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## *Full Length Research Paper*

# **Family values in SMEs in Arequipa and their organizational development**

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**The following research is a qualitative work that analyses the role that plays the family in the organizational development of five SMEs from Arequipa city, selected in non-probabilistic way. We applied a depth interview to the owners, family employees and non-family employees who work in that companies. We obtain information about their organizational culture, the work condition, production process, business growth, its vision-mission, etc. It's concluded that the predominant values that are perceived by the interviewees are economic and associated with the conditions of informality SMEs.**

**Key words:** family values, SME, companies, organizational development.

## **INTRODUCTION**

The SMEs are business units that are defined in Peru, by some standards like the number of employees or their profitability. So, while micro enterprises have a maximum of ten employees and their annual income does not exceed the 150 ITU (Lazo, 2007). The small enterprises have 100 employees and billed up to 1 700 ITU per year (Humire, 2008). Despite its size the SMEs are very important in the social-economic development of the country, because they generate 300 thousand jobs per year and cover the 76% of the economically active population (Arias and Jimenez, 2013).

Given its importance and as a result of the pioneering studies of Hernando de Soto (look up to De Soto, Ghersi and Ghibellini, 1987; De Soto, 2001) about the informality in Peru, the Peruvian government has been generating some initiatives to bring on the development of SMEs so they can be formalized. For example, in 2003 was enacted the law for Promotion and Formalization of Micro and Small Enterprises (law N°28015), with the purpose of promoting competitiveness, formalization and development of micro and small enterprises. Its creation was supported by the DS N°009-2003-TR, CODEMYPE (National Council for Development of Micro and Small Enterprise) and SMEs County Council (Lazo, 2007). Another mean was to promulgate the Law of the Micro and Small Enterprises (DL N° 1086 publicized in the *El Peruano* official newspaper in June 28, 2008). However

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the vast majority of SMEs continue being informal and their mortality rates are even higher: In Peru more than the 80% of SMEs are informal and of the 300,000 SMEs that are created in a year, only 100,000 survive (Duarte, 2010).

Other reasons that explain the lack of growth of the SMEs are their limited operational and management skills (Lazo, 2007), few or zero social responsibility (Diaz, 2000), limited access to the information (Ruíz, Lorena, Raffo and Hinojosa, 2003), weak business joints (Manzone, 2007), low market insertion (Arellano, 2005), inappropriate use of technology (Yañez, 2001), difficult access to financing (Rivas, 2007; Toledo, 2009), poor security conditions (Arbúes, 1995), limited control of the financial statements (García, Marín and Martínez, 2006), etc.

On the other hand, given that the market conditions and business contexts are changing, SMEs need to acquire skills to adapt to this innovation, which means that they need to reverse all the obstacles that stop their progress. They need to focus in the people, their organization, interactions and health. However SMEs haven't given much importance to these issues. A recent investigation in SMEs of Paucarpata, big district situated in Arequipa city, reveals that human hostile relationships predominate in the employees (Arias and Jiménez, 2013), which means that the work conditions are not the adequate ones (Silva, Santos, Rodríguez and Hernando, 2008).

Unfortunately this happens because the conditions that determines their emergence are based in the logic of "learning by doing" and not in technical organizational standards (Arce and Martínez, 2010). This has been justified by their size, and although there are indeed differences between big and small enterprises –the big one live in an international context and the smalls in a local one, big enterprises look the stock market and small enterprises look up for credits. Small enterprises are animated by family values and the big ones leave more space to the management (Manzone, 2007)–, the truth is that every huge enterprise was a small one sometime. Should we ask what made them have a solidly position in the market?

Under this paradigm, there have been proposals that said, for example, that more than the size; a standard that should be used to categorize enterprises is how they integrate in the companies networks. Can exist a horizontal collaboration or a vertical integration, but the main thing is the connection of the enterprise – whether micro, small, medium or big– with other companies. Unfortunately we can see that the presence of the SMEs in networkers is very low (Díaz, Lorenzo and Solís, 2005).

A very important aspect that determines the values and human relations in the SMEs are family companies. Between the 65% and the 80% of the SMEs are family

enterprises (Zavala, 2009). It is known that family companies are very vulnerable; this is evidenced in their low survival rates. The first and second generation survival rates are recorded between the 20% and 30%, and the second and third generations between the 10% and 15% (De la Garza et al., 2011). Some authors have argued that this happens because of the contradictions between the rules of the family and business values (Zavala, 2009). But in the other hand the family enterprise values are a key factor for the development of the company.

