

## SMALL AND MEDIUM FAMILY ENTREPRENEUR LEADERSHIP BEHAVIOR AND ENTERPRISE PERFORMANCE

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### Abstract

This paper reviews the research progress of the relationship between the leadership behavior and the performance of the Small and Medium Family Entrepreneurs (SMFE) in recent years. First, this paper describes the definition of Small and Medium Enterprises (SME) and Small and Medium Family Enterprises (SMFE), reviews the research history, current situation and theoretical of Small and Medium Family Enterprises. Secondly, the literature is reviewed on the Small and Medium Family Enterprise (SMFE)'s leadership behavior, the SMFE management model, the SMFE enterprise performance, the relationship between corporate governance and corporate performance. Finally, some research findings conclusions about leadership behavior, governance and corporate performance are showed. The article briefly describes the problems to be further studied in the end.

**Keywords:** Entrepreneur, Leadership, Behavior, Governance, Performance

## Introduction

Small and medium-sized family business is a common type of organization. About 90% of the enterprise is a family owned or controlled companies in the United States, and 80% of them are small companies. Small and medium enterprises is the main body of China economic system. According to statistics, In China small and medium enterprises accounted for 99% of the total number of companies, and small and medium-sized family enterprises accounted for at least 90% of the above. (Zhou, 2005: 5-11).

In recent decades, more and more attention has been focused on the research of small and medium sized family enterprises. A study show that the papers about the small and medium-sized family enterprises published in the academic journals are 33 in 1989, 110 between 1990 -1999, and 195 from 2000-2003 (Sharma, 2004: 1-36).

This paper reviews the research history, current situation and theoretical of Small And Medium family enterprises; and then, the literature is reviewed on the Small And Medium family enterprise (SMFE)'s leadership behavior, the SMFE management model, the SMFE enterprise performance, the relationship between corporate governance and corporate performance. Finally, the article briefly describes the problems to be further studied.

## Text:

### 1. Small and medium enterprises

#### 1.1 Definition of small and medium sized enterprises

According to 《The China small and medium-sized enterprise Standard》, in the industrial field, small and medium enterprises shall meet the following conditions: number of employees is within 2000, or sales are below 30000 CNY, or total assets are below 400 million CNY.

#### 1.2 Characteristics of small and medium enterprises

(1) The high unity of ownership and management; (2) organization structure is relatively simple in the enterprise, and less management layer; (3) small and medium-sized enterprises have small scale production, but the ability to respond to market is relatively strong; (4) business scope is narrow, and production and management is professional; (5) the economic power is weak, competition ability is low, and enterprise life cycle is short.

#### 2. Research on small and medium family enterprises

##### 2.1 Family enterprise meaning

Western researchers generally define family enterprise from the perspective of corporate controlling rights. Chandler argued that family enterprises essentially is an entrepreneurial enterprise, and its founder and its closest person or family always grasp a majority stake in the enterprise, and retains important management decisions (Charles, Goetz & Scott, 1981: 1089-1150).

The definition of Chinese researchers is similar to that of western researchers, such as Zheng (2000: 219-227) think that the family

enterprise is family rules and business rules combination which the family assets have controlling position.

From the definition of most researchers, the author summed up some common points: (1) ownership: the absolute or relative holding; (2) the right to operate: by the family directly or indirectly control (2) family members involved in the aspects: there are two or more family members working in the enterprise; (3) the inheritance of the business: inherited by the members of the family.

## 2.2 Small and medium family enterprises meaning

In the academic industry, there is not a unified definition for small and medium-sized family enterprise (Fox, Nilakant & Hamilton, 1996: 15-25; handler, 1989: 257-276); From the definition of most researchers, the author summed up some common points: (1) ownership: the absolute or relative holding (2) the right to operate: controlled by the family directly or indirectly (3) the aspects of family members involving in: with two or more family members working in the enterprise (4) inheritance: inherited by family members; (5) Staff: with employer less than 500 , and assets less than 50 million;

## 2.3 Small and medium family enterprises research has been a global hot topic

On the one hand, through the study of family enterprises we can explore the unique value of family altruism and entrepreneurial spirit. On the other hand, it is also an important starting point for developing management theory suitable to Asia include China and Thailand

culture system and promoting the management practice innovation.

