BABSON COLLEGE

2022 BCERC DOCTORAL CONSORTIUM
Research Translation Showcase

Cutting Costs and Reaping Benefits: I Work For My Family and I Love It

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I like my family, in fact, I love it. Thinking about having dinner with my family in the evening sounds, at the very least, quite awesome. Would anything change if I were to work with my family and not only have dinner, but also breakfast, lunch, and 8 to 10 hours of work? For some the answer is 'yes' for others it is a hard 'no.' For me, the answer is 'maybe.' This question is not novel, nor rare.

Look around, family firms are everywhere. Researches from all over the world have suggested over and over again that family firms are one of the most prominent types of firms out there. Still can't think of one? What about Walmart? Volkswagen? Ikea? Lego? Samsung? Yes, you are right, all these firms are huge ones, corporations if you will. When it comes to smaller firms all over the world, a vast majority of them are family firms. One family member starts a firm, invites her son, daughter, husband, nephew, niece, and that is how the majority of smaller family firms are created.

Family firms are unique because family members not only work with each other, but also they go home and have dinner together. This unique combination of the 'family' and the 'firm' is what makes family firms so different from other types of firms, which are usually referred to as nonfamily firms. I have a few friends whose families own family firms and let me tell you, many of their dinner conversations are not about school and football practice, but rather about work and more work.

Researchers at prestigious universities have studied the dynamics of family firms and they found that family firms may have a lot of advantages. I then came across the idea that firms that families run are their 'properties.' If that is the case, then how can and do family firms have an advantage in any sort of strategic decisions such as innovation or internationalization over nonfamily firms? At the end of the day, without making good decision family firms cannot sustain and then the regular dinners together as a family and firm employees cannot happen. With this in mind, I started my dissertation.

I wanted to understand family firms at some fundamental level, the level that is going to help me understand their behavior and the outcomes of their behavior in some new and meaningful way. The works of Harold Demsetz (Nobel Prize in Economics in 1982), Ronald Coase (Nobel Prize in Economics in 1991), Oliver Hart (Nobel Prize in Economics in 2016), and Armen Alchian, among others inspired me to examine family firms form a property angle.

Therefore, I used a somewhat conventional theory—property rights theory. This theory tells us that firms that effectively negotiate and police their contractual agreements can then more effectively use their properties, receive income from their properties, and transfer them at their discretion. Practically, both effective negotiating and policing are associated with cutting costs which, as we know leads to more benefit based on the simple financial formula: profit = revenue – expenses. When costs are cut, the benefits go up. Good news for family business owners.

I found in my research that family firms strive to stay in business for generations, rely on "handshake" deals both of which help them facilitate cutting costs of negotiating and policing their contracts. On the other hand, nonfamily are known to focus primarily on the short-term profit maximization and not on the long-term survival. It does not mean that nonfamily firms do not care at all whether they survive another year (stakeholder definitely care), but their incentive to do so is rather limited.

Because family firms place more value on their noneconomic goals and because of the high concentration of ownership and management in the firm, they can cut the costs of negotiating and policing which in turn should improve their performance.

The takeaway is simple: family firms can cut the costs and thus reap the benefits because of how they are. When that happens, everyone involved is more satisfied, psychologically and financially, two aspects that definitely lead to better dinner conversations.

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