



## INSTITUTIONALIZATION OF THE FAMILY BUSINESS THROUGH THE CREATION OF A PROTOCOL TO ACHIEVE THE CONTINUITY

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### ABSTRACT

The family protocol contains the game rules that will govern the future and succession process of family businesses; this document aims to guarantee the company's continuity through family agreements that lead to its institutionalization. This research identified the influence that the creation of the family protocol has on business institutionalization. The data collection instrument was validated using Pearson's correlation. The chi-square test of statistical independence generates the calculation of the dependency between the variables studied. The theoretical chi-square graph is the pair of variables that make up the hypothesis and its theoretical inverse function:  $p\text{-value} = 0.01$  vs. chi-square of 1 degree of freedom to observe the intersection. In conclusion, the statistical tests yielded eight variables more dependent on each other. Items 2 and 7 verified by linear Person resulted in 0.7202771, and items 7 and 9, 6 and 2, and 9 and 6 were associated with 99% reliability in theoretical or critical Chi, and 100% reliability of Chi observed or experimental. We observed that the creation of a protocol in the family business influences institutionalization to guarantee its continuity. This hypothesis verified an observed or experimental chi value of 180.7212 and a theoretical or critical chi of 6.6349.

### INTRODUCTION

Family governing bodies such as the council and the assembly help strengthen family harmony and company relationships. The family business's institutionalization begins with establishing a council that functions independently of the business and represents the highest authority in family matters; its primary objective will be to agree on the family protocol and its operation. Through this instrument, agreements related to the company's institutional management guarantee that the administration continues in the hands of the family and the higher hierarchy positions granted to personnel with adequate preparation and knowledge. The primary function of this council is to apply and develop the organizational and family planning strategy because the family business bases its strengths on the family itself, these strengths can easily be worn away by conflicts between its members and affect the future of the company (Leandro, 2017).

The family protocol is a regulation, an agreement, or a family state. As a regulation, it regulates professional and economic relations between the family and the company. Instead, as an agreement, it establishes the bases and commitments between the family owners and the business management; finally, as a family state, it implements the game's rules. This instrument's content bases on norms and operating patterns that regulate the relations between the family and the company; its objective is to avoid problems that may arise between the owner's families and, in the event of conflicts, to have the appropriate mechanisms to solve them. Creating a protocol does not eliminate difficulties or disagreements; however, the rules described in this document are especially crucial for conflict resolution in crisis times. Echaíz (2010) considers it necessary to take advantage of the periods of family and business unity to create and implement this document. If these moments do not exist, it is essential to achieve them in advance. The family protocol is a term created by Ward & Gallo (1991); these authors argue that this document should institutionalize fundamental family values. In this sense, López (2020) considers this instrument



## Global Journal of Engineering Science and Research Management

a regulatory framework for the family whose purpose is to establish organizational guidelines governed by moral rules.

According to Álvarez (2019), the protocol is an instrument with which the family equips itself to survive in time without losing its status as a family business. For Amat (2000), the protocol is a status and rules of the business family game. At the same time, Leandro (2012) points out that it is a regulation that regulates business management and economic and professional relations between the company, the family, and the property. In this same sense, Sánchez-Crespo (2003) consider it a framework agreement signed between the same company's relatives. Likewise, Cardona & Balvin (2014) argue that the protocol is a fundamental tool for the continuity of the family business.

On the other hand, Corona (2011) affirms that the process is essential elaborating on this instrument. From the same perspective, Álvarez (2014) considers that the family protocol must be conceived as a process and not merely an external document since it is a consensual process obtained among family members. For their part, Fernández, Arenas & Gallo (2013) consider that the protocol maintains family cohesion and harmony, clarifies the family business's objectives, reconciles family and business interests, and provides for succession, regulates assets, and facilitates management. In a sample of twelve Spanish companies, Gallo (2008) found that this instrument offers benefits and opportunities to business families that implement it successfully. For example, family members' ability to get to know each other, meet each other's wishes, discuss family problems, and prevent conflicts. Authors such as Díaz, Corona & Mayett (2013) point out that one of the issues that family businesses face in Mexico is the lack of formality and the absence of rules to differentiate their systems and preserve the family harmony, as well as competitiveness and profitability in the business. Mart & José (2015) mention that this instrument is the best way to reach fair organizational agreements and execute quick and effective solutions that strengthen family ties and financial results management. Likewise, Delucchi & Folle (2012); and Corona (2011) affirms that this document is a tool whose usefulness lies in the prevention and resolution of conflicts that arise from the relationships of the three elements that, according to Tagiuri & Davis (1996), characterize the family business: property, family, and business.