## 2.4 Research status of foreign small and medium family enterprises

### 2.4.1 Small and medium family enterprise's economic and social value

According to conservative estimates, the proportion of family enterprise is more than 2/3 in the enterprises of western countries. The proportion of United States family enterprise is about 65%-80% (Avila, Fern & Mann, 1988: 45-54), the proportion of the British family enterprise is 75%, the proportion of the Spanish family enterprise is 80%, the proportion of Italy and the Middle East countries more than 95%. Family enterprise plays an important role in creating economic wealth, providing employment and promoting market competition. Family enterprise value is not only reflected in the creation of economic wealth, but also reflected in the social function over the general economic significance.

### 2.4.2 Small and medium family enterprises on the assumption of the traditional economy and the characteristics of the family enterprise

In traditional economics, the rational behavior of economic man is interpreted as the pursuit of its own interests maximization, but in the case of inconsistent or asymmetric information, the agent's opportunism behavior takes place. But in the family enterprise, due to nepotism of consanguinity, the employees in the family enterprise have altruistic behavior. This deviates from the traditional economic

self-interest doctrine (selfish) behavior and become the main features of family enterprises governance efficiency. (Astrachan, Klein & Smyrnios, 2002: 45-58)

#### **2.4.3 Research on small and medium family enterprises governance**

The corporate governance issues between small and medium family enterprises and public corporation have a qualitative difference. The research conclusion shows that the research focus of the corporate governance structure of the family enterprise is the characteristics of the ownership and the management of family members in the enterprise, and the different allocation methods will produce different governance efficiency and performance differences.

#### **2.4.4 Research on the organizational behavior and its competitive characteristics of small and medium family enterprises**

At present, the study of family leadership behavior and organizational behavior is mainly based on the existing theory of organizational behavior to explain and explore the problem of organizational behavior in the context of family enterprise. Such as Sorenson[8] research believes that, in addition to the positive impact on employee satisfaction and organizational commitment, as well as corporate performance, but also conducive to the governance of the family itself.

The characteristics of family enterprise's organizational behavior also formed its competitive uniqueness, which is mainly reflected in its family factors (Carson, Madhok & Wu,

2006: 1058-1077) and its unique corporate governance structure system. For example, Carney (Chen & Farh, 1999: 12-16) summarized the impact from family control of the enterprise assets into three aspects: frugality doctrine, humanism and particularism. These features can make the family enterprises to get the unique competitive advantage in particular environment.

#### **2.4.5 Research on entrepreneurship and inheritance of small and medium family enterprises**

Family member involvement and inheritance is the key factor to influence the success of family business and its sustainable development (Dyer & Handler, 1994: 71-83). In this study, Baker (Baker, Gibbons & Murphy, 1999: 56-73) will be divided into four stages: family founder of independent business -- the next generation family member management ability training and development, founder and the next generation of common management power and responsibility to inherit.

#### **2.4.6 Small and medium family enterprises research**

At present, the research mainly focused on two issues: one is the role of family in the entrepreneurial process, is the second question, this family embeddedness on entrepreneurial influence whether the formation of new ventures or enterprise business competition and growth process of unique value.

#### **2.5 China relative research status**

Small and medium family enterprises research in the country basically began from

the 1990's, the main research topics focused on the following aspects:

### **2.5.1 Chinese culture and trust structure family enterprise growth dilemma**

Chinese traditional family culture and social relations formed "feature difference preface pattern", close or distant relationship trust differences and nepotism preference (Chua, Chrisman & Sharma, 1999: 19-37).

Advocating family ethics and relation network of Chinese social system background, the contract relations become a tacit form of contract. Accordingly, relational governance into Chinese family owned corporation a adaptive strategy system arrangement (Covin & Slevin, 2002: 309-927). In fact, the actual governance model of China's family enterprise is the coexistence of two means of relationship governance and contract governance.

