Journal of World Business 43 (2008) 435–448

Contents lists available at ScienceDirect

Journal of World Business

journal homepage: www.elsevier.com/locate/jwb

Performance implications of institutionalization process in family-owned businesses: Evidence from an emerging economy

Güven Alpay, Muzaffer Bodur, Cengiz Yılmaz *, Saadet Çetinkaya, Laçin Arıkan

Boğaziçi University, Department of Management, Bebek 34342, Istanbul, Turkey

ARTICLE INFO

Keywords:
Organizational institutionalization
Family firms
Organizational adaptability
Organizational performance
Emerging markets

ABSTRACT

This paper attempts to understand the role of two highly relevant founder family characteristics, harmony among family members and the degree of democratization in decision-making, in the institutionalization and adaptive capability development processes of family firms in Turkey as an exemplar of an emerging market. The paper examines how institutionalization and adaptability jointly drive firm-level differences in quantitative (i.e., sales growth, market share, and return on investment) and qualitative performance (i.e., quality of goods/services, new product development, employee satisfaction) components. Data were collected from 436 respondents in 132 family firms through structured questionnaires administered to at least three respondents from each firm. Findings indicated that among the institutionalization dimensions, transparency had the strongest effect on both quantitative and qualitative firm performance, whereas adaptability influenced qualitative performance only. Harmony in family relations increased efforts for institutionalization, whereas democracy in decision-making enhanced adaptability. Implications of these findings are discussed and several future research directions are suggested.

1. Introduction

Family-owned businesses are important factors in the growth and internationalization of emerging economies (Barton & Wong, 2006; Gallo & Pont, 1996; Kim, Kandemir, & Cavusgil, 2004; Suehiro, 1993; Yeung, 2005). Recent studies suggest that family businesses may have performance advantages over non-family firms. Top management in these firms, most of whom are family members, have a long-term orientation in decisions and higher levels of commitment (e.g., Anderson & Reeb, 2003; Gallo & Pont, 1996; Zellweger, 2005) than found in non-family member firms. In addition, corporate governance problems that have surfaced lately in non-family businesses have drawn further attention to understanding family firms, particularly in emerging markets. Consequently, the interest in explaining the family–business relationship has begun to grow, with specific emphasis on identifying family characteristics related to organizational performance. In this study, we propose that institutionalization and adaptability in family businesses in emerging markets lead to improved firm performance. The level of institutionalization and adaptability in a given firm is driven to a large extent by the owner family characteristics, such as harmony of relationships and democratic decision-making.

Institutionalization is defined as "the emergence of orderly, stable, socially integrating patterns out of unstable, loosely organized, or narrowly technical activities" (Broom & Selznick, 1955, p. 238). Selznick (1957) asserts that institutionalization is a process by which an organization develops a distinctive character structure through a series of decisions influenced by the characteristics of its participants and the environment (also see Scott, 1987, 1992). The main impact of institutional environment is through institutional rules organizations incorporate in order to gain legitimacy, access to resources, and stability, and thus enhance their

* Corresponding author.
E-mail address: cengiz.yilmaz@boun.edu.tr (C. Yılmaz).

1090-9516/$ – see front matter © 2008 Elsevier Inc. All rights reserved.
doi:10.1016/j.jwb.2008.03.006

survival prospects (Meyer & Rowan, 1977). These rules, often called rationalized myths, "define new organizing situations, redefine existing ones, and specify the means for coping rationally with each" (p. 344). The present study is inspired by the fact that environments faced by family businesses in emerging markets are substantially different from those in economically developed countries. In particular, emerging economies need to satisfy a twofold challenge simultaneously: industrialization and integration with the global market. In their attempts to expand their trade with the rest of the world, organizations in emerging markets are highly reliant on gaining legitimacy in the global marketplace. These organizations face increasing complexity in their diverse relational networks as well as more multifarious institutional rules (competition rules, consumer protection legislation, accounting and disclosure requirements, labor practices, etc.) originating from different environments. While these challenges are faced by firms in developed countries as well, because firms in developing nations lag behind in the process, these firms need to change at an accelerated pace. Therefore, institutionalization is more vital for firms in emerging economies.