The family protocol is an atypical contract with voluntary moral commitments. The primary purpose of this document is to keep the family together. Therefore, this contract's clauses will depend on the beliefs, values, and family culture; the founders and successors actively intervene in its elaboration. Its content must be analyzed, considering the characteristics and values of the family. This contractual document is like a tailored suit based on the values and knowledge of each family. In a family context, the development of a protocol follows a series of guidelines. (1) Identify critical problems that arise from the family business. (2) Hold regular family meetings to share points of view and the measures to be taken in each situation. (3) Present in writing the values and behaviors to be followed by the organization's members and, (4) Carry out periodic control reviews to verify compliance with the plan. For elaborating a protocol, Chinner (2012) mentions that each family needs its model to ensure that all its members fit into it. For its part, Ibeas (2019) points out that each family protocol must be unique and designed and adapted to each company based on its particularities and needs. In the same sense, Cascón, Dávila & Pintado (2016) recommend that the design of the family protocol personalize the company that adopts it and addresses all the problems of the business family. In the structure of this document, it will be necessary to use other instruments, such as statutes, marital agreements, and the testament.

This instrument contains deals that do not conform to any contracts regulated by civil law (Arteaga & Menéndez, 2014). It is an atypical contract designed as a tailored suit for each family business. However, the content is the same in most companies of this type. This contract should include all the matters mentioned in the family meetings and that the owner's family deems necessary (Molina, 2011). Its content comprises clauses related to its institutionalization through the governing bodies that govern the family, the company, and its operation. It also has agreements on the succession of the family business, covering its three areas, which according to Carbajo and Pindado (2015), are: succession in ownership, management, and governance; this section generally includes the issues of transfer of shares or participation to keep control of the company in the hands of the family and the requirements for family access to the company, their competences, compensation and retirement plans, the conflict resolution mechanisms and the deadlines for reviewing and updating the original document.



The family must draft its protocol, aware of the importance that this document will have to guarantee its continuity; its design includes three stages. In the first stage, an advisor performs a family business diagnosis to know each member of the family; at this point, they decide who will be part of the family protocol and who will be left out. In the second stage, the family members meet with the moderator to address the issues that concern them and are relevant to their proper functioning. This stage is one of consensus and negotiation and characterizes by better family communication. The third stage consists of drafting the agreements. This last stage allows a reasonable time for each family member to review the draft and schedule the next meeting to sign it. In the original instrument defines the terms for its review and update. In preparing the protocol, the family writes the background, mission, vision, and family values and, where appropriate, the gratitude to previous generations.

Several authors have approached this issue from different perspectives but with a single focus: the continuity of the family business. For example, for Casillas, Díaz & Vázquez (2014), the ultimate objective of a family protocol is to guarantee the continuity of the company under the control of the owner's family. For Delucchi & Folle (2012), this document aims to organize the succession, regulate the relationships of family members and members of the company, achieve family harmony and business success. Similarly, Rodríguez (2012) indicates that the objective of the protocol is to have a family project that motivates the family that owns it. While Botero, Betancourt, Ramírez & Vergara (2015) consider it a governance policy tool that can help improve conflicts family businesses and improve the chances of survival of the family business. For her part, Montalbetti (2016) affirms that the family protocol pursues a triple objective: it seeks to promote the cohesion and commitment of the family with a joint business project; it favors the continuity of the company and its government, and it preserves the heritage and transmits the legacy.

The family protocol is a contract created by the family to leave a testimony of their beliefs, values, family culture, and business management; this instrument contains clauses that will govern the company's institutionalization and operation and the relationships between business management the family. The information contained in this document is invaluable as it is transmitted and strengthened to subsequent generations. However, given the lack of interest and commitment of family members in following the agreements to maintain the family unit and business institutionalization, Gallo (2008) warns that the family protocol can reduce to a document of good wishes.

## MATERIALS AND METHODS

A cross-sectional and descriptive study carries out. Tamayo (2017) refers to the cross-sectional study to analyze the family protocol's influence on the company's institutionalization to achieve its continuity. This work of descriptive research shows the effects of creating a protocol on the family business's continuity through institutionalization.

The study population is thirty respondents from a business group in southeastern Mexico made up of two commercial companies, one industrial and two of services. The respondents' profile included two counselors, five founders, seven successors, six external advisors, and ten executives.

