the intersect was shown to yield negative effects due to family

Correlations		Family member reciprocity	Family firms performance
Family member reciprocity	Pearson correlation	1	1
	p-value (two-tailed)		
	n	136	
Family firms performance	Pearson correlation	0.697 ***	
	P-value (two-tailed)	0.001	
	n	136	136
*** Correlation was considered significant at the 0.001 level (two-tailed)			

Table 2: Pearson's Correlation between study variables.

Independent variable (Family member reciprocity)	Standardized coefficients	t-value	p-value
	Beta	26.764	0.000***
	0.679***		
Model R^2 F Sig.	 0.627 798.825 0.000		
N=136; p<0.10; *p<0.05;**p <0.01;***p<0.001			

Table 3: Regression Analysis of family member reciprocity on the performance of the family businesses

conflicts, lacking the ability to profit share or support next-generation [12]. Irrespective, family member reciprocity has been propounded by Minichilli et al. [46] as an essential attribute of a family business, though they also highlighted higher complexity due to the participation of increasing family members in family businesses. "The situation becomes difficult, when a strong and successful leader disappears and an ill-prepared next generation comes into role [12].

In a company, family member reciprocity as an essential factor in management and thus this aspect should be accorded sufficient focus. The business can, in fact, benefit from individual strengths and weaknesses of each family member [12]. Issues in family firms result from a disassociation between generations regarding future planning amongst the old and the new generations or when the business transactions are not open and transparent.

As such, the study analysis can be beneficial for the business owners in towards gaining an understanding of factors that can drive improvement in family firm performance. In addition, this paper augments the literature available in entrepreneurship research. In combination, previous and current research shows that in understanding corporate entrepreneurship, the family constitutes an essential component [12,16].

Conclusion

It is also essential to take into consideration, a limitation that false information could have been provided by the study participants in fear of being judged, thus affecting data analysis. Moreover, variables in addition to the ones investigated in this study can be explored forthcoming studies to gain an in-depth understanding of drivers of family firms' performance. In future studies, as such, to extend this study variable other predictors can be considered. More research can be conducted focusing on this intersect between family member reciprocity and family firms' performance in different geographical areas.

