

10<sup>th</sup> Annual Conference Risk Governance



FH Salzburg  
Betriebswirtschaft

# **Risk governance in medium-sized family businesses**

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# AGENDA



- Introduction
- Research questions
- Theoretical Background
- Methodology
- Results
- Conclusion

# INTRODUCTION



- Companies are increasingly confronted with a rising **complex** and **uncertain** environment (Bailey, 2022; McMullen & Shepherd, 2006; Sheedy, 2021)
- Companies lack **modernized approaches** to risk governance (RG) (Giovannoni et al., 2016)
- RG strengthens the **resilience** of companies and enables a **holistic** and **strategic** perspective (Stein & Wiedemann, 2016; Stein et al., 2019)
- Family businesses (FBs) often manage risks **informally** (Bannerman, 2008; Moschella et al., 2022)
- **Combination** of formal and informal risk management (RM) prevents silo thinking and enables a holistic view of RM (Moschella et al., 2022)
- **Shared use** of formal and informal RM enables FBs to better cope with crises

# RESEARCH QUESTIONS



Following the call for more research on the interplay of formal and informal RM-structures as a possible design of RG in FBs (especially medium-sized ones) (Mitter et al., 2022) we therefore answer the following **research question**:

*How does the interplay of formal and informal risk management influence risk governance in medium-sized FBs?*

# THEORETICAL BACKGROUND I



- Ressource restrictions imply an **informal** management of risks in FBs (Mitter et al., 2022)
- Informal structures as a **complement** for formal structures (Danqua & Sen, 2022; Steer & Sen, 2010)
- Informal structures enable a **holistic view of RM** (Moschella et al., 2022)
- Solely managing risks informally may cause **serious problems** (Chenhall & Morris, 1995; Davila et al. 2009; Henri, 2006)
- Crises illustrate the need for **formal risk structures** (Yiannaki, 2012)
- **Combination** of informal and formal RM structures leads to better decision-making and strenghtens the relationship with key stakeholders (Armijos et al., 2017; Ströbele & Wentges, 2018)

# THEORETICAL BACKGROUND II



- Results are discussed under aspects of **stewardship theory** (Davis et al., 1997) to point out the unique **FBs specifics** (Miller et al., 2018)
- Stewards are **intrinsically** motivated (van Puyvelde et al., 2012) and act in the **collective interest** of the firm (Davis et al., 2000)
- Miller et al. (2008) postulates **three forms** of stewardship theory in FBs:
  - **Stewardship over continuity** focuses on the longevity of FBs (Miller et al., 2008)
  - **Stewardship over employees** refers to the long term commitment of employees to FBs (Miller et al., 2008)
  - **Stewardship over customers** addresses customers and their loyalty to FBs by establishing a close relationship (Miller et al., 2008)

# METHODOLOGY I



- **Qualitative** research design
- Best suited for gaining profound insights into **complex topics** (Queirós et al., 2017)
- Nine **semi-structured expert interviews** in April and May 2020
- **Owner-managers** as interview partners
- Data analysis by applying the **general inductive approach** (Thomas, 2006)
- Allows issues to emerge from the data without establishing a coding scheme

# METHODOLOGY II – DESCRIPTION



<b>Industry/case</b>	<b>Foundation year</b>	<b>Generation</b>	<b>Number of employees</b>	<b>Family members in the firm</b>
Food industry 1	2004	2	90	5
Food industry 2	1893	4	168	3
Food industry 3	1886	4	52	1
Food industry 4	1909	5	175	6
Construction industry 1	1996	2	200	5
Construction industry 2	1982	2	80	5
Construction industry 3	1951	3	120	2
Car industry	1983	2	54	1
Wood industry	1919	2	110	4



# RESULTS I



## Design of the RM within the medium-sized FBs:

- **Responsibility for RM** is extended to the corporate family → *stewardship over continuity*
- **Formal** design of RM in larger medium-sized FBs and FBs with at least three family members in the firm
- Formalized RM due to **special risk factors** in medium-sized FBs (e.g., employee risks) → *stewardship over employees*
- Covid-19 crisis contributes to this **formalization** of RM
- **Changed relevance** of RM due to the covid-19-crisis
- Formalized RM-structures to ensure the **long-term survival** in crises → *stewardship over continuity*

# RESULTS II



## Design of the RM within the medium-sized FBs (*continuation*):

- Sufficient personnel resources (e.g., own **crisis manager**) → *stewardship over continuity*
- Insufficient immaterial resources (e.g., lack of know-how) → consultation of **banks** or **tax consultants** → *stewardship over customers*
- Additional **informal** RM-approach (e.g., networks) supports formal RM-structures
- Scale of the project or effort is crucial for **dealing with risks**

*“Depending on the scale of the business, you invest more effort or less effort. Even if you look at everything down to the last detail (...), there is always gut feeling.”*

(owner of food industry 3)

# RESULTS III



## Design of the RM within the medium-sized FBs (continuation):

- Risk appetite depends on the **generation** of FBs → *stewardship over contiuity*
  - Risk aversion in second or third generation FBs
  - Risk taking in fourth or higher generation FBs
- FBs act particularly cautiously in times of crisis → *stewardship over contiuity*
- Crises strengthen the owner-employee bond → *stewardship over employees*
- Employees are involved late in potential risks → *stewardship over employees*
- Crises strengthen the owner-customer bond → *stewardship over customers*
- Additional informal transaction-based measures used for customers → *stewardship over customers*

# RESULTS IV



## Design of the RM within the medium-sized FBs (*continuation*):

- Combination of formal and informal RM-structures to better make **strategic decisions** in times of crises → *stewardship over continuity*

*“This is a mixture of experience and hard facts.”* (owner of food industry 4)

- Combination of formal and informal RM-structures increases the **relationship** with **employees** and **customers** → *stewardship over employees, stewardship over customers*

# CONCLUSION



- Our study is among the first to address **RG** in Austrian medium-sized FBs
- **Formalized RM** as a result of the covid-19 crisis together with **informal RM**-structures
- Increasing formalization through the contextual factors **company size** and **number of family members** in the company
- RG as a **combination** of formal and informal RM structures in FBs helps to manage the covid-19 crisis
- Central **role of the family** (e.g., takeover of RM by the entrepreneurial family) allows a holistic view on RM → **enables RG** in FBs
- However, qualitative research designs allow indepth insights, but do not draw on a **representative sample** or **statistical generalizability**

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# Thank you for your attention!

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