### **2.5.2 Leadership behavior and inheritance of Chinese small and medium family enterprises:**

Parent style leadership and entrepreneurial spirit inheritance existing research just in Chinese family business scenarios to analyze leadership behavior and organizational behavior, no further explore different leadership behaviors and family business growth, did not reflect the Chinese context theory is unique.

### **2.5.3 Small and medium family enterprises and sustainable growth**

Domestic entrepreneurship research has only just begun, mainly concentrated in the theoretical analysis. Under the institutional environment of China, it is suggested that

the research of family business based on the localization of family business can be carried out from the perspective of family, resources and entrepreneurial orientation.

## **2.6 The theoretical model and three dimensional development model of family enterprise**

### **2.6.1 A three ring theoretical model of family enterprise: a cross sectional analysis**

Researchers in the United States (Bass, 1990: 760-830) proposed study of family enterprises in the classical model: three links theory model and the model to the family business system expressed as three separate but overlapping subsystems: enterprise, the ownership and family.

### **2.6.2 Three dimensional development model theory of family enterprise: a longitudinal section analysis**

With the change of enterprise life cycle and family members to enter or exit, the enterprise organization, family structure and ownership allocation will change accordingly. The result is produced a family enterprise three-dimensional development mode (Conger & Kanungo, 1987: 637-647). Three dimensions: (1) ownership development dimension (2) family development dimension (3) enterprise development dimension.

## **2.7 Comparison and Enlightenment of Chinese and foreign small and medium family enterprises**

From the recent trend of research in the west, the current research focus is deeply analyzing the process that these characteristics

affect family enterprise organizational behavior, resource acquisition and utilization, as well as the entrepreneurial process, etc.. For the Chinese family enterprise, the clan system (Dyer & Handler, 1994: 71-83), family ethics (Redding & Wong, 1986: 267-295), the definition of property right and protection, social relation network and social responsibility have a unique mechanism of action for family business entrepreneurship and sustainable growth.

### **3. The research review on the leadership behavior of small and medium family enterprise**

#### **3.1 The development and evolution of enterprise parent leadership theory research**

##### **3.1.1 The study on the leadership behavior of Chinese social parent Enterprises**

From 1960's, by a case study Silin proposed that the leadership style of owners and managers in Chinese society business is different with in the western society. He summarizes the main dimensions including didactic leadership, moral leadership, centralization, keeping upper and lower distance, leadership intention and control. Redding (Redding, 1990: 122-136) put forward the concept of "benevolent leadership" by in-depth interview research method (Avila, Fern & Mann, 1988: 45-54). The system research on the Chinese family enterprise leadership morphology began in the end of 1980s. In 1993 to 1994, the researcher Zheng Boxun in Taiwan had succession interview with 18 Taiwan family business leaders and 24 supervisor, and proved once

again that the paternalistic leadership in the Chinese society is enterprise organizations general leadership model.

The study of parent-leadership behavior of private enterprises in mainland China began in 1990s. Zheng (2000: 219-227) conduct a comparative study on the leadership behavior in business of two sides of the Taiwan Strait, and proved that the three dimension model of parents leadership has a considerable degree applicability in the mainland enterprises. Zhou & Long (2005: 227-238), Wang, Xin & Xu (2006: 17-19), Wu & Wu (2007: 21-23) studied China mainland enterprises paternalistic leadership behavior, and get similar conclusions.

##### **3.1.2 Study on the parents leadership behavior in non -Chinese Society**

With the continuous development of the research area, it is found that the parent leadership is not the unique leadership mode of Chinese enterprises in the Chinese society, there exist in different parts of the world. The research by Mathieu & Zajac (1990: 171-194) on the India enterprise research shows that most of the employees are very much agree with the parent leadership style. The research from Bass (1990: 760-830) on the Mexico enterprise has also found that there is evidence of the existence of the parent type leadership behavior. By researching the relation between Turkey employee organization, Borman & Motowidl (1993: 71-89) pointed out that there is a kind sweet relationship similar to family members between employees and employer. Birley & Godfrey (1999: 598-608) pointed out

that the corporate parents familism is an important part of the Japanese national culture system. Baker, Gibbons & Murphy (2002: 39-81) pointed out that the parents type leadership is also an effective way widely used in Malaysia enterprises.

