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ETHICS OF PERSONAL BEHAVIOR IN FAMILY BUSINESS (II): DIFFERENCES OF PERCEPTION

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Abstract

The results presented in the following research paper are based on information collected by means of a questionnaire sent to 1800 medium-sized and large Spanish family businesses. The owners and managers of these firms were asked about their perceptions of the frequency of violations of ethics in personal behavior in family businesses. A total of 33 types of behavior to do with ownership of capital, power, business strategy, company organization and shareholders was listed.

This study reveals a number of factors that influence perceptions of ethics violations in family businesses.

Level of education is without any doubt the factor with the greatest influence on the perception of ethics violations in family businesses. The more highly educated a person is, the more violations he or she perceives. Other statistically significant factors include: whether or not the respondent is a shareholder in the family business, what share he or she has in the ownership of the business, the respondent's age, the latest generation to join the family business, and whether any one shareholder owns over 50% of the company capital.

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ETHICS OF PERSONAL BEHAVIOR
IN FAMILY BUSINESS (II):
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Introduction

To date, the work carried out and published in the field of Family Business Ethics is still in its initial stages (Riemer, 1994; Adams, Tashin and Shore, 1996; Hoover and Lank, 1997). This paper is a continuation of an earlier paper published in the *Family Business Review* (Gallo, 1998), in which it was shown that behavior involving ethics violations is most often related to efforts to delay succession in order to hold on to power; this is achieved by creating an organization based on buying people's loyalty and refusing to face up to any major strategic challenge.

The results presented in the following sections have been obtained from data collected by means of a questionnaire (Exhibit 1) which describes 33 types of behavior relating to: acquisition and transfer of ownership, acquisition and use of power, business strategy, company organization, and shareholders.

The questionnaire was sent to a sample population of 1800 owners and managers of medium-sized and large Spanish family businesses. The total number of valid responses was 253 (13%).

The respondents' perceptions of ethics violations in personal behavior in family business (FB) were analyzed according to the following personal and business characteristics:

- FB Shareholder or Non-Shareholder.
- Share in ownership of company.
- Respondent's age.
- Latest generation to join the FB.
- Whether any one shareholder owns over 50% of the company capital.
- Respondent's level of education.

The results indicate that all these characteristics have an impact on the perception of how often ethics violations are committed, with "level of education" being the most influential of them all.

1. Shareholder or Non-Shareholder

The differences in the averages are statistically significant only in the 4 behaviors shown in the following table. This is a relatively small number of behaviors (12% of the 33 listed in the questionnaire) and, what is more, the differences are not very great (18% on average).

Table 1

	Are you a shareholder?	***Yes***	***No***	***Total***
		214	39	253
Nº	**Behavior**	**Average**	**Average**	**Difference**
1.2.2.	Creating an ownership structure that makes governance of the company difficult	2.33	2.83	21%
4.5	Blocking the careers of capable managers	2.24	2.71	21%
4.1	Appointing incompetent people to important posts (nepotism)	2.70	3.17	17%
4.3	Favoritism and discrimination	2.63	2.98	13%

* With a 95% confidence interval, $p < 0.05$

As can be seen, respondents who are not shareholders but *do* work in the FB are more critical of the owner/managers' behavior. They believe that family members are given preference over them, and that the work of non-family managers and their career prospects in the company are clearly affected.

2. Share in ownership of company

The averages were compared by classifying people in two groups according to their share in the ownership of the company. The group which ostensibly wields the greatest power and so has the greatest influence on ethical behavior in the company consists of those who own or represent 50% or more of the company capital. The other group consists of those whose share in ownership is less than 50%.

Again in this case, the differences in averages are statistically significant in 4 of the behaviors listed (12% of the total), and again the differences are not very considerable (18.75% on average).

Table 2

	What percentage of equity do you own or represent?	*> = 50%*	*< 50%*	*Total*
		51	*163*	*214*
No.	**Behavior**	**Average**	**Average**	**Difference**
5.6	Appropriating company funds	2.6	3.2	23%
4.9	Witholding or falsifying information	2.0	2.4	20%
4.11	Unnecessary luxury in company offices	2.1	2.5	19%
4.10	Unjustified expenses	2.4	2.7	13%

* With a 95% confidence interval, $p < 0.05$.

As can be seen, the shareholders with a smaller share in ownership are more critical of the behavior of the majority shareholders with respect to "enjoying" certain economic advantages and "manipulating" information.

