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Planning and Risk in Family Firms - a Socioemotional Wealth Perspective

Extended Abstract

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Abstract
Management accounting views planning and risk often as separate topics. Concerning planning and budgeting, recent empirical studies that these differences may no longer exist. The situation regarding the integration of risk aspects – understood as fluctuations – in operational planning and budgeting is different. The majority of companies still calculate with certain expected values. This paper addresses the representation of risk in the planning of family firms. It is based on an empirical study among 261 German companies in the year 2015 and takes Socioemotional Wealth (SEW) as the theoretical basis. It can be shown that family firms feel more risk aversion, yet plan less and integrate risk aspects to fewer extents than non-family firms.

1 Introduction

In recent years, research contributions have increasingly focused on the connection between controlling and livelihood security in SMEs, family businesses and medium-sized enterprises (Lavía Lopez and Hiebl 2015; Hiebl et al. 2015). However, the consideration of risks in the context of controlling instruments has so far been largely excluded. Based on the literature, theoretical considerations of contingency theory and socio-emotional wealth (SEW) and a separate empirical study from 2015 in German companies, this article is therefore intended to answer the following main research question:

To what extent are planning and risk intertwined in family businesses?

Chenhall (2003; 2007) and Lavia Lopez and Hiebl (2015) in particular argue that there is a lack of contingency-based studies on SME controlling. Therefore, contingency theory, an important reference theory of management accounting and thus also of controlling (Otley 2016), is used for this article. These arguments are supplemented by the Socioemotional Wealth (Gómez-Mejia et al. 2007). This relatively new theoretical approach attempts to trace the decision-making behaviour of decision-makers back to the network of family relationships. At its core is the statement that decision-makers who are family members at the same time sometimes make conscious decisions that can have negative consequences for the company in order to secure their own position in the family network. In the context of considering risks, this could mean that owners conceal risks that they are aware of from other decision-makers in the company and that they are taken into account in company systems that counteract controlling.

This article is intended to supplement existing arguments on the use of control in German companies, especially family firms, and to enrich the empirical research on planning and budgeting in family firms with current empirical results.

2 Risk Integration in Family Firms

From a scientific perspective, a separate, rather theory-oriented research line has developed in recent years to take account of risk issues in medium-sized companies and family businesses, which is also based on contingency theory, behavioural theory and socioemotional wealth (Hiebl 2013). Here, family businesses are generally presented as more risk-averse than non-family businesses (Hiebl 2014). The theory of Socioemoti-onal Wealth (Gómez-Mejía et al. 2007) postulates that family businesses can be both risk-averse and risk-aware at the same time. From the authors' point of view, the situational risk appetite depends on the respective situation and the relationship structure within the "family" system. Goméz-Mejía et al (2007) postulate that the highest maxim for decision-makers who are also members of the family of entrepreneurs is to secure their position and influence in the family network. In contrast to earlier studies, which argued, for example, from the point of view of principal-agent theory, there is a view here that family members reject the formalisation of knowledge - the use of controlling instruments would be one of them - because this could increase the transferability of information and thus weaken the family position, since other "outsiders" such as employed managers would now also have access to privileged information.

Such a perspective also postulates, however, that family entrepreneurs and company enterprises must first be aware of the risks resulting from upcoming decisions and actively avoid them. This article follows a similar but slightly different line of argumentation, since it is postulated that medium-sized family-owned companies less often formally record risks and thus integrate them less frequently into operational planning and budgeting, since the effects of contingency theory and socioemotional wealth overlap.

3 Methodology

In order to test hypotheses, 1,900 companies with at least 50 and at most 5,000 employees in the German states of Baden-Württemberg, Bavaria and Saxony were contacted in 2015. The markus database was used to generate samples. The study was conducted as a comprehensive study on the subject area of controlling, whereby the results presented here refer to the instrument part of the survey.

The study was conceptualized as a postal survey. The individual companies were contacted by letter for participation. After the first processing period from September to November 2014, a reminder was sent by e-mail. In total, 288 companies (15.05 percent) responded between September 2014 and January 2015, of which only 261 questionnaires could be used (13.74 percent). The return flow is therefore comparatively acceptable.

This means that the final sample for this contribution is presented by 261 companies. According to Armstrong and Overton (1977), the first and last third of the responses to structural differences were examined with regard to the control variables company size, industry affiliation and age as well as the use of the queried controlling instruments in order to exclude a possible non-response bias. The results gave no reason to assume a non-response bias.

4 Results and Conclusion

The objective of this contribution was to point out possible differences in the consideration of risk aspects in operational planning and budgeting in medium-sized enterprises and to differentiate in particular between family enterprises and non-family enterprises. An interesting field of tension can be constructed from the various hypothesis tests of this study and the existing literature: Various contributions such as Hiebl (2013; 2014) postulate that family businesses are generally more risk averse than non-family businesses. This contribution also consistently shows that family companies place greater emphasis on securing their livelihood in controlling than non-family companies. With regard to controlling instruments, however, family companies show an adverse behaviour that cannot be fully explained by contingency theory. If risk aspects play a more important role than in non-family businesses, their consideration in the instruments used should also be higher - but the opposite is the case.

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