Even though, power of decision is in the family and their members are who play responsibilities of governance and management, the conjugation of family and business values is essential in this type of companies (Belausteguigoitia, 2012). So we need to question which are the family values that affect the organizational development of a SMEs? De la Garza studies indicate that family values influence in the unity, appreciation and spiritual welfare and how they overcome difficult times (De la Garza et al., 2011).

Although the points discussed above are essential for the understanding of SMEs development in Peru, as companies move in a rapidly changing and unpredictable environment, now either the size or age of the enterprise is relevant (Duarte, 2010). Family values can be very important to the organizational development of the company (De la Garza et al., 2011). We understand "organizational development" as a set of means designated to introduce a plan supported by humanistic values that look after the improvement of organizational effectiveness and employee welfare (Robbins, 1999). The organizational development implies values, organizational culture, design, company, structure, strategic objectives, technology, production systems, and also the employee welfare conditions (Muñoz, 2003). According to Belausteguigoitia (2012) family companies that present a sustainable economic growth and develop organizationally, keep a balance between family and business. De la Garza studies (2001) indicate precisely, that family values can be an important component for the development of micro, small and medium enterprises.

In consequence, the objective of the present study is to determinate the importance of the family values in the SMEs organizational development through the application of a qualitative methodology, which has been detail below.

## METHOD

### Sample

The sample is constituted by five family enterprises dedicated to different commercial items, either production or services. These enterprises were selected by non-

probabilistic methods, according to their suitability for the study. The items or standards for SMEs selection were:

- It is about SMEs
- They are family enterprises
- They have a sustainable development in the last years
- They are positioned in the market in which they operate
- They have the willingness to cooperate with the study

The intact groups technique was used to select the people who were interviewed. We interviewed the owners of the enterprise (one or both), one relative employee and one not relative worker (who have more years of service). The participating enterprises have the following composition: 1) a textile enterprise, 2) embroideries business, 3) a technological education institution, 4) a restaurant, and 5) a health occupational clinic.

### **Techniques and instruments**

As technique we applied depth interviews to the people selected and then data were triangulated which implied an analysis of them. The materials and instruments that were used to collect the information were a recorder and cassettes, and a card of interview, which collect the information about the history of the enterprise, the family values, their organizational culture, the enterprise structure, their vision-mission, strategic objectives, technology, productions systems and employee working conditions.

### **Procedures**

First of all permissions for the study were managed. Then the dates for the interviews with the owners, the family and the employees of the selected enterprises were coordinated. The interviewed gave their answers in private rooms of their business and the purposes of the study were explained. We asked them to be honest in their answers and we made more question of those who were in the file when it was necessary.

In addition, qualitative data was processed using a technique of content analysis. We triangulated the data because it helped us to give more validity to the study, so that the information given by the owners, the family employees and non relative workers were crossed.

### **RESULTS**

To present the data, we follow the sequence of the questions that were in the semi-structured interview card. We have divided this section in eight segments.

### **How was your enterprise formed?**

Of the five SMEs, only in the restaurant, the owner, the family worker and non-family worker knew how their business was formed. In the educative service institution only the owner and the family worker were able to answer this question. The same thing happened with the SME of health and embroideries. In the micro textile enterprise only the owners knew about the history of their enterprise. This is very interesting because the history knowledge of an enterprise, give the employees an identity. From this we can conclude that the identity is not well established in most of the MSEs that were interviewed.

Regarding to history information, in all the cases, except in health MSE, financial crises, indebtedness and other similar situations, have tested even once, the existence of the company. Also it is a common story that the company has emerged form the idea and effort of the nuclear family couple. Only the educative service enterprise was a product of the join of two sisters, in which their respective couples were not part of the enterprise constitution.

### **Which is the structure of the company?**

The organizational structure of the company strongly attracted the attention of the authors because in most of the cases, neither the family workers nor non-family workers knew about the structure or hierarchies of the company. Even in textile MSE, the employees did not distinguish who was the manager, one of them said "I don't know who the manager is. I think both of them are managers". Even though when we interviewed the owner, it was told that the management was in charge of the father and the human resource management was the responsibility of his wife.

The study also shows that the closest relatives of the owners have positions that gave them some authority over other workers. Whether from the reception, supervision, chef or just being in the production area, family workers pay attention to all the events that happen in the enterprise, and the majority of family workers keep the owners informed about everything that happens: "They are like the eyes of the owner" one said.