In conducting this study, the instrument used for data collection was a closed order questionnaire (Baena, 2009). The response options had an interquartile scale from one to four. The lower value responses reflect that the family protocol does not influence the continuity of the company and the higher value responses reveal the influence that the creation of this instrument has on the institutionalization of the family business to achieve its continuity.

This study includes the graph of the result of the theoretical chi-square of a pair of variables, with a theoretical inverse function: p-value vs. chi-square of 1 degree of freedom (González, Juárez & Romero, 2016).

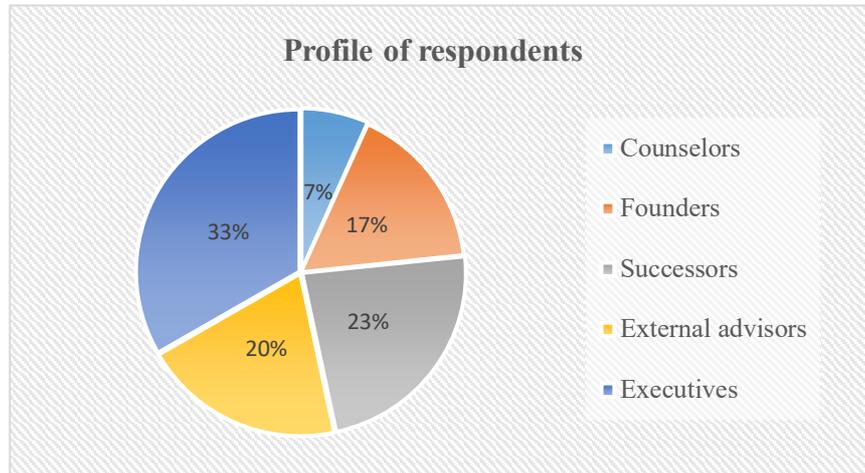


Figure 1. Graph of respondents

RESULTS AND DISCUSSION

The Pearson correlation (Table 1) use to validate the instrument.

Table 1 Pearson correlation of the items

|         | ITEM 1     | ITEM 2      | ITEM 3      | ITEM 4      | ITEM 5      | ITEM 6      | ITEM 7      | ITEM 8      | ITEM 9     | ITEM 10 |
|---------|------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|------------|---------|
| ITEM 1  | 1          |             |             |             |             |             |             |             |            |         |
| ITEM 2  | 0.13074409 | 1           |             |             |             |             |             |             |            |         |
| ITEM 3  | 0.32221817 | -0.05299989 | 1           |             |             |             |             |             |            |         |
| ITEM 4  | 0.32584584 | 0.11867817  | 0.30820658  | 1           |             |             |             |             |            |         |
| ITEM 5  | 0.11682313 | 0.03610202  | 0.13202484  | -0.10282853 | 1           |             |             |             |            |         |
| ITEM 6  | 0.02713127 | 0.43808583  | -0.02932863 | -0.05746398 | 0.17605466  | 1           |             |             |            |         |
| ITEM 7  | 0.08869686 | 0.7202771   | 0.06392028  | 0.12523985  | 0.14694979  | 0.37540756  | 1           |             |            |         |
| ITEM 8  | 0.00913404 | -0.27944786 | -0.0098738  | 0.10502047  | 0.30518116  | 0.21584957  | -0.36511237 | 1           |            |         |
| ITEM 9  | 0.37804817 | 0.11682879  | 0.42724202  | 0.36915632  | -0.07354712 | -0.11212688 | 0.21135123  | -0.02244519 | 1          |         |
| ITEM 10 | 0.06081303 | -0.10336228 | 0.23008397  | -0.07360107 | 0.06716857  | 0.08579662  | -0.1869894  | 0.54880298  | -0.0271703 | 1       |

It can observe that there is no Pearson correlation in most of the items in the questionnaire.

This means that:

1. Items are not repeated.
2. The respondents did not interpret the items as the same or repeated.
3. The authors designed the items independently of each other.
4. The items do not have a natural linear or polynomial relationship, except for items 2 and 7.
5. Items 2 and 7 were naturally correlated.

According to postulate 5, the hypothesis verified with a correlation of 0.7202771

The chi-square dependency test analyzes the relationship between creating a family protocol to guarantee the continuity of family businesses and the institutionalization of this type of business. Table 2 shows the results of the raw values taken directly from the survey. Table 3 shows the expected values, and table 4, the statistical chi-square values. In this specific case, questions 9 and 2 compare.

Question 9) Do you consider that creating a family protocol guarantees the continuity of family businesses?

Question 2) Do you consider that family businesses are institutional?



