

Title: A necessary evil or useful tool? Crisis management in family firms.

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Introduction

The aim of this paper is to explore and understand how family firms manage a crisis by applying a processual perspective. Our objective is to find out how crisis management is approached by family firms in Sweden, Scotland, and Germany. Further, we aim to examine the role of the owning family in creating and solving a crisis in family firms. Finally, we will provide recommendations on how family firms can improve their crisis management practices.

In this paper, we follow the definition by Chua, Chrisman, and Sharma (1999, p. 25) to define a family business as follows:

“The family business is a business governed and/or managed with the intention to shape and pursue the vision of the business held by a dominant coalition controlled by members of the same family or a small number of families in a manner that is potentially sustainable across generations of the family or families.”

Our literature review has revealed that there is a shortage of research concerning the current state of crisis management in family firms. Looking from the theoretical lens there is a lack of practical frameworks which are directly applicable for family firms and little is known how crisis management is handled in family firms. We also did not find any cross-country studies directly relating the crisis management in family firms.

Smaller businesses and family firms are often more vulnerable to external threats and crises due to their limited resources than larger companies which is however incompletely reflected in the literature (Cater & Schwab, 2008; Herbane, 2013; Kraus, Moog, Schlepphorst, & Raich, 2013; Roux-Dufort, 2007). Very few studies have investigated how family firms manage and overcome crises, for exceptions see (e.g. Cater & Schwab, 2008; Faghfour et al., 2015). A recent study of German SMEs found that formalized crisis procedures decrease as family ownership increases (Faghfour et al., 2015). Notwithstanding, crisis management is of great relevance for family firms and the owning family as the firm and the thereof received socioemotional endowment (Gómez-Mejía et al., 2007, 2011) is at stake.

In the family business context, Cater and Beal define crisis as “a low-probability situation with significant consequences for the organization, a high degree of uncertainty, and a sense of decision-making urgency” (2014: 65). Cater and Beal (2014) speak of externally induced crisis, however, due to the complexity of family firms with its overlapping systems of family and business, a crisis can also be internally induced from the family, e.g. a divorce (Haag & Sund, 2016). This dimension adds to the complexity of family firms and makes crisis management an important but delicate issue. This behavior makes crisis management more challenging in family firms, because owning families are not willing or able to discuss or even admit a crisis situation in public, which concerns the owning family. An example for such a crisis which is internally induced from the family dimension is divorce which will have impact on both the family and business dimension (Haag & Sund, 2016). From a theoretical

angle, Roux-Dufort (2007) criticized the literature for focusing too much on exceptional situations and instead suggests to view crisis as a process. Still, even a process perspective needs to account for the fact that a crisis can derive from the business and the family side in a family business, increasing its complexity.

Specifically, this research paper seeks to answer the following research questions:

1. How do family firms handle a crisis situation where the existence and control of the family firm is at stake?
2. What role does the family dimension play in creating and solving crises in family firms?
3. How do SEW-considerations affect the crisis management procedures in family firms?
4. How can the crisis management process stimulate the organizational learning to better manage an upcoming crisis?

This study seeks to extend prior research on crisis management in SMEs and to provide a crisis management framework which is applicable in family firms.

Methodology

With the overall research aim and the presented expectations, the goal of this inquiry is to present theoretical and practical contributions to the understanding of crisis management in family firms. The scope and generalizability of the research objectives are limited to analytic in contrast to statistical methods. Case study research has shown to be a suitable approach to addressing the complexity in family businesses (De Massis & Kotlar, 2014; Leppäaho, Plakoyiannaki, & Dimitratos, 2016), not least in the context of crisis management (Hong et

al., 2012). The study draws on the conceptual SME crisis management framework by Hong et al. (2012).

For the data collection we combined two sources of data:

- Analysis of annual reports, press clippings, and official databases
- Interviews with 8 companies from Sweden, Scotland and Germany
- Semi-structured interview guideline covering the crisis management steps according to Hong et al. (2012).

For the data analysis we used content analysis. In doing within and cross case analysis of interviews we looked for patterns and commonly identified themes. This helped us to refine and extend the general crisis management framework by Hong et al. (2012).

Findings

Based on the identified crisis practices, this research further verifies and extends the crisis management model by Hong et al. (2012). Specifically, this research categorizes all identified Family firms' crisis management practices into five major clusters: signal detection, preparation/prevention, containment/damage limitation, recovery and learning. Then this research assigns these major tasks into different stages of the general crisis management model and develops a refined Family firm's crisis management model that provides specific practical details and guidance for each stage of Family firms' crisis management.

The SEW perspective consists of five dimensions which are essential for explaining the behavior and decision-making in family firms. Based on the SEW perspective and the FIBER dimensions we illustrate the relevance and impact of these dimensions. In each crisis management phase, other combinations of the five dimensions are supportive. We further highlight the differences between crises induced by the family or externally induced crises. In

particular when the crisis is family-induced, the family is also the solution for resolving a crisis. As a crisis usually endangers the socioemotional endowment the owning family receives from the firm, they are interested in.

Implications for theory and practice

There are no empirical studies on crisis management practices in Swedish, Scottish, and German family firms, following a broader perspective rather than dealing with isolated topics.

This research makes the following specific contributions:

The attitude of the managing family director towards formal crisis planning plays an essential role in how systematic a crisis is handled. The relationship and network strength has also proved to be a useful issue in further developing the crisis management practices.

Especially, the proactive communication with customers and supplier to eliminate misunderstanding and acquire necessary support is important.

As with every study, our work has also some limitations which provides avenues for further research. In particular it would be interesting to investigate whether our findings are applicable for family firms in other cultural contexts. From a management perspective, it might also be interesting to further explore the link between crisis management and risk management to see whether we can develop a comprehensive framework or high level structure to combine the crisis management and risk management activities.

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