How do family firms cope with economic crisis?

Case studies about Chinese family firms

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Abstract
Master Thesis in Business Administration

Title: How do family firms cope with economic crisis?—Case studies about Chinese family firms

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Subject terms Family firms, Family firm resources, Economic Crisis, Resource Based View, China

Introduction: The current economic crisis started in 2007 warned many business professions how important it is to react to the crisis quickly and properly. Many studies have been conducted on family businesses about their special resources environment, succession, governance etc. There are barely literature has ever mentioned about how family business cope with economic crisis. Thus, the author conducted such a study on this topic to explore more in family business study.

Purpose: To enhance the understanding of economic crisis management in family business, this thesis will analyze the actions of family firms during the economic crisis. This research aims to investigate how unique family firm resources influence the way they cope with the economic crisis.

Method: A qualitative research has been conducted in this study. In-depth interviews were conducted in two family business firms with the business owners and other high level position staff who have clear picture about the management during economic crisis. Tele-interview was adopted due to the distance limit.

Conclusions: During economic crisis, family firms do not use layoff as a major means to cost down. They keep relative stable relationship with their employees as well as other business partners. They seek financial and other help from the family members or in the family network rather than other external resources such as bank etc. The governance also concerns more on employee benefits.
1 Introduction

This chapter introduces the brief information about the economic crisis and the development of family businesses in the world. The research problems and purpose address the author’s research focus and goal.

1.1 Background and problems

Crisis is a word we mention very frequently in our daily life nowadays. Determined by accompanying time constraint, the crisis can be categorized as immediate, emerging and sustained (Parsons, 1996). Determined by attributes, crisis can be divided into natural disaster crisis, public relation crisis, economic crisis etc.

Among all kinds of crisis, economic crisis has drawn many attentions recent years. Unlike industrial crises, which influence a firm or an industry, economic crises affect a country or a region (Grewal & Tansuhaj, 2001). Since the U.S. subprime mortgage crisis triggered in 2007, followed by the collapse of Lehman Brothers in September 2008, the financial crisis soon spread the globe, severely affected nearly all sectors from oil, automotive to food industry. Many small companies were shut down and a large number of employees were laid off. Economic crisis became a hot issue again everywhere in the world.

According to Soros (1998), as every crisis, this situation came unexpectedly, almost out of a clear blue sky. How to react to the unexpected problems immediately becomes a crucial issue in today’s competition. To find effective methods to predict and prepare for the crises is a vital task for managers. Crisis management is the process by which an organization deals with a major unpredictable event that threatens to harm the organization, its stakeholders, or the general public (Seeger, Sellnow & Ulmer, 1998). Helping organization survive and even find new growth opportunity during economic down turn has been put on the agenda. Although researchers started to pay attention on the economic crisis issue in organizations in recent years, family business is still seldom mentioned in the literatures.
In Western Europe, South and East Asia, Middle East, Latin America, and Africa, the vast majority of publicly traded firms are family controlled (La Porta et al. 1999). In the U.S. one-third of the Fortune 500 companies are family controlled. Family businesses account for the majority of jobs in Western societies. Some of the largest publicly traded firms, such as Wal-Mart Stores and Ford Motor, are also controlled by families. In China, according to the chairman of China Federation of Industry & Commerce Mr. Congsheng Zhuang, family owned firms count 95% of total private owned firms.

From the facts illustrated above, we can see that family business have a significant impact on the economy and employment in several sectors and industries (Habbershon & Pistrui, 2002). How to enhance family business performance has been discussed in many literatures. The world economy is still recovering after hitting by the economic crisis started in 2007. Some professionals predict that it needs five years or even longer time to recover completely. During this economic downturn, family businesses are not immune. However, family owned firms have different resources access and governance structures from non-family owned firms. This brings up an interesting question: how do family businesses confront the economic crisis? Do they have unique ways to handle the problems due to their special attributes?

Family firms’ uniqueness arises from the integration of family and business life (Habbershon & Williams, 1999). Within a family firm, family members speak the same language, share the same background, have the same norms and interact with each other closely. All of these are unique resources within the special family environment.

A firm’s resources at a given time could be defined as those (tangible and intangible) assets which are tied semipermanently to the firm (Caves, 1980). Resource based view theory is that the basis for a competitive advantage of a firm lies primarily in the application of the bundle of valuable resources at the firm’s disposal (Wernerfelt, 1984).
From the RBV, family unique characteristics can be divided into five aspects which are human capital, social capital, survivability capital, patient capital and governance structure (Sirmon & Hitt, 2003). They are valuable, rare, difficult to imitate and non-substitutable, thus creating sustainable competitive advantages in the competition. These characteristics differentiate family firms from non-family firms. Since researchers have paid so much attention on the family attributes from a resource based view, will these unique characteristics have a heavy impact on the strategies towards economic crisis in family firms?

Economic crisis attacks the economy growth in the whole world. The duration usually lasts for many years. In order to help family businesses to use their own advantages to develop faster, the strategies to confront economic crisis became vital in the competition. Thus, investigation on the economic crisis and family business attributes is a new topic in family business study.

1.2 Purpose

To enhance the understanding of economic crisis management in family business, this thesis will analyze the actions of family firms during the economic crisis. This research aims to investigate how unique family firm resources influence the way they cope with the economic crisis.
2 Theoretical Framework

This chapter aims to discuss the related literatures about family business and economic crisis. It provides the definition of economic crisis, introduction of current economic crisis and corporate governance in economic crisis. It also discusses family business development, resource based view and family businesses’ uniqueness in resources.

2.1 Definition of crisis

Crisis is a common phenomenon in modern society. With the media exposure by TV, internet, newspaper etc., crisis has drawn a lot concern from not only professionals in different of industries, but also households. People may not know what exactly crisis is, however, it became a hot issue in the modern society.

What is a crisis? Economists view crises in terms of negative movements in macroeconomic variables caused by governmental policy failures; sociologists attribute crises to social inequalities, an increase in “utilitarian individualism”, the decline of family and community, etc.; psychologists consider a crisis the breakdown of an individual’s identity or his or her subjective sense of self and meaning; and management science defines a crisis in terms of a restricted number of effects and call for more mechanisms of control and security management (Pauchant & Mitroff, 1992)

According to Pearson & Clair (1998), a crisis represents “a low probability, high impact situation that is perceived by critical stakeholders to threaten the viability of the organization”. Shrivastava et al., (1988) define a crisis as organizationally-based disaster which causes extensive damage and social disruption, involves multiple stakeholders, and unfolds through complex technological, organizational and social processes’.