3. Age

If the sample is split into two groups, one of employees aged under 45 and the other over 45, statistically significant differences are found in 14 types of behavior (44% of the total). These differences cover a wider range than in the previous cases (maximum difference = 23%, minimum difference = 10%), and a similar average (16.07%).

Table 3

	Age under 45	*Yes*	*No*	*Total*
		125	128	253
No.	**Behavior**	**Average**	**Average**	**Difference**
3.2	Putting the company on automatic pilot, leaving it to carry on "as usual", so as to be able to devote more time to other things	2.86	2.33	23%
1.2.2	Creating an ownership structure that makes governance of the company difficult	2.69	2.21	22%
1.2.1	Defrauding legitimate heirs	1.85	1.54	20%
4.5	Blocking the careers of capable managers	2.56	2.17	18%
3.1	Preventing the necessary development, growth and change in the company (by staying in mature businesses, not diversifying, etc.)	3.06	2.63	16%
5.4	Demanding information to which they are not entitled	2.24	1.93	16%
4.2	Unfair or inadequate compensation	3.02	2.62	15%
3.3	Preventing others from contributing with their opinions to strategic analysis and decision making	3.23	2.84	14%
5.5	Making inappropiate personal use of company assets	2.49	2.18	14%
5.6	Appropriating company funds	2.93	2.60	13%
4.3	Favoritism and discrimination	2.87	2.58	11%
5.2	Obliging the company to pay dividends that have not been earned	2.24	1.98	13%
4.1	Appointing incompetent people to important posts (nepotism)	2.95	2.67	10%
4.6	Delaying succession processes	3.41	3.10	10%

* With a 95% confidence interval, $p < 0.05$.

As can be seen, the younger employees perceive a greater frequency in five types of unethical behavior (3.2, 1.2.2, 1.2.1, 3.1 and 4.5), all related to developing the company, creating a strong governing body and capital structure, and building a management team that will make the company develop and prosper.

4. The latest generation to join the company

In this case, the averages were compared by dividing the sample into two groups. The first group consisted of firms in their first or second generation, and the second of firms employing family members from the third generation or later.

The "generation" characteristic has a stronger influence on the perception of unethical behavior. The difference in the averages was statistically significant in 16 cases (48.5% of the total). However, as can be seen from the following table, the differences are smaller than in the previous cases (maximum difference = 22%, minimum difference = 11%, average = 14%).

Table 4

	Latest generation to join the company	*1st–2nd* 139	*3rd* 114	*Total* 253
Nº	**Behavior**	**Average**	**Average**	**Difference**
4.10	Unjustified expenses	2.66	2.18	22%
2.2.1	Promoting personal financial interests at others' expense	2.51	2.08	21%
5.6	Appropriating company funds	2.94	2.49	18%
2.1.1	Deceiving those entitled to hold power	1.93	1.66	16%
1.2.2	Creating an ownership structure that makes governance of the company difficult	2.59	2.26	15%
2.1.2	Threatening from a position of strength backed by a large equity stake, confidential information, etc.	2.36	2.05	15%
4.9	Witholding or falsifying information	2.23	1.94	15%
3.2	Putting the company on automatic pilot, leaving it to continue "as usual", so as to be able to devote more time to other things	2.74	2.39	15%
1.1.1	Forcing property rights from other people	1.94	1.70	14%
2.1.3	Using delaying tactics to prevent others from gaining power	2.50	2.20	14%
4.2	Unfair or inadequate compensation	2.97	2.60	14%
1.2.1	Defrauding legitimate heirs	1.78	1.57	13%
4.5	Blocking the careers of capable managers	2.47	2.18	13%
4.3	Favoritism and discrimination	2.84	2.54	12%
3.3	Preventing others from contributing with their opinions to strategic analysis and decision making	3.15	2.85	11%
4.1	Appointing incompetent people to important posts (nepotism)	2.93	2.64	11%

* With a 95% confidence interval, $p < 0.05$.

If we look at the behaviors in which perceptions differ, we can see that in the "Ownership of capital" group (1.1.1, 1.2.1, and 1.2.2), the people who work in "young" FBs are more critical than those who work in third generation or older FBs. A similar difference can seen in the "Power" (2.1.1, 2.1.2, 2.1.3 and 2.2.1), "Business strategy" (3.2 and 3.3) and "Company organization" (4.1, 4.2, 4.3, 4.5, 4.9 and 4.10) groups.