Table 2 Contingency questions 9 y 2

|                                   |          | Variable X. Creation of a Family Protocol |     |       |    |
|-----------------------------------|----------|---|-----|-------|----|
|                                   |          | Yes                                       | Not | Total |    |
| Variable Institutional Businesses | Y Family | Yes                                       | 1   | 0     | 1  |
|                                   |          | Not                                       | 11  | 18    | 29 |
|                                   |          | Total                                     | 12  | 18    | 30 |

Table 3 Expected values questions 9 y 2

|                                   |          | Variable X. Creation of a Family Protocol |      |       |    |
|-----------------------------------|----------|---|------|-------|----|
|                                   |          | Yes                                       | Not  | Total |    |
| Variable Institutional Businesses | Y Family | Yes                                       | 10.4 | 15.6  | 26 |
|                                   |          | Not                                       | 1.6  | 2.4   | 4  |
|                                   |          | Total                                     | 12   | 18    | 30 |

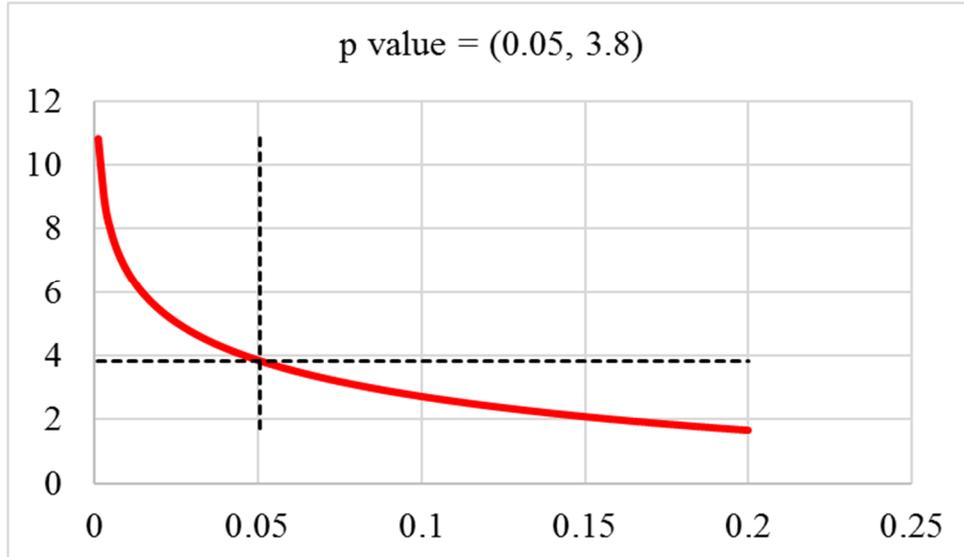
Table 4 Statistical values questions 9 y 2

|                                   |          | Variable X. Creation of a Family Protocol |             |               |                 |
|-----------------------------------|----------|---|-------------|---------------|-----------------|
|                                   |          | Yes                                       | Not         | Total         |                 |
| Variable Institutional Businesses | Y Family | Yes                                       | 8.496153846 | 15.6          | 24.0962         |
|                                   |          | Not                                       | 55.225      | 101.4         | 156.6250        |
|                                   |          | Total                                     | 63.72115385 | 117           | <b>180.7212</b> |
|                                   |          |   |             | <b>6.6349</b> |                 |

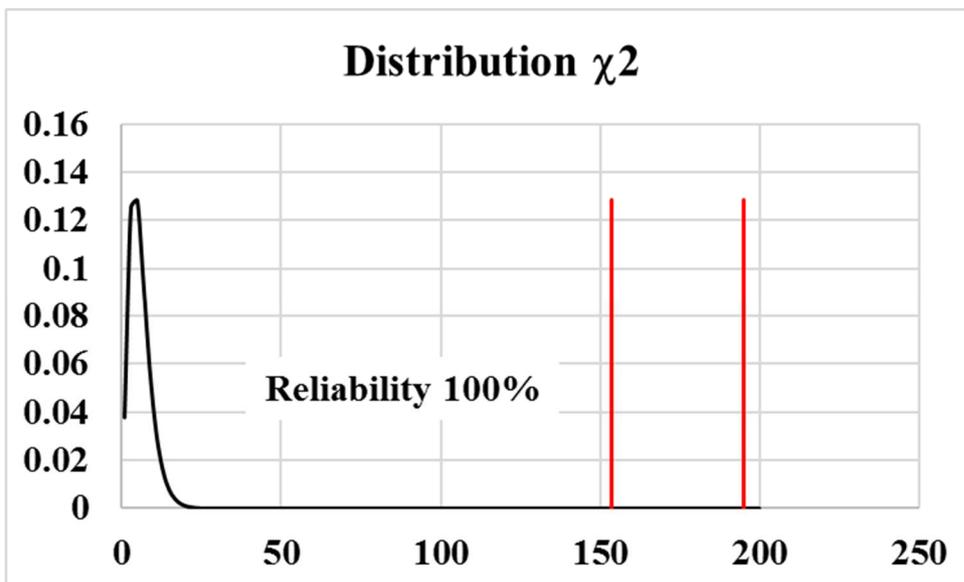
The result of observed or experimental square chi yields a value of 180.7212 (table 4), while the theoretical square chi value shows a value of 6.6349.