2.1.1 Definition of Economic Crisis

As it has been mentioned previously, this research mainly focuses on economic crisis. Economic crises are inexorably linked to the concept of business cycles which have continued to befuddle scholars since the beginning of the nineteenth century. It is difficult to predict
and gauge the influence of economic crises because they refer to contractions in which real output decreases, not to periods of slow growth (Grewal & Tansuhaj, 2001)

Honohan and Laeven (2005) pointed out that economic crisis is defined as at country level, both "systemic banking crises" (when a country’s corporate and financial sector experiences a large number of defaults and financial institutions and corporations face great difficulties repaying contracts on time) and "non-systemic banking crises" (e.g. crises limited to a small number of banks)

Grewal & Tansuhaj (2001) also indicate that economic crises are characterized by the con-movement of many macroeconomic indicators, including decreases in real output (measured by real gross domestic product), high levels of inflation and unemployment, and an unstable currency.

Although economic crisis occur infrequently, their timing and depth can cause huge investment losses (Leung & Horwitz, 2010)

2.1.2 The brief introduction of current Economic Crisis

The current crisis began as a bursting of the U.S. housing market bubble and a rise in foreclosures. As it ballooned into a global financial and economic crisis, some of the largest and most venerable banks, investment houses, and insurance companies have either declared bankruptcy or have had to be rescued financially. In October 2008, after the bankruptcy of Lehman Brothers, credit flows froze, lender confidence dropped, and one after another the economies of countries around the world dipped toward recession. The crisis exposed fundamental weaknesses in financial systems worldwide, and despite coordinated easing of monetary policy by governments, trillions of dollars in intervention by central banks and governments, and large fiscal stimulus packages, recovery appears to be just beginning (Nanto, 2009)

In US, Freddie Mac and Fanny Mae, two important intermediaries in the US secondary mortgage market which are sponsored by government have to be taken into government conservatorship because their capital position was weaker than expected. IndyMac Bancorp was insolvent and taken over by the deposit insurance system. In the UK, Northern Rock became the first bank that suffered a bank run in 150 years and ended up with being natio-
nalized. In Germany, IKB and Sachsenbank, two state owned banks, also had big problems (Kirkparick, 2009).

The current economic crisis also caused a huge economic downturn in China in 2008. Many multinational companies laid off employees and close new headcounts for recruitment world widely. Those white collars worried about their jobs all day long. People started to reduce consumption and save money for emergency.

2.1.3 Current economic crisis in China

Although the Chinese currency RMB did not depreciate in the current economic crisis, China’s economy has not been immune to the effects of the global financial crisis. Due to this research focuses on the year 2008-2009 during which the financial turmoil hit China very heavily; the following data was generated in the corresponding time.

China has heavy reliance on trade and foreign direct investment (FDI) for its economic growth. Numerous sectors have been hard hit as the following illustrations (Nanto, 2009).

- The real estate market in several Chinese cities has exhibited signs of a bubble that is bursting, including a slowdown in construction, falling prices and growing levels of unoccupied buildings. This has increased pressure on the banks to lower interest rates further to stabilize the market.

- China’s trade has plummeted seven straight months (December 2008-May 2009) recent months (See Figure 1). For example, exports in May 2009 were down 26.4% on a year-on-year basis, the biggest monthly decline ever recorded.

- The level of FDI flows to China has fallen eight months in a row (November 2008-May 2009). For example, FDI flows to China dropped by nearly a third in January 2009 (year-on-year basis).


- Import & Export amount in 2009 both decreased compared to the amount in 2008 (See Figure 2). In Figure 2, the currency is in hundred million USD. The light part of
the column represents the import value and the dark part of the column represents the export value.

Figure 1: Monthly Change in Chinese FDI and Trade: April 2008-May 2009 (Nanto, 2009)

Figure 2: Total foreign trade volume in 2005-2009 (National Bureau of Statistics of China, 2010)
2.2 Company reaction and solutions towards economic crisis

Since the current economic crisis affected so many countries and regions, how did those organizations react and what did they do to cope with the crisis? Layoff is a word we have heard many times when the current economic crisis was fiercely hitting many sectors. What else have they done? Researcher Wilson & Eilertsen (2010) conducted a survey about how company reacted and what strategies they used to confront during the latest economic crisis start in 2007 to the summer 2009. Their research aims to understand the extent to which organizations were prepared to deal with the economic shock. The survey was conducted among companies in USA. The results are summarized as below:

1. Surprised by the crisis

Most of the organizations were surprised by the crisis. Among all the respondents, only one indicated that totally prepared for the economic crisis. 32 percent of respondents indicated that their organizations were substantially or totally unprepared. Across all respondents, the least expected changes were the speed, severity and duration of the downturn.

This shows organizations are still lack of awareness and professional crisis management plan to be well prepared for the economic crisis. The unexpected changes such as speed, severity and duration of the downturn also warned the managers about the shortage of the research on industry study and forecast during non-crisis time.

2. Responses to the economic downturn

The responses to the downturn are categorized into two groups. One is focus on new growth and investment opportunities pursuit and the other is defensive actions which is focus on protecting current business and minimize the loss.

(1) Pursue opportunities for growth and investment

a) 47% organizations introduced new products or services

b) 35% organizations expanded to new markets

c) 28% organizations changed pricing

d) 21% organizations invested in new production / operations capability

e) 14% organizations increased marketing budget
Pursue defensive actions

a) 66% organizations reduced operational costs
b) 42% organizations stopped new hiring
c) 40% organizations laid off employees
d) 40% organizations reduced training and development expenses
e) 39% organizations put larger projects on hold

Buhler (2009) also claims that during the economic downturn, corporate managers should pay attentions to following issues to cope with the problems.