We conduct our research in a specific developing country, Turkey, which has the typical institutional challenges of developing countries, such as economic and political instability, less structured and less formalized organizational systems, and inconsistencies in legal frameworks and practices (e.g., Punnett, 2004). Incorporation of orderly, stable, and socially integrated systems is of great importance for firms in countries like Turkey. The fact that Turkey has recently began accession talks with the EU further underscores the critical importance of institutionalization processes. Furthermore, business culture in Turkey is characterized by patriarchal relationships dominated by high in-group collectivism (i.e., kinship), high uncertainty avoidance, centralized decision-making, and high power distance (Kabasakal & Bodur, 2002, 2007). Family firms in Turkey are more traditional and are strongly attached to their founders' values than non-family businesses (Koçel, 2006). Therefore, the challenges faced by Turkish firms in integrating new institutional arrangements are substantial.

We propose that improving performance through institutionalization requires an emphasis on adaptive capabilities, defined as the ability to identify and capitalize on emerging opportunities (Miles & Snow, 1978). Adaptability, which involves creating change, customer focus, and organizational learning (Denison & Mishra, 1995), is fundamentally related to institutionalization, facilitating and complementing it. First, as Selznick (1996) proposes, institutionalization is essentially an adaptation process. Second, and especially pertinent to developing markets, the long-term perspective required for institutionalization should be complemented by flexibility necessary to handle dynamic dependencies and to capitalize on market opportunities.

Although institutionalization process of an organization is driven predominantly by the immediate institutional environment, firms within the same environment differ from one another in terms of their proclivity to take on distinctive patterns. Selznick (1957) has argued that an organization's leaders should define the institutional mission and defend its integrity. In the context of family firms, the leadership role for the series of decisions that develop the distinctive character of the organization (Scott, 1987, 1992) is played by the founder families. The effectiveness of these decisions, and thus institutionalization of the firm, is likely to be influenced by the characteristics of the founder family.

Accordingly, our research agenda is twofold. As shown in Fig. 1, we first attempt to understand the role of two highly relevant founder family characteristics, specifically harmony among family members and the degree of democratization in decision-making, in the institutionalization process of family firms as well as their adaptive capabilities. Then, we examine how institutionalization and adaptability jointly drive firm-level differences in quantitative and qualitative performance components. In addition, three control factors (environmental uncertainty, firm age, and size) are included in our analyses in order to conduct more stringent tests of the hypothesized relationships.

2. Model development

2.1. Institutionalization

As an organization institutionalizes, it tends to take on a special character or achieves a distinctive competence (Selznick, 1957, 1996), with a gradual process resembling the socialization of individuals in groups (Tolbert & Zucker, 1996). Institutionalization processes include creation of a formal structure, emergence of informal norms, development of impersonal/objective procedures, administrative rituals, ideologies, legalization, and focus on legitimization. Institutional theory therefore traces the "emergence of distinctive forms, processes, strategies, outlooks, and competences" (Selznick, 1996, p. 271) from patterns of organizational interaction and adaptation in response to internal and external environments.

Attempts to measure institutionalization at the firm level are rare. Analyzing the consequences of institutionalization, such as survival, stability, and isomorphism is usually preferred (Jepperson, 1991; Zucker, 1987). An alternative is to gauge the level of institutionalization based on the impositions of institutional environment, i.e., the influence of rationalized myths. Seeking legitimacy is an important driver of adopting institutionalized practices. In emerging markets where firms are increasingly seeking recognition by customers, creditors or business partners around the world, one can expect that the institutional environment be increasingly driven by business norms and expectations of the developed world representing predominantly Western values. The operationalization of the institutionalization construct in this study focuses on organizational processes that reflect an organization's gradual evolution towards adapting and legitimizing its formal structures, informal norms, collective procedures, administrative rituals, and even shared ideologies, in line with the "rationalized myths" (cf. Meyer & Rowan, 1977) of the institutional environment. A closer investigation of the relevant literature and in-depth interviews with practicing