These data suggest that as the number of family members and shareholders increases, ethical behavior improves. Often, the number of family members and shareholders increases considerably with the arrival of the third generation, with new “actors” and “spectators”—all with an interest in the FB. It is easier to “hurt”, “betray”, “threaten”, “do what one likes with the strategy”, “ignore other people’s opinions” or show “favoritism” towards certain members of the organization when there is only a small number of owners.

5. Existence of a shareholder with over 50% of the company capital

The differences in the averages proved statistically significant in 18 behavior patterns (55% of the total). What is more, the differences are considerably greater than in the previous case, as can be seen in the following table (maximum difference = 37%, minimum difference = 13%, average = 19%)

Table 5

	Is there a shareholder who owns over 50% of the company capital	***Yes***	***No***	***Total***
		80	169	249
No.	**Behavior**	**Average**	**Average**	**Difference**
5.6	Appropiating company funds	2.45	3.35	37%
5.5	Making inappropiate personal use of company assets	2.14	2.68	25%
4.4	“Buying” or controlling managers through compensations, threats, etc.	2.02	2.50	24%
4.10	Unjustified expenses	2.27	2.82	24%
4.1	Appointing incompetent people to important posts (nepotism)	2.63	3.17	21%
5.2	Obliging the company to pay dividends that have not been earned	1.98	2.40	21%
2.2.4	Using power to boost personal prestige and status	2.64	3.14	19%
4.5	Blocking the careers of capable managers	2.21	2.64	19%
4.3	Favoritism and discrimination	2.57	3.02	18%
4.8	Revealing confidential information	1.93	2.28	18%
1.2.2	Creating an ownership structure that makes governance of the company difficult	2.31	2.71	17%
4.11	Unnecessary luxury in company offices	2.10	2.46	17%
3.3	Preventing others from contributing with their opinions to strategic analysis and decision making	2.87	3.34	16%
5.3	Demanding favors contrary to the interests of the company	2.16	2.50	16%
3.1	Preventing necessary development, growth and change in the company (by staying in mature businesses, not diversifying, etc.)	2.72	3.14	15%
3.2	Putting the company on automatic pilot, leaving it to continue “as usual”, so as to be able to devote more time to other things	2.47	2.85	15%
4.6	Delaying succession processes	3.13	3.58	14%
4.2	Unfair or inadequate compensation	2.70	3.06	13%

* With a 95% confidence interval, $p < 0.05$.

Table 5 shows that, when there is a majority shareholder, the minority shareholders are considerably more critical of the former’s ethical behavior.

In particular, it is worth noting the major differences (from 37% to 20%) in perceptions of the frequency of behavior involving "taking advantage financially" of the FB (5.6, 5.5, 5.2 and 4.10). Similarly large differences (from 24% to 18%) can be seen in relation to managers' freedom and capacity to act (4.4, 4.1, 4.5 and 4.3). The remaining ten statistically significant types of behavior mostly have to do either with the two previous groups or with the use of the power derived from owning a majority of the capital to enhance "personal status" (point 2.2.4, where the difference is 19%).

6. Level of education

The respondents were grouped according to level of education: those in possession of a "two-year diploma" or higher were classified under "university education", and the rest under "non-university education". This classification gives 26 statistically significant differences (79% of the behaviors listed). And as the following table shows, the differences are among the highest (maximum difference = 40%, minimum difference = 20%, average = 20%).