1. Care about the people

   In the economic downturn, people need reassurance. Managers only do lip service is far from enough. Relationship with customers, suppliers, employees needs to be carefully take care. Employees need more communication during economic crisis. A failure communication may ironically communicate a negative message.

2. Re-building trust

   Organizations must put efforts to re-build the trust during downsizing in economic crisis. Employees may think their trust in the company has broken and lost. The company should response to employees’ concern as soon as possible. Organizations can start to be honest and give respects to re-build trust.

3. Downsizing

   It is important to avoid cutting the same percentage from all parts of the company. Organizations should try to eliminate those positions that don’t add value and protect those positions that add value.

   While downsizing, it happens that the company needs to hire new people. In this stressed time, the candidates should be a good fit with the organization and its culture. The existing workforce also need to know the reason for the new hire while downsizing.
4. Remember the small stuff

The company needs to pay attention on the details. A small change may cause serious result in this down time. The psychological impact and the morale of the workers can be affected by an improper decision. Be prepared for the frequently asked questions when laying off people is another important issue.

2.3 Corporate governance under economic crisis

To help company to react fast and prepare well for the economic crisis, corporate governance plays a key role. Corporate governance is the set of processes, customs, policies, laws, and institutions affecting the way a corporation (or company) is directed, administered or controlled. Corporate governance also includes the relationships among the many stakeholders involved and the goals for which the corporation is governed.

In the economic downturn, strong corporate governance could help organizations foresee some risks and mitigate the loss. However, it is obvious that many organizations still need to improve their corporate governance on several aspects.

Kirkparick (2009) has done a research about the failures and weaknesses in corporate governance on the financial crisis. The research is mainly focus on banking industry; however, it still has significant meaning for corporations in other industries as well.

The boards play an important role in corporate governance in post-2000 market and macroeconomic environment. They had to be clear about the strategy and risk appetite of the company and to respond in a timely manner. The efficient reporting systems need to be established. They also needed to make sure the risk management and remuneration systems are compatible with their objects (Kirkparick, 2009)

Here are several weaknesses that the corporate governance may have and result in huge problems in times of economic crisis.

1. Recent track record of risk management is poor

The board needs to monitor the effectiveness of the company’s management practices and making changes as needed. Continuous review of the internal structure of the company is also its duty.
Risk management is absolute necessary in the corporate operation. However, in a review done by the Senior Supervisors Group in 2008, nearly all of the 11 major banks failed to anticipate fully the severity and nature of recent market stress. Some major banks were able to identify the sources of the risks in mid 2006 and mitigate the risk.

Some firms did not have adequate understanding and control over the potential balance sheet growth and liquidity needs. Stress testing should also be paid attention and implemented consistently.

Furthermore, transmission of risk information has to be through effective channels. KPMG (2008) conducted a survey of nearly 150 UK audit committee members and over 1000 globally, only 46 percent were very satisfied about the effective process to identify business risks in their companies and only 38 percent were very satisfied with the risk reports from management. Good communication in the organization can improve information transmission and enhance the efficiency of the execution.

2. Remuneration and incentive systems problems

Remuneration and incentive systems have played a key role in influencing financial institutions sensitivity to shocks and causing the development of unsustainable balance sheet positions. One study reports that the median CEO pay in S&P 500 companies was about USD 8.4 million in 2007 and had not come down at a time the economy was weakening.

According to the Basel Committee guidelines, the board should ensure that compensation policies and practices are consistent with the bank’s corporate culture, long term objectives and strategy, and control environment.

Incentive structures also need to balance various interests. Transactions-based compensation and promotion might lead to corrupt practices. Employees would focus on short-term earnings and neglect the company interests, thus, cause high potential risks.

3. Risk management awareness is low

A survey of European banks indicates that risk management is not deeply embedded in the organization. The boards need to be educated on risk issues and to be given the means to understand risk appetite and the firm’s performance against it.
Eleanor Bloxham, the CEO of Value Alliance also summarized the problem signs for corporate governance in times of economic crisis in the interview with the editor-in-chief of Corporate Finance Review Witzel (2009).

1. Implicit or explicit complaint from stakeholders

The governance system needs to be reworked if a company is not good at addressing stakeholder complaints. Some complaints are explicit, in letters or published article by the media citing the company itself. Some complaints are rather implicit. They may come from the chatting room or online forum. Comments with implied criticisms by legislators or other groups are even more implicit.

2. Lack of equity or fairness in the system

The ongoing controversy over executive pay is an example of this. Boards and companies need to ask themselves whether the actions of the company are fair and how other would see it. During the economic crisis, this issue becomes more sensitive.

3. The people on the board share the similar backgrounds and views

This makes understanding other views become difficult and also diminish the peripheral vision. Blind sidedness will set in. During the economic crisis, immediate strategies need to be made with full consideration. Diversified broad fits this multicultural world.

2.4 Crisis management

Crisis management is becoming more and more critical in the business operation. Crises come suddenly and unpredictable in most of the cases, especially economic crisis. However, some managers have not realized the need for crisis management. According to Seeger, Sellnow, & Ulmer (1998), crisis management is the process by which an organization deals with a major unpredictable event that threatens to harm the organization, its stakeholders, or the general public. Three elements are common to most definitions of crisis: (a) a threat to the organization, (b) the element of surprise, and (c) a short decision time.

Fink’s (1986) did a survey of Fortune 500 CEOs found 50% companies do not have a crisis plan for their organization, although 97% felt confident that they would respond well if a crisis occurred. Organizations that pursue or have achieved what they perceive as “organi-
zational excellence” are also less inclined to develop crisis management plans (Pauchant & Mitroff, 1992). On the other hand, numerous managers are passive that they think there is little or nothing that organizations can do to mitigate crises (Mitroff et al., 1998).

Crisis is not inevitable. Efficient crisis management can help companies predict, prevent and get prepared for the crises. Therefore, crisis management has drawn many attentions recent years due to its importance.

Wilson (1992) defined crisis management as a systematic process by which an organization attempts to predict or identify potential crises that an organization may encounter, take precautions to prevent the crises, or minimize the effects of the crises.

The crisis management process has several elements such as crisis audit, crisis management teams, crisis management plans, crisis readiness, disaster recovery, activities of crisis preparedness and crisis protocols (Preble, 1997).