Even in the western society with doubt about the effectiveness of parent leadership, there are some research findings about the existence of parent - leadership. The survey from Becker (1960: 32-42) on the employee in United States, Germany, Canada and other 10 countries show that more employees in the United States agree with paternalistic leadership style than the employee in Germany, Israel and Canada. It explains that even in a highly personal heroism and democracy country like United States, paternalistic leadership behavior also exists.

### 3.2 The theoretical model and measurement of enterprise parent leadership

With the deepening of research, under the different cultural background, the parent oriented leadership behavior model and the subordinate response become the hot spot in the research, and of the different forms of parent leadership theory model form. These theoretical models have not only the common characteristics, but also many differences, because of the people's behavior difference under the different cultural backgrounds and the East and West researchers have different understanding for the connotation of the parents' leadership,. Among them, the more representative models is the parents leadership

theory model under Chinese cultural background proposed by Zheng Boxun, and the parents leadership four dimensional theory model proposed by Aycan and others based on the Western cultural background.

#### 3.2.1 The theoretical model of parent enterprise leadership behavior

##### (1) Zheng Boxun paternalistic enterprise leadership theory model

Zheng Boxun put forward the three dimensions theory of parent leadership behavior. He thought that parents leadership in typical Chinese cultural background includes 3 types of behavior: authoritarianism leadership, benevolence leadership, morality leadership.

##### (2) Aycan four dimensional model of parent enterprise leadership theory

Aycan proposed the concepts about ex-ploitative leadership and benevolent leadership on the base of the leader's generosity and concern for subordinates and the loyalty of subordinates. On this basis, Aycan combined dictatorship management with authority management to divide parent leadership into four dimensions of leadership, including ex-ploitative leadership, benevolent leadership, dictatorship leadership, authority leadership.

#### 3.2.2 Parent type leadership behavior measurement

Aychan construct a simplified paternalistic leadership scale. In 2006 he expanded the scale, and extract the paternalistic leadership scale containing the five factors (including workplace family atmosphere, personal relationship, the carefulness level of leader on staff's

work and life, expectation on loyalty and status) and 21 items.

Lu et al. (2003: 1-11) reference Zheng (2000: 219-227) research, and reference the scales used by Wang & Yao (2002: 11-13), Zhang (2002: 23-25), Wang (2002: 15-17), design the parents type leadership behavior measuring scale including three dimensions (moral leadership and benevolent leadership, authoritarian leadership) and a total of 30 items.

## Conclusion

We can conclude from the analysis on these papers:

1. The transactional leadership theory, the transformational leadership theory, the enterprise employee orientation-production orientation leadership behavior theory from University of Michigan, the structure-care two dimensional leadership theory from Ohio State University is classical theory in the field of leadership behavior; paternalistic leadership three element theory from Zheng Boyun in China Taiwan, and Chinese enterprise CEO leadership behavior 6 factors structure (Tsui et al., 2006: 113-137) are important theory of leadership under Chinese cultural background.

2. From these papers, we know that the related research often use questionnaire survey in the data collection, used to use quantitative analysis in the research methods, use cross sectional method in the logic method.

3. The theory has been set up for a long time, but from the point of view of a number of related papers, some theory such as paternalistic leadership 3 dimensional theory validation may not comply with the theoretical assumptions in different countries or regions.

The future research can be done by the way of interview, observation and questionnaire survey in data collection, by the way of qualitative method combined with quantitative analysis in the research methods, by the way of cross-sectional method combining longitudinal method in the logical method, which may will draw some meaningful conclusions.

## Problems to be further studied

Through literature analysis, it is found that there are still the following problems need to be researched in the previous studies, which need to be solved by researchers:

1. The leadership behavior theory model of small and medium-sized family enterprises
2. Influencing factors of the leadership behavior of small and medium sized family enterprises
3. The relationship between leadership behavior and governance model of small and medium sized family enterprises in 3
4. The relationship between leadership behavior, governance performance in small and medium-sized family business

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