Table 6

	Level of education	*University education* 205	*Non-univ. education* 39	*Total* 244
No.	**Behavior**	**Average**	**Average**	**Difference**
2.2.3	Satisfying personal preferences to the detriment of others	2.58	1.84	40%
1.2.2	Creating an ownership structure that makes governance of the company difficult	2.56	1.86	38%
2.2.1	Promoting personal financial interests at others' expense	2.43	1.79	36%
2.2.2	Adopting strategies that entail serious risks for others	2.30	1.69	36%
4.5	Blocking the careers of capable managers	2.47	1.87	36%
3.2	Putting the company on automatic pilot, leaving it to continue "as usual", so as to be able to devote more time to other things	2.70	2.02	34%
2.2.4	Using power to boost personal prestige and status	2.93	2.21	33%
5.5	Making inappropiate personal use of company assets	2.40	1.82	32%
3.1	Preventing necessary development, growth and change in the company (staying in mature businesses, not diversifying, etc.)	2.98	2.30	30%
5.6	Appropiating company funds	2.86	2.20	30%
2.1.3	Using delaying tactics to prevent others from gaining power	2.48	1.92	29%
3.3	Preventing others from contributing with their opinions to strategic analysis and decision making	3.14	2.46	28%
4.10	Unjustified expenses	2.54	2.00	27%
5.3	Demanding favors contrary to the interests of the company	2.36	1.87	26%
1.1.2	Valuing shares incorrectly	2.50	2.00	25%
4.6	Delaying succession processes	3.38	2.71	25%
4.9	Witholding or falsifying information	2.18	1.74	25%
4.11	Unnecessary luxury in company offices	2.30	1.84	25%
4.2	Unfair or inadequate compensation	2.92	2.35	24%
5.1	Alliances among some shareholders at the expense of others	2.38	1.92	24%
1.2.1	Defrauding legitimate heirs	1.74	1.42	23%
4.7	Devoting too little time to the company	2.40	1.92	22%
3.4	Neglecting the interests of future generations	2.55	2.10	21%
4.3	Favoritism and discrimination	2.81	2.33	21%
5.7	Imprudently failing to exercise shareholder rights	2.33	1.92	21%
4.1	Appointing incompetent people to important posts (nepotism)	2.91	2.43	20%

* With a 95% confidence interval, $p < 0.05$.

Those with a broader university education, having seen other ways of doing things, having heard a variety of opinions, and having had more opportunity to measure their views against those of others, are considerably more critical than the rest. They perceive more frequent ethics violations in practically all cases.

The greatest differences (40% to 33%) in all the behaviors that the questionnaire listed as "General ways of using power" (2.2.1, 2.2.2, 2.2.3 and 2.2.4) are found in relation to the respondents' level of education.

Commentary

In the previous section, we saw that most of the "basic data" in the first part of the questionnaire (1) was requested in order to be able to divide the FBs and the respondents into various groups, and that the respondents' perceptions regarding the frequency of ethics violations played an important role.

Of the basic data, there are two items—"being a shareholder" and "percentage of equity owned or represented"—that have an impact on only a few behavior patterns (in both cases, 4 out of 33), which turn out to be very specific. Non-shareholders perceive a higher frequency of ethics violations in the way they themselves are treated in their management activities. Minority shareholders perceive more ethics violations in the way expenses are attributed to the family business and in the way they are kept informed.

As these two groups show only a small number of differences in perceptions, the question arises of whether their being non-family or minority shareholders means that they do not have enough information to judge the other behavior patterns.

"Latest generation to join the FB", "existence of a shareholder with over 50% of the capital" and the respondent's "age" have an impact on the respondent's perception of ethics violations in approximately half of the types of behavior included in the questionnaire. This could be taken to confirm that when there is a large number of shareholders and the percentage of equity owned by those in power is low, the perception that power is used unethically—whether by "taking advantage of the company financially" or by "blocking managers' careers"—is relatively infrequent.

Worth noting among the types of ethics violations perceived by those under 45 is the risk taken by older managers in refusing to acknowledge their age and showing a lack of enterprise in the FB they manage.

Without a doubt, the most influential factor in the perception of ethics violations in family business is the "level of education" of the respondent. University-educated respondents perceived more ethics violations in nearly all the behavior patterns. Violations were particularly noted in relation to the use of power. Moreover, the difference in perceptions between university and non-university-educated respondents is very high,

(1) Five of the eleven items of basic data requested in the questionnaire could not be used: three because of the small number of people in the group ("Gender: Female", "Non-family member shareholders" and "Percentage of capital owned by non-family members"), and the other two because of difficulties in classifying them appropriately ("Position held in the company", "Main business activity").

confirming that a higher level of education leads to a greater sensitivity to ethics violations in family business.

This finding should encourage an effort of self-assessment and self-improvement on the part of FB owners and managers concerned for the survival and development of their firms. There is no doubt that in order to promote survival and development, it is essential to bring in better and better qualified managers—be they family members or not.