In the US financial industry, there is a crisis management process model as below. It involves with following steps (Table 1):

Table 1: A normative crisis management process model (Preble, 1993; Wold & Shriver, 1988)

(1) Top management initiates contingency planning.

Senior management and the board of directors (BOD) begin the process by appointing a diverse management group that is give adequate resources to pursue the task of formulating and implementing the bank’s disaster plan.
(2) Risk assessment.

By conducted internal and external organization-wide analysis of potential natural and human threats, worst-case scenarios are predicted. Then the threats can be evaluated as to their likelihood of occurrence and impact on vital business functions.

(3) Develop alternative strategies.

Strategies should be developed to prevent threats becoming real. A series of actions can be applied in advance to prepare for the crises.

(4) Plan documentation.

A written crisis management plan with what steps are to be taken by who in specific crisis is essential. It makes sure every individual know what to do when crisis come.

(5) Testing.

The crisis plan should be tested for a period of time to see if it is applicable. It helps to find out the deficiency.

(6) BOD approval.

The final plan needs board of directors’ approval for execution.

Although this crisis management plan model is applied for all kinds of crises in organizations, it still has some implications for economic crisis. After experienced one economic crisis, the crisis management team could analyze the problems during the crisis. Document all related information and study other companies’ good strategies. Then follow the steps to make plan documentation for further reference.

Economic crises occur infrequently. However, each economic crisis from the Great Depression till the current one caused huge loss. Professors and researchers continuously study on economic crisis to explore more in order to give corporate implications to prepare for the financial turmoil. However, there are seldom related studies focusing on family business. The growing importance of family business urges the author to explore more on the economic crisis in family business.
2.5 What is a family firm?

2.5.1 Definition of family firm

Family controlled business as a public or private company in which a family (or related
families) controls the largest block of shares or votes, has one or more of its members in
key management positions, and members of more than one generation are actively in-
volved within the business” (Miller & LeBreton-Miller, 2005).

Zahra, Hayton, and Salvato (2004) define family firms according to the presence of both a
family member with some identifiable share of the ownership of the firm and multiple gen-
erations of family members in leadership positions within that firm.

A business firm may be considered a family business to the extent that its ownership and
management are concentrated within a family unit, and to the extent its members strive to
achieve and/or maintain intra-organizational family-based relatedness’ (Sharma et al., 1996)

2.5.2 Importance of family business

By some estimates, approximately 20.3 million of the 22 million U.S. businesses are family-
owned and controlled (Shanker & Astrachan, 1996). In china, there are 90% of the non-
state-owned enterprises are family firms (Chu, 2000). Family business has become a com-
mon business form in many countries. Some well-known companies such as Wal-mart,
Geely are all controlled by families.

The superior performance of family firms is even more evident in emerging markets where
they are viewed as “engines” of the economy (Whyte, 1996). Large, family-controlled busi-
ness groups are dynamic and versatile, and they account for a significant proportion of
gross national product in high-growth emerging markets (Claessens, Fan, & Lang, 2000).
Small family firms located in manufacturing clusters (Carney, 1998) and those situated
within global commodity chains (Frenkel, 2001) are important elements in the industrializa-
tion of many emerging markets. In several developing economies, family firms constitute
commercial elite (Davis, Trebilcock, & Heys, 2001)
2.5.3 Family business advantages

It has been theorized in the family business literature that family businesses have competitive advantages over nonfamily businesses (Moscetello, 1990).

Family firms have a unique work environment that inspires employee care and loyalty (Ward, 1988). Family businesses are less rivalrous to each other since they interact in social and business spheres, each of which has institutional memory that can serve as a check on untrustworthy behavior (Harris et al., 1994). They have lower recruitment and human resource costs and are more effective than other companies in labor-intensive businesses (Levrin & Moskowitz, 1993). According to Tagiuri & Davis (1996), the family language allows family members to communicate more easily and guarantee the privacy in the meantime. In terms of motivation, loyalty, and trust, family relationships generate unusual motivation, cement loyalties, and increase trust (Tagiuri & Davis, 1996). Family businesses also have a more trustworthy reputation and a lower overall transaction cost (Aronoff & Ward, 1995; Tagiuri & Davis, 1996). Family firms tend to be more entrepreneurial that pay more attention to research and development.

They have less dependence on their environment and therefore are less susceptible to negative downturns (Donckels & Frohlich, 1991). Family businesses have been described as having patient capital, that is, they are able to see the big picture better and are more patient in waiting for the long-term outcome (DeVisscher, Aronoff & Ward, 1995). In addition, they have a lower cost of debt (Aronoff & Ward, 1995).

2.6 Uniqueness of Family Firms on Resource based view

2.6.1 Resource Based View

The long term success of a firm is depending on whether the company can sustain its competitive advantage, a so called sustained competitive advantage. There are four key characteristics necessary for resources to provide sustained competitive advantage. They are valuable, rare, difficult to imitate and non-substitutable (Barney, 1991).

A firm’s resources at a given time could be defined as those (tangible and intangible) assets which are tied semi permanently to the firm (Caves, 1980). Resource based view (RBV)
theory is that the basis for a competitive advantage of a firm lies primarily in the application of the bundle of valuable resources at the firm's disposal (Wernerfelt, 1984).

Traditionally have the companies been seen in the light of their products, with the RBV the companies are being reflected based on the resources they possess (Wernerfelt, 1984). This in turn means that the potential for growth and prosper a company has, is depending on the resources at hand. The definition of a resource is simply some attribute (tangible/intangible) that can either be seen as a strength or weakness of a firm (Wernerfelt, 1984). Examples of such includes: Human capital, know-how, external relationships, financial capital and machinery.

Strategy scholars have investigated performance from several different perspectives, however, in the 1980s and especially over that last decade, the Resource Based View (RBV) of the firm has become the dominant perspective (Hitt & Ireland, 1985; Wernerfelt, 1984).

According to Sirmon & Hitt (2003), the relationships between resources and performance suggested by RBV have largely been supported. Brush and Artz (1999) found that firm-specific resources and capabilities required by the industry affected performance and could be used to protect a competitive advantage.