This situation could be a point of reflection of several things: first of all, the lack of clarity in the roles and in the interest and commitment to the business, and informality in the constitution of the enterprise. In that sense, although all companies reported being legally constituted, it seems that in some cases, the formality only remains on a paper, but in the practice, there is often ambiguity in the chain of command. Also, except to the educational institution and embroidery enterprises, no SME has a chart or manual that specifies all the charges and

functions of the employees.

### **How would you describe the organizational culture?**

In general, the organizational culture was described as regular. Very good in health MSE, good in embroidery enterprise and in the restaurant, regular in textile MSE and very bad in educational service institution. The most characteristic features for favourable MSEs were integrity, formality and peaceful atmosphere. And the ones for MSEs that have more negative valuation are constant arguments, high rotation, humiliations and injustice situations.

However, the workers do not have a specific idea of what is an organizational culture, although we explain them that is a group of values, beliefs, attitudes, meanings and customs that are assumed in the work (Gómez, Sánchez and Alonso, 2005). Most of them mention some examples and specific situations that show how would be the organization culture of the MSE where they work. Another important aspect is that, regardless of the MSE and the appreciation given by the family and non-family workers, the owners appraise their organization culture.

### **Which is the vision-mission and strategic objectives of the MSE?**

It was disturbing to see that in almost all the enterprises, the vision-mission has not been determined. In the majority of cases, regardless the type of worker concerned, the vision is formalize (for enterprises which are more informal) and the acquisition of high quality standards in service or production (for better incorporated SME). But there wasn't a distinct mission that has been formulated as a competitive advantage. Only the health service enterprise mentioned "being a leader enterprise in the market of occupational health contributing to increased levels of health and welfare of the city workers". This declaration, given by the owner, indicates that as a company, they want to differ from the rest and contribute responsibly to society; unfortunately this idea is not shared with all the employees.

On the other hand, as strategic objectives, they only mentioned issues like increase production, diversify the market, keep pension costs, expand the local, etc. Any enterprise mentioned marketing and publicity strategies, the creation of bundled offers, inserting skills evaluations, systems focused on the worker, leadership principles, etc. This means that the notion of improving is clear, but they don't know how to do this, because the methods show lack of creativity and absence of talent management.

### **Which values do you think that are predominant in your enterprise?**

In this question was a considerable consensus that "work" is the most important value in the enterprise. Other values that were mentioned are the responsibility, punctuality and honesty. In the enterprises that focus in production, the most important value for workers and the family was "quality", in the restaurant they mentioned "family" and "union" and in the health MSE they highlighted "love" and "harmony".

This shows that family values have been introduced very little in the enterprises of our sample. The importance of family can be noticed through control mechanisms, although indirectly, the *modus vivendi* of the family has some interference in work systems; for example: working hours, enterprise structure, organization, functions, duties, etc. Also the family problems can be noticed by the employees through the discussions, decisions and coalitions that happened between some family members and the owner's mood.

### **How is the production system of the enterprise and the technology on which it rests?**

All the employees, relatives and owners that were interviewed were able to identify the production system adequately, either through the process map or the production cycle, the workers had in mind the different stages that are engaged in work. They also could mention the different technological implements used in production process, like industrial kitchens, textile machines, wheel loaders, audiometers, etc. However something that might encourage the responses was that only the family or non-family workers with a long time in the company were consider to this question. Maybe if recent workers had answered the questions the results may have been less favourable.

### **How are the working conditions and the treatment given in the MSE?**

In this question were a lot of differences between the enterprises, regardless their formality or size, because in bigger companies were committed various abuses and atrocities against the worker, like make them sign black sheets, not providing social benefits, no overtime pay or even pay less than the agreed. It is true that some small enterprises don't pay employment benefits – as the workers reported – but they used other compensatory mechanisms like, for example, gift baskets.

On the other hand, the employees are not enterprise's business center, everything turns around the production

and this means that work is more important than the employees. Some indicators of this, besides those already mentioned, would be the lack of security implements, health insurance for workers and the bad treatment they receive. This aspect is very important because in two of the five enterprises the abuse was constant: in educational services and embroidery enterprise MSEs. It was also noted that sometimes family workers of textile MSE received different treatment, with more flexibility, permissions and indulgences.

### **Which is the most important factor that explains the enterprise growth?**

In this question a lot of family and non-family workers think that the most important factor is quality, but only in one enterprise think that family values are the most important factor. The control over the workers, explicitly or informally, was also recognized as an important item for organizational development. One employee said "If the husband (referent to female owner couple) was the owner, everything would be a mess". In the educative service enterprise one worker said: "if we don't control the teachers, they do whatever they want". This shows the existence of a negative view that justifies the diversity procedures that although they may be vexatious, they are accepted in these business.