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Exhibit 1

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ETHICS IN FAMILY BUSINESS: QUESTIONNAIRE

Basic Data

1 Age ☐ Gender [M] [F] Education ____________________

2 **Your position in the family business:**

☐ Board of Directors ☐ Manager ☐ None
☐ Chief Executive Officer ☐ Other

3 **Are you a Shareholder?**

☐ Yes ☐ No

4 **What percentage of Equity do you own or represent?**

☐ Less than 5% ☐ 50%
☐ Between 5% and 49% ☐ More than 50%

5 **Is there a shareholder that owns more than 50%?**

☐ Yes ☐ No

6 **Does the company have shareholders who are not family members?**

☐ Yes ☐ No

7 **Approximately what percentage of the capital do they own?** [%]

8 **Latest generation to join the family business:**

☐ First ☐ Fourth
☐ Second ☐ Fifth or more
☐ Third

9 **Main business activity is:** ____________________

Exhibit 1 (continued)

Behaviors and their frequency

How common, in your experience, are the following types of unethical behavior in family businesses? (The columns indicate the level of frequency. Please put a cross in the appropriate column.)

	Very high	High	Medium	Low	Very low
1 Ownership of capital					
1.1. Ways of obtaining ownership:					
1.1.1. Forcing property rights from other people	☐	☐	☐	☐	☐
1.1.2. Valuing shares incorrectly	☐	☐	☐	☐	☐
1.2. Ways of transferring ownership:					
1.2.1. Defrauding legitimate heirs	☐	☐	☐	☐	☐
1.2.2. Creating an ownership structure that makes governance of the company difficult	☐	☐	☐	☐	☐
2 Power					
2.1.Ways to gain power:					
2.1.1. Deceiving those entitled to hold power	☐	☐	☐	☐	☐
2.1.2. Threatening from a position of strength backed by a large equity stake, confidential information, etc.	☐	☐	☐	☐	☐
2.1.3. Using delaying tactics to prevent others from gaining power	☐	☐	☐	☐	☐
2.2. General ways of using power:					
2.2.1. Promoting personal financial interests at others' expense	☐	☐	☐	☐	☐
2.2.2. Adopting strategies that entail serious risks for others	☐	☐	☐	☐	☐
2.2.3. Satisfying personal preferences to the detriment of others	☐	☐	☐	☐	☐
2.2.4. Boosting personal prestige and status	☐	☐	☐	☐	☐
3 Business strategy					
3.1. Preventing necessary development, growth and change in the company (by staying in mature businesses, not diversifying, etc.)	☐	☐	☐	☐	☐
3.2. Putting the company on "automatic pilot", leaving it to carry on "as usual", so as to be able to devote more time to other things	☐	☐	☐	☐	☐
3.3. Preventing others from contributing with their opinions to strategic analysis and decision making	☐	☐	☐	☐	☐

Exhibit 1 (continued)

	Very high	High	Medium	Low	Very low
3.4. Neglecting the interests of future generations	☐	☐	☐	☐	☐
Company organization					
4.1. Appointing incompetent people to important posts (nepotism)	☐	☐	☐	☐	☐
4.2. Unfair or inadequate compensation	☐	☐	☐	☐	☐
4.3. Favoritism and discrimination	☐	☐	☐	☐	☐
4.4. “Buying” or controlling managers through compensation, threats, etc.	☐	☐	☐	☐	☐
4.5. Blocking the careers of capable managers	☐	☐	☐	☐	☐
4.6. Delaying succession processes	☐	☐	☐	☐	☐
4.7. Devoting too little time to the company	☐	☐	☐	☐	☐
4.8. Revealing confidential information	☐	☐	☐	☐	☐
4.9. Withholding or falsifying information	☐	☐	☐	☐	☐
4.10. Unjustified expenses	☐	☐	☐	☐	☐
4.11. Unnecessary luxury in company offices	☐	☐	☐	☐	☐
Shareholders					
5.1. Alliances among some shareholders at the expense of others	☐	☐	☐	☐	☐
5.2. Obliging the company to pay dividends that have not been earned	☐	☐	☐	☐	☐
5.3. Demanding favors contrary to the interests of the company	☐	☐	☐	☐	☐
5.4. Demanding information to which they are not entitled	☐	☐	☐	☐	☐
5.5. Making inappropriate personal use of company assets	☐	☐	☐	☐	☐
5.6. Appropriating company funds	☐	☐	☐	☐	☐
5.7. Imprudently failing to exercise shareholder rights	☐	☐	☐	☐	☐

Thank you for your cooperation

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