Habbershon et al. (2003) describe the interaction between resources and capabilities as chains, which are directly linked to the performance of the firm. According to Penrose (1959), RBV suggests that returns achieved by firms are largely attributable to their resources. The resource-based view links the resources and capabilities of the firm with the performance outcome of the firm (Habbershon, Williams, & MacMillan, 2003). Another similar perspective is that the RBV is about the relationship between the firm resources, capabilities and competitive advantage (Hart, 1995). Or in other words that firm resources create capabilities, which in turn leads to a firm having a competitive advantage.

### 2.6.2 Resources comparison between family and none family firms

Family firms’ uniqueness arises from the integration of family and business life (Habbershon & Williams, 1999). Sirmon & Hitt (2003) indicated there are five unique characteristics of family business which are human capital, social capital, survivability capital, patient capital, and governance structure. They conducted a research on comparing the uniqueness
of resources and attributes of family firms with nonfamily firms. The positive and negative sides of family firms can be found in the Table 2 below.

Comparing the Uniqueness of Resources and Attributes of Family Firms

<table>
<thead>
<tr>
<th>Resource</th>
<th>Definition</th>
<th>Positive</th>
<th>Negative</th>
<th>Nonfamily Firms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Human Capital</td>
<td>Acquired knowledge, skills, and capabilities of a person</td>
<td>Extraordinary commitment; warm, friendly, and intimate relationships; potential for deep firm-specific tacit knowledge</td>
<td>Difficult to attract and retain highly qualified managers; path dependencies</td>
<td>Not characterized by the positives, but have fewer limitations</td>
</tr>
<tr>
<td>Social Capital</td>
<td>Resources embedded in network, accessed through relationships</td>
<td>Components embedded in family; legitimacy with constituencies enhanced; development of human capital</td>
<td>Limited number of networks accessed; often excluded from elite networks (i.e., Fortune 500 CEOs)</td>
<td>Networks can be more diverse;maybe opportunistic in accessing and leveraging; sometimes used for managers’ benefit—agency costs</td>
</tr>
<tr>
<td>Patient Financial</td>
<td>Invested financial capital without threat of liquidation</td>
<td>Generational outlook; not accountable to strict short-term results; effective management of capital; allows pursuit of creative and innovative strategies</td>
<td>Nonfamily investors excluded; limited to availability of family’s financial capital</td>
<td>Largely do not have the benefits or limitations</td>
</tr>
<tr>
<td>Survivability Capital</td>
<td>Pooled personal resources family members loan, contribute, and share with business</td>
<td>Helps sustain the business during poor economic times or redevelopment of the business; safety net</td>
<td>Not all family firms have it</td>
<td>Do not enjoy due to lack of commitment by employees and stakeholders</td>
</tr>
<tr>
<td>Governance Structure &amp; Costs</td>
<td>Costs associated with control of firm; examples include incentives, monitoring, and controls</td>
<td>Family owned and operated firms’ structures, trust, and family bonds reduce governance costs</td>
<td>Some family firms may not have an effective structure, trust, and strong family bonds, thereby producing greater governance costs</td>
<td>Professional management and capital diversification often increase governance costs</td>
</tr>
</tbody>
</table>

Table 2: Comparing the Uniqueness of Resources and Attributes of Family Firms (Sirmon & Hitt, 2003)

2.6.3 Family businesses resources

2.6.3.1 Human Capital

Human capital represents the acquired knowledge, skills and capabilities of a person that allows for unique and novel actions (Coleman, 1988). According to Sirmon & Hitt (2003), in family business, family members involve in both family and business activities. Thus, the human capital is complicated by its dual relationship. The predictive ability, strong adven-
ture spirit and significant organizing ability of the entrepreneurs in the family firms are the key factors of the success.

They argue that the duality of these relationships creates a unique context for human capital which has extraordinary commitment, warm, friendly and intimate relationships and deep firm-specific tacit knowledge. However, family internal relationship gives the firm troubles in hiring and maintaining high qualified managers in the same time. The exclusive succession, limited potential for professional growth, lack of professionalism makes qualified managers avoid family firms.

2.6.3.2 Social Capital

According to Nahapiet and Ghoshal (1998), social capital is the sum of the actual and potential resources embedded within, available through, and derived from the network. It highlights the central importance of networks of strong, cross-cutting personal relationships developed over time that provide the basis for trust. Social capital is also a term used to identify resources that exist in relationship among people (Hoffman et al., 2006).

Social capital can affect a number of important firm activities such as interunit and interfirm resource exchange, the creation of intellectual capital, interfirm learning, supplier interactions, product innovation, and entrepreneurship (Adler & Kwon, 2002). It is very difficult for competitors to imitate because it is tacit in nature and deeply embedded in family firm (Dess & Shaw, 2001).

There are three dimensions in social capital which are structural, cognitive, and relational. Network ties and configuration formed structural component. A shared language and narratives is the base of cognitive dimension. The relation dimension is based on trust, norms and obligations (Sirmon & Hitt, 2003).

According to Sirmon & Hitt (2003), family firms can build more effective relationships with suppliers, customers and support organizations based on their family unit and ties with external stakeholders. They get resources from their constituencies and networks.

Social capital also influences the creation of human capital in subsequent generations (Coleman, 1988). Social capital needs physical presence and strong relationships to urge
child development. Therefore, strong social capital helps develop human capital of the next generation.

- Familiness

Familiness is proposed as a source of competitive advantage, generating firm wealth and value creation. Generally, “familiness” is used as an explanation of various relationships within family business, or as a means to discriminate between family and nonfamily firms (Pearson, Carr & Shaw, 2008). It is also the systematic interaction and involvement of family, business, and individual family members that create these unique resources and capabilities (Habbershon et al., 2003). Chua, Chrisman & Sharma (1999) also suggest that the family component shapes the business in a way that family members of executives in nonfamily firms do not and cannot. Familiness is a unique attribute of family business.

According to Habbershon et al. (2003), familiness refers to the idiosyncratic bundle of resources and capabilities possessed by family firms. A broad overview of the RBV suggests that unique bundles of resources and capabilities serve as a source of competitive advantage for the firm (Habbershon & Williams, 1999).