As we have already said, there is more clarity on what the company wants to improve, but they don't know the ways to do that. The principal mechanism to achieve that is to work, have money, a well production and high quality manufactured services or products. But neither intellectual capital nor talent are considered.

Is evident in many different ways, when enterprises don't give all the benefits to their employees, when they don't pay them extra hours and use this like a "strategic" to improve the organizational growth. The logic of the "funnel": the wider part for the owner and the narrower for the worker. These practices underlying the idea if they pay less to the employee, the company or the owner would have more money. But what really happens is that they are generating high levels of dissatisfaction among the workers, which may affect the productivity, cause lack of commitment, increase accidents, etc.

### **DISCUSSION**

Through this study we tried to determine what is the role of family values in the organizational development of five MSEs from different sectors, located in Arequipa city that have been experiencing significant growth in recent years. In only two MSEs family values, like "family", "unity", "love" and "work" had an importance in the business growth. In one case, the nuclear and big family

were the ones who allowed the enterprise to overcome various crises and problems, and they also offered economical and employment opportunities to all the people involved in the MSE. In the second case the nuclear family was quite cohesive; all of them participate in the business, fulfilling different functions, depending on their availability and interest.

These did not happen in MSEs with more size or higher profits. This happened in the ones that focused more on people and family values as a source for organizational development, and which obtained more consistent answers among the owners, family and workers. This may indicate more solidity and a consistently success in the future. In the other companies there were large differences between the reported by the owners and the workers. These differences allowed us to detect various MSE's characteristics which showed that these enterprises are more concerned in the production and not in their employees, customers and society.

The first characteristic is that knowledge and management techniques are poorly applied. No organizational development strategies are recognized (Alles, 2005) organizational principles are not applied (Daft, 2009) and they don't care to promote employees (Chiavenato, 2009). Apparently this comes from two factors: the informality of the MSEs and the tacit establishment of the limits between the family and the non-family workers. On the other hand, we have a favourable prognostic, because in the majority of cases the limitations were recognized, and the need to formalize and get quality certifications was emphasized, which implies to correct a lot of mistakes, but mostly, to have a new vision for the business.

The owners need to manage their companies with responsibility (Mababu, 2010), with a solid organizational structure and well defined positions and functions (Hersey, Blanchard and Johnson, 1998), because the ambiguity of tasks is a factor that can produce negative effect on the worker, exhausting him emotionally (Arias and Jiménez, 2012).

It is suggested to implement some measures that help to enrich the work, because even though the workers know about the production process in MSEs –probably due to the daily professional work– they don't know about the history of the company or its vision-mission. These aspects can reduce the employee commitment and affect their performance. Another issue that can have a negative effect in the worker is the way he/she is treated.

We believe that one aspect that must be attended urgently is the human relations at work. We could see that family and non-family employees, in the majority of MSEs, complain about their treatment and working environment. This must be taken in count because the effect that has the climate and organizational culture in the worker is relevant (Salazar, Guerrero, Machado and Cadeño, 2009). Nowadays we regardless de size of the

enterprise, that the organizational climate can generate stress in the employees (Barrón Soler and Bongiovanni, 2005) and decrease the levels of satisfaction (Salgado, Remeseiro and Iglesias, 1996).

It is important to implement workshops that look after psychological and social risk, and care about worker's physical and mental health (Salvatierra, 2000), because besides the psychological distress, workers reported not having a safety equipment, except in the health MSE. The managers must bring a uniform treatment to the employees, because sometimes they have preferential treatments and this can negatively impact the behaviour and motivation of some employees (Fernández, 2009).

In general, we can conclude that "production" is the central value in the majority of the MSE of the sample. This responds to a national culture common denominator that is inserted into the mindset of people (Salazar and Lazo, 2012), including managers, but this has to disappear. The most important thing in the work is the person (Manzone, 2007), because he or she is the one who generates money and richness. If we take care of the person, its health and family, we will conquer a vast land and in addition we will increase the business' profitability.

We can also conclude that the strategies used to increase organizational development focus on production, through product quality and market diversification. Surprisingly enterprises did not mention as strategies the use of technology, marketing, financing or internationalization, which are important factors to the development of other family enterprises, which become huge and important companies that have persisted despite the economic crises and wars of the twentieth century (Fernández and Casanova, 2012). The formula behind these companies seems to be the association of capital, market segmentation and the creation of competitive advantages and family franchises to help business expansion outside the country. Maybe this is a model that MSEs of our study should copy or they just need to create their own path based on clear identity and collectively assumed values.

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