The calculated Chi is very far from the theoretical Chi and outside the standard Pearson curve for 1 degree of freedom figures 2 and 3. It is interpreted as a p-value almost zero for the dependency; 1 for independence.

The variables are associated with 99% reliability in theoretical or critical Chi, and 100% reliability in observed or experimental Chi.



*Figure 2.*  
*Graph of the theoretical inverse function: p-value (0.05) vs. chi-square (3.8) of 1 degree of freedom. This function is the most used by researchers.*



*Figure 3.*  
*Graph of the chi-square distribution. We observe that the values of both hypotheses contrasted with each of their items are 100% reliable. Both values are outside the chi-square test of independence.*



*Table 5. Table of results of other dependent variables calculated by chi-square, with a requirement of 99% that is, with a theoretical p-value of 0.01*

| ITEM 9   | ITEM 7   | Observed or experimental Chi | Theoretical Chi P value (0.01) | OBSERVATION                  |
|--|--|------------------------------|--------------------------------|------------------------------|
| Do you consider that the creation of a family protocol guarantees the continuity of family businesses? | Do you think that in family businesses, the administration gives people the appropriate knowledge and preparation?   | <b>153.3654</b>              | <b>6.6349</b>                  | Associated Variables at 100% |
| ITEM 2   | ITEM 6   | Observed or experimental Chi | Theoretical Chi P value (0.01) | OBSERVATION                  |
| Do you consider family businesses to be institutional?   | Do you consider that success in family businesses depends on the fact that, once their founders retire, the administration is in charge of family members? | <b>195.00</b>                | <b>6.6349</b>                  | Associated Variables at 100% |
| ITEM 9   | ITEM 6   | Observed or experimental Chi | Theoretical Chi P value (0.01) | OBSERVATION                  |
| Do you consider that the creation of a family protocol guarantees the continuity of family businesses? | Do you consider that success in family businesses depends on the fact that, once their founders retire, the administration is in charge of family members? | <b>195.00</b>                | <b>6.6349</b>                  | Associated Variables at 100% |

**CONCLUSION**

Based on the results, it can deduce that variables 9 and 2 are statistically dependent. In this research, we identify that creating a family business protocol influences its institutionalization through which it seeks to guarantee its continuity. The statistical tests used yielded eight variables more dependent on each other. Items 2 and 7 verified by linear Person resulted in 0.7202771, and items 7 and 9, 6 and 2, and 9 and 6 were associated with 99% reliability in theoretical or critical Chi, and 100% reliability of Chi observed or experimental.

Findings found:

1. Questions 2 and 7 that form the hypotheses "Institutional family businesses grant the administration of the highest positions to people with adequate preparation and knowledge," were verified by correlation of PEARSON with 0.7202771
2. Questions 9 and 7 form the hypothesis, "The creation of a family protocol guarantees that the family business administration is given to people with the knowledge and the ideal preparation to achieve continuity" verified by Chi Square's correlation.



## Global Journal of Engineering Science and Research Management

3. Questions 6 and 2 form the hypothesis, "The success of family businesses depend on the administration in charge of the family being institutional" was verified by Chi-square correlation.

4. Questions 9 and 6 form the hypothesis, "The creation of a family protocol guarantees the company continuity when the administration is in charge of the family members," verified by Chi-square correlation.

We conclude that the family protocol is a document that aims to maintain and strengthen the unity of the family, and its purpose is to guarantee the continuity of the family business through its institutionalization. Its creation helps to prevent conflicts between family members through agreements related to the company's institutional management and to keep the administration in the hands of the family and the positions of higher hierarchy in the personnel with adequate preparation and knowledge. This writing is an unpublished contribution to a subject that is underdeveloped in Mexico. It is necessary to point out that the study in family businesses' succession requires in-depth knowledge and scientific treatment.

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