Pearson et al., (2008) define familiness with respect to the resources and capabilities that are derived from the involvement and interactions of family relationships. In a family firm, the family and the business do not exist as distinct entities, but are connected with one another. Both the family and the firm are encompassed by those complex, interactive relationships.

- Four dimensions of familiness based on social capital perspective

Pearson et al., (2008) designed a model to analyze the social capita components of familiness. This model identifies three dimensions of social capital and the capabilities result from these resources.
Table 3: A social capital perspective of familiness: family firm resources and capabilities (Pearson et al., 2008)

- Four dimension of Familiness are as following:

1. The structural dimension

Pearson et al., (2008) defined the structural dimension of familiness as the social interactions, including the patterns and strength of ties, among the members of a collective. The density, connectivity of social ties and also members’ ability to use and re-use social networks are included in this dimension. The existing and familiar network ties may bring family firms an advantage over nonfamily firms.

Information channels are social networks within the family and the family business and also are the mechanisms that connect them to the outside world (James et al., 2006). Cohesive ties among members of a network are believed to result in high network centrality and to provide access to unique resources that contribute to a member's attainment of instrumental objectives (Coleman, 1990)

Through high levels of this dimension of family capital, members of the organization can gain direct access to tacit knowledge privately possessed in the network (Portes, 1998).

2. The cognitive dimension
The cognitive dimension includes “…resources providing shared representations, interpretations, and systems of meaning among parties” (Nahapiet & Ghoshal, 1998). It comprises the group’s shared vision and purpose, as well as unique language, stories, and culture of a collective that are commonly known and understood, yet deeply embedded (Pearson et al., 2008).

The vision conveys why it is important for the family to continue the business. Family and firm share the same purpose create the collective understanding about the long-term company goal. The cognitive dimension of social capital is unique in family firms, because it is often deeply embedded in the family’s history (Pearson et al., 2008).

3. The relational dimension

Nahapiet & Ghoshal (1998) indicated that consists of the resources created through personal relationships, including trust, norms, obligations, and identity.

1) Trust and familiness.

Leana & Van Buren (1999) have characterized trust into two subdimensions: fragile and resilient. Fairly immediate reward is the reason to give fragile trust. It is more dependent on formal rules of allocation. Resilient trust is based on frequent social interaction with parties and is where the moral integrity of the parties in involved. Family firms are fertile grounds for resilient trust. As family relationships grow and mature over time, the recurring interaction and interdependence among members builds resilient trust (Arregle et al., 2007).

Within a family business network, obligations and expectations also lead to collective trust, which becomes a potent form of expectational asset (Nahapiet & Ghoshall, 1998). Family members can rely on one another by collective trust existed in family and are more proactive to work (Pearson et al., 2008).

2) Norms and obligations.

Norms represent agreement on actions in the social system (Nahapiet & Ghoshal, 1998). Lansberg (1999) notes that besides norms of behavior regarding profitability, family firms often have norms for being collaborative, successful families. Egalitarianism, teamwork,
and a focus on developing synergy from the collaboration and integration of the family are included in the norms. Family norms also include internalized sets of accepted behavior for members of the family business; a common belief system that allows and make sense of common experiences (Adler & Kwon, 1999); and shared strategic visions, systems of meanings, and normative value orientations (Nahapiet & Ghoshal, 1998).

Family norms provide for social control in family businesses (James et al., 2006). Strong family norms lead to obligations and expectations that can be viewed as the positive interactions that occur between individuals in a network (Lesser, 2000). Unique to the family firm are the obligations to both the family and the business enterprise (Gersick et al., 1997). Obligations to family create stability in network ties (Pearson et al., 2008).

3) Identification

Pearson et al., (2008) indicates that identification is where individuals see themselves as part of the collective. Family identity is often a strong, enduring social force. Identity occurs when individuals see themselves as united with another person or group of people (Nahapiet & Ghoshal, 1998).

4. Organizational capabilities dimension

The simultaneous presence and strength of the structural, cognitive, and relational dimensions of social capital lead to organizational processes or capabilities that are advantageous for superior firm performance, and, in particular, to family firm value creation. The family firm’s special circumstances create greater opportunities for sharing information and working collectively in the family firm (Pearson et al., 2008).

2.6.3.3 Patient Financial Capital

Patient capital is financial capital that is invested without threat of liquidation for long periods (Dobrzynski, 1993). The intended time of investment make patient capital differs from the typical financial capital. Sirmon & Hitt (2003) indicate that family firms have limited sources of external financial capital because they avoid sharing equity with nonfamily
members. Family firms have a longer time horizon and not pursue short-term result. Their desire to develop business for future generations makes the capital management effective. Patient capital is a valuable asset for family firms.

2.6.3.4 Survivability Capital

Survivability capital represents the pooled personal resources that family members are willing to loan, contribute, or share for the benefit of the family business according to Sirmon & Hitt (2003). There are different forms of survivability, such as, free labor, loaned labor, additional equity investments or monetary loans. Survivability capital can help sustain the business during poor economic times or after an unsuccessful extension or new market venture. Survivability management facilitates firms to create a sustained competitive advantage and enhance wealth creation.

2.6.3.5 Governance Structure & Costs

Different from managerial governance which separates ownership and control, family governance has a significant attribute of the unification of those two. Family firms make strategic decisions with the family’s personal wealth. Because of the ownership and control united, the interests of each party are the same. This reduces the tendency toward opportunism and agency cost (Brickley & Dark, 1987)

The owner-managers view the firm as “our business”. Since they are both the decision makers and risk takers, they have high enthusiasm and responsibilities in the business. In advanced economies, firms with strong insider-ownership (concentrated management ownership) and certain board structures are better able to withstand unexpected financial shocks than firms with widely held ownership (James, 2008)
3 Research Methodology

This chapter describes the research method the author has applied in this research. It contains the research approach and strategy, the method chosen for data gathering, interview design and data analysis. The last part is about quality issue and limitation.

3.1 Research method: quantitative VS qualitative

As we all know, the research methods are generally divided into two categories, quantitative and qualitative. Another way to represent the world of research is to divide it into two different research processes; Fix (positivist) or flexible (interpretive) research processes (Jacobsen, 2002). The fix research process is related to the quantitative research approach, and the flexible process is related to the qualitative research approach (Jacobsen, 2002). The flexibility in the flexible research process is steaming from the use of a less strict approach to the research process (Williamson, 2000).