References

1. Beehr TA, Drexler JA, Faulkner S (1997) working in small family businesses: empirical comparisons to non-family businesses. J Organ Behav 18: 297-312.
2. Steier LP, Chrisman JJ, Chua JH (2004) Entrepreneurial management and governance in family firms: An introduction. Entrep Theory Pract 28: 295-303.
3. Daily CM, Dollinger MJ (1992) An empirical examination of ownership structure in family and professionally managed firms. Fam Bus Rev 5: 117-136.
4. Villalonga B, Amit R (2006) How Do Family Ownership, Control and Management. J Financ Econ 80: 385-417.
5. Barnes LB, Hershon SA (1976) Transferring power in the family business. Harv Bus Rev 54: 105-114.
6. Holland PG, Oliver JE (1992) An empirical examination of the stages of development of family business. JBED 4: 27.
7. Becerra-Díaz M, Valderrama-Carvajal H, Terrazas LI (2011) Signal transducers and activators of transcription (STAT) family members in helminth infections. Int J Biol Sci 7: 1371.
8. Hussainey K, Al-Nodel A (2008) Corporate governance online reporting by Saudi listed companies. Research in Accounting in Emerging Economies 8: 39-64.
9. Qobo M, Soko M (2010) Saudi Arabia as an Emerging Market: Commercial Opportunities and Challenges for South Africa.
10. Alsharif DT (2019) In Saudi Arabia, business runs in the family. The Arab news.
11. Sacristán-Navarro M, Gómez-Ansón S, Cabeza-García L (2011) Family ownership and control, the presence of other large shareholders, and firm performance: Further evidence. Fam Bus Rev 24: 71-93.
12. Motwani B (2016) Impact of factors of family business on the performance: A PLS-SEM study. JEOM. 5: 183.
13. Al-Dubai SA, Ismail KN, Afza N (2012) Overview of family business in Saudi Arabia. Icom.
14. Kowalewski O, Talavera O, Stetsyuk I (2010) Influence of family involvement in management and ownership on firm performance: Evidence from Poland. Fam Bus Rev 23: 45-59.
15. Bhalla A, Henderson S, Watkins D (2006) A multiparadigmatic perspective of strategy: A case study of an ethnic family firm. ISBJ 24: 515-537.
16. Zellweger TM, Eddleston KA, Kellermanns FW (2010) Exploring the concept of familiness: Introducing family firm identity. J Fam Bus Strategy 1: 54-63.
17. Lious KS, Dretzke B, Wahlstrom K (2010) How does leadership affect student achievement? Results from a national US survey. Sch Eff Sch Improv 21: 315-336.
18. Sciascia S, Mazzola P (2008) Family involvement in ownership and management: Exploring nonlinear effects on performance. Fam Bus Rev 21: 331-345.
19. De Vries MK (1996) Leaders who make a difference. EMJ 14: 486-493.
20. Rutherford MW, Kuratko DF, Holt DT (2008) Examining the link between "familiness" and performance: Can the F-PEC untangle the family business theory jungle? ETP 32: 1089-1109.
21. Levinson ML (1971) US Patent and Trademark Office, Washington, DC, US.
22. Gomez-Mejia LR, Nunez-Nickel M, Gutierrez I (2001) The role of family ties in agency contracts. Acad Manag J 44: 81-95.
23. Schulze D, Rapedius M, Krauter T, Baukrowitz T (2003) Long-chain acyl-CoA esters and phosphatidylinositol phosphates modulate ATP inhibition of Katp channels by the same mechanism. J Physiol 552: 357-367.
24. Daily CM, Dollinger MJ (1992) An empirical examination of ownership structure in family and professionally managed firms. Fam Bus Rev 5: 117-136.
25. Anderson RC, Reeb DM (2003) Founding-family ownership and firm performance: evidence from the S&P 500. J Financ 58: 1301-1328.
26. Faccio M, Lang LH, Young L (2001) Debt and corporate governance. In Meetings of Association of Financial Economics in New Orleans.
27. Perrow S (2008) Healing stories for challenging behaviour. Stroud, Gloucestershire, England: Hawthorn Press.
28. Seers A, Petty MM, Cashman JF (1995) Team-member exchange under team and traditional management. Group Organ Manag 20: 18-38.
29. Schulze WS, Lubatkin MH, Dino RN (2003) Toward a theory of agency and altruism in family firms. J Bus Ventur 18: 473-490.
30. Klein SB, Astrachan JH, Smyrnios KX (2005) The F-PEC scale of family influence: Construct validation, and further implication for theory. ETP 29:321-339.
31. Eddleston KA, Kellermanns FW (2007) Destructive and productive family relationships: A stewardship theory perspective. J Bus Ventur 22: 545-565.
32. Sigmund K (1993) Games of Life: Explorations in Ecology, Evolution and Behaviour. Oxford University Press.
33. Frederick W (1999) Nature and Business Ethics. A Companion to Business Ethics, Oxford: Blackwell.
34. Gouldner A (1960) The Norm of Reciprocity: A Preliminary Statement. Amer Sociol Rev 25: 161-178.
35. Deckop JR, Cirka CC, Andersson LM (2003) Doing unto others: The reciprocity of helping behavior in organizations. J Bus Ethics 47: 101-113.
36. Carlock R, Ward J (2001) Strategic planning for the family business: Parallel planning to unify the family and business. Springer.
37. Rutherford DJ, Hubley-Kozey C (2009) Explaining the hip adduction moment variability during gait: Implications for hip abductor strengthening. Cli Biomech 24: 267-273.
38. Uhlaner LM (2005) The use of the Guttman Scale in development of a family orientation index for small-to-medium-sized firms. Fam Bus Rev 18: 41-56.
39. Astrachan JH, Klein SB, Smyrnios KX (2002) The F-PEC scale of family

influence: A proposal for solving the family business definition problem. Fam Bus Rev 15: 45-58.

40. Love LG, Priem RL, Lumpkin GT (2002) Explicitly articulated strategy and firm performance under alternative levels of centralization. J Manag 28: 611-627.

41. Dess GG, Robinson RB (1984) Measuring organizational performance in the absence of objective measures: the case of the privately-held firm and conglomerate business unit. Strateg Manag J 5: 265-273.

42. Miller D, Breton-Miller IL, Lester RH, Cannella AA (2009) Are family firms really superior performers? J Corp Finance 13: 829-858.

43. Zahra SA (2005) Entrepreneurial risk taking in family firms. Fam Bus Rev 18: 23-40.

44. Sirmon DG, Arregle JL, Hitt MA, Webb JW (2008) The role of family influence in firms' strategic responses to threat of imitation. ETP 32: 979-998.

45. Chirico F, Bau M (2014) Is the family an "asset" or "liability" for firm performance? The moderating role of environmental dynamism. J Small Bus Manag 52: 210-225.

46. Minichilli A, Corbetta G, MacMillan IC (2010) Top management teams in family controlled companies: 'familiness','faultlines', and their impact on financial performance. J Manag Stud 47: 205-222.