Lekvall & Wahlbin (2001) simplifies the definition by separating the two concepts based on whether the analysis process is carried out through statistical methods or verbal reasoning. Further on are Lekvall & Wahlbin (2001) separating quantitative and qualitative research approaches by the way the collected data is inputted into the analysis. More specifically, whether it’s being coded into numbers or whether it is uttered in words or other subjective elements.

Different research methodologies like case studies, experiments or surveys can have either a strict quantitative or qualitative approach or a mixture of the both (Williamson, 2000). It is stated that the quantitative method of inquire is good at prove theories, while qualitative method is good at explaining and producing information (Denzin & Lincoln, 2000).

This research aims to find out how family firms use their resources to reduce the negative effects of economic crisis on their business. The research data should contain the details of human capital, social capital, patient capital, survivability capital and governance and costs in each family firm. This study focuses more on “how” questions, rather than “how many” questions. Thorough description and precise details are essential. In this case, quantitative research is not able to provide specific data about what individual family firm has done during the economic crisis. In addition, qualitative method has been used very commonly
in family business research. According to Haberman & Danes (2007), qualitative approaches can be used as tool to have deeper understanding of the problem in family business because the human dynamics involved in family business could be adequately studied only with qualitative methodologies. Thus, qualitative research is more suitable for this study.

3.2 Case study strategy

According to Robson (2002), an exploratory study is a valuable means of finding out “what is happening; to seek new insights; to ask questions and to assess phenomena in a new light”. Due to this research topic has not been discussed by other researchers before; it needs more flexibilities to deal with the uncertainty. Therefore, exploratory study is proper for this research.

Among various research strategies, case study has been adopted for this study. According to Saunders, Lewis & Thornhill (2009), case study strategy has considerable ability to generate answers to the question “why?” as well as the “what?” and “how?” questions. It is most used in explanatory and exploratory research.

This exploratory research is an investigation in a new area regarding to family business. Only case study can provide rich understanding of the context and find out the connection between family firm resources and economic crisis.

Robson(2002) defines case study as a strategy for doing research which involves an empirical investigation of a particular contemporary phenomenon within its real life context using multiple sources of evidence. According to Yin (2002), case studies have long been one of the most common methods of conducting research for use in public policy and in business and public administration. Case study research continues to be an essential form of social science inquiry. Furthermore, the case study strategy helps to gain a rich understanding of the context of the research and the processes being enacted (Morris & Wood, 1991).

This research is conducted by investigating each company’s resources in different aspects. Followed by the comparison of findings on the actions each company had taken towards the current economic crisis on a resource based view. Conclusion will be generalized from the similarities to find out family businesses’ unique ways to cope with economic crisis.
Multiple case studies is preferable here because single case study is more suitable for exploring existing theory.

3.3 Research approach

3.3.1 Inductive or deductive

Deductive approach and inductive approach are the two main research approaches. Deductive approach is when you develop a theory and hypothesis, and then design a research strategy to test the hypothesis. Inductive approach is when you collect data and develop theory as a result of your data analysis (Saunders, Lewis & Thornhill, 2009).

Research using an inductive approach is likely to be particularly concerned with the context in which such events were taking place. Saunders, Lewis & Thornhill (2009) indicates that a research in a new topic and on which there is little existing literature, it may be more appropriate to work in an inductively manner by generating data and analyzing and reflecting upon what theoretical themes the data are suggesting.

This is just the case for this study. There are few literatures about how family businesses do overcome the economic crisis. It is a new topic needs many efforts to explore and study. By reviewing relevant literature on family business and economic crisis, new scientific findings will be generated by analyzing data. Thus, for this case it is most feasible to have an inductive emphasize in the research process. However, this is not delimiting the use of deductive research aspects, since the starting point lies within the existing academic field of family owned businesses and also the economic crisis.

This inductive research approach is going to be conducted as following aspects:

3.3.1.1 Data gathering

Conducting in-depth interviews is the way to collect qualitative data. In-depth interview is also named as unstructured interview. There are no fixed questions for interviewee to answer, instead, the interviewee will talk freely about the related issue and direct the whole interview (Saunders, Lewis & Thornhill, 2009).

In-depth interviews help to find out specific problems that these two family firms have encountered during economic crisis and how they coped with them. Based on the primary da-
ta collected in the interviews, analysis of the company’s internal and external resources will be carried out. A study on the actions the two firms took to confront the economic crisis help to analyze the relationship between the resources and the economic crisis. Secondary data such as the influence of economic crisis worldwide and China, exchange rate changes etc. are obtained in different data sources such as National Bureau of Statistics of China during the process.

3.3.1.2 In-depth Interview

Interviewing is the most commonly used method of data collection in qualitative research (King, 2004). Generic qualitative interview should be flexible and open-ended in style. It tends to focus on people’s actual experiences more than general beliefs and opinions. The relationship between interviewer and interviewee is crucial to the method. “If you want to know how people understand their world and their life, why not talk to them?” Kvale (1996)

As it has been mentioned above, the in-depth interview will be conducted via telephone calls because the researcher is in Sweden while the interviewees are in China. Telephone interview has the advantages that you can often obtain access to people by phone who would never find the time to give you an interview. It makes the access to the management team in the company easier and efficient.

The idea of an open interview is straightforward. The interviewer engages in informal conversation with the respondent about a particular area of interest. The interviewer may steer the conversation a little, by picking up on the cues and themes raised by the respondent, but generally the respondent leads the direction of the interview (Fisher, 2007)

1. Sample Selection

Ailia Group and Ningbo Tongzhou are the two family companies selected for this research. The reasons for this selection are as following:

1) This research aims to find out how family businesses cope with economic crisis on a resource based views. Thus, the companies for this case study need to be family business firms and in the same time they were or they are still affected by the current economic crisis.
2) The companies should either locate in Sweden or China. Because the author is in Sweden, it is possible for the author to do face to face interview with Swedish companies and also since the author has been in Sweden for two years, it is relatively easier to get contact with the companies in Sweden. On the other hand, the author is from China. It is also possible to contact some Chinese family firms through her own network there. Meanwhile, interviews can be conducted in the interviewees’ mother language, Chinese, which is a big advantage to have better communication and mitigate misunderstanding.

After the author spent long time and contacted all the resource she has, Ailia and Ningbo Tongzhou were selected as the participant companies. Ailia is famous family business firm specialized in sports shoes and accessories. It is located in Putian in which there are many family owned firms. NingboTongzhou is another typical Chinese family firm specializes in logistics and warehouse service. It is located in Ningbo which is also a family firm centralized area.

2. Interview procedure

1) An interview guide (See Appendix 1) was sent to the interviewees before the interview via email. The purpose of this interview guide is to introduce this research topic and purpose and the main questions to the interviewees to let them fully understand and prepared for the interview. It gives the interviewees enough time to think about the answers and deliver profound information in actual interviews. This interview guide is for both two companies.

2) Arrange and conduct actual interviews. The author interviewed Mr. Zheng, the Chairman of the board and Mr. Zhong, the overseas business director in Ailia Group. Mr. Zheng has a clear picture of the operation and he is the founder of Ailia Group. Mr. Zhong is a senior employee and he is not a family member. Interview him can get the opinion from a non-family member to make the findings more accurate.

In NingboTongzhou, Mr. Liu, the General Manager and Mr. Li, the deputy general managers are the interviewees. Mr. Li is the brother-in-law of Mr. Liu. The reason to choose them is that Mr. Liu is the founder of this family busi-
ness and Mr. Li as the deputy general managers has also involved a lot in the management.

These two companies are both Chinese family owned companies, so that the interviews were conducted in Chinese due to the language limit. There are four interviews in total and two for each company (See Table 4). All the interviews were taped in order for further references.

<table>
<thead>
<tr>
<th>Date</th>
<th>Company</th>
<th>Interviewee</th>
<th>Time (Hour)</th>
<th>Means</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010.06.15</td>
<td>Ailia Group</td>
<td>Mr. Zhong</td>
<td>1.5</td>
<td>Skype</td>
</tr>
<tr>
<td>2010.06.17</td>
<td>Ailia Group</td>
<td>Mr. Zheng</td>
<td>1</td>
<td>Skype</td>
</tr>
<tr>
<td>2010.06.28</td>
<td>NingboTongzhou</td>
<td>Mr. Liu</td>
<td>1.5</td>
<td>Skype</td>
</tr>
<tr>
<td>2010.06.30</td>
<td>NingboTongzhou</td>
<td>Mr. Li</td>
<td>1.5</td>
<td>Skype</td>
</tr>
</tbody>
</table>

Table 4: Interviews Summary

3.3.1.3 Design of interview Questions

Interview questions are based on the five elements of family firm resources which are human capital, social capital, patient capital, survivability capital and governance.

The first part of the interview is focusing on the general information about the company. It is mainly about the company profile such as history, business scope, operation status etc.

The second part of the interview is about the general description of the effects of current economic crisis. It is mainly about the duration, severity, domestic market, international market.

The last part of the interview is focusing on the five aspects of family business resources. It begins with the details of each resource of the company. Followed by the action of the family firm had taken to cope with the economic crisis, such as layoff, new policies, seek financial support from other family firms etc. The questions are also based on the five aspects of the resources.
3.3.1.4 Data analysis

After collecting data, the data analysis was conducted inductively. Unlike statistic analysis, case study analysis has no format. Walker et al. (2008) has summed up an approach for qualitative analysis as below:

<table>
<thead>
<tr>
<th>Step</th>
<th>Processes</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Description</strong></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>Read and reread the transcripts of each interview while referring to field notes taken during that interview. Identify relevant discourse from each participant’s transcribed interview</td>
</tr>
<tr>
<td>2</td>
<td>Summarize identified relevant discourse from each transcript to produce the core information of each interview.</td>
</tr>
<tr>
<td><strong>Analysis between participants to generate themes</strong></td>
<td></td>
</tr>
</tbody>
</table>
| 3 | Generate common themes via microanalysis  
1. Broad extraction of core information  
2. From broad extraction, generation of themes specifically  
3. Summary of themes generated |
| 4 | Points of tension identified from common themes |
| **Findings** | |
| 5 | Label standard and divergent meanings |
| 6 | Explore the explicit and implicit meanings looking for connections to broader extentions |

Table 5: Qualitative analysis approach (Walker et al., 2008)

Because these interviews were all conducted in Chinese, the author needs to translate all the Chinese content into English precisely. This step needs several reviews to make it accurate.

The second step was to categorize the contents. Based on the five unique family business resources, summarize the answers related to each type of resources.

The third step was to compare these two companies on the changes of these five type of resources during financial crisis and what strategies they have adopted to solve the problems.
The last step was to find the similarities between the two family businesses in order to generate the unique methods that family businesses would adopt to cope with economic crisis.

### 3.4 Conceptual Framework

Based on the literature review and the research design, the author developed a conceptual framework for this research (See Table 6). It explains the basic research process and procedure. In the beginning, the author collected information about each family firm’s resources based on human capital, social capital, patient financial capital, survivability capital and governance. Then it was followed by investigation of the actions taken towards the economic crisis by each company in different resource. In the end, compare two family firms’ actions to generate similarities which are the family firms’ unique ways in coping with economic crisis.

![Conceptual Framework Diagram]

*Table 6: Conceptual framework for this research*
3.5 Quality Issue

3.5.1 Reliability

Reliability refers to the extent to which the data collection techniques or analysis procedures will yield consistent findings (Saunders, Lewis & Thornhill, 2009). According to Robson (2002), there are four threats to reliability. The first one is subject or participant error. It means at different time and condition the participants attend the interview, the different the data will be collected. In this study, because the company is located in China, the time difference is an issue. However, the researcher made the interview schedule according to the interviewees’ convenience. It makes sure the interviewees feel comfortable and willing to give more information in a relatively flexible way which will not disturb their work.

The second threat is subject or participant bias. Interviewees may be afraid to say their real thoughts which their boss may not want to hear. The boss may probably only talk about good news. All the interviews are conducted one by one and the answers will be anonymous to guarantee the confidentiality. All the interviewees are cooperative to provide the real information as they can.

The third and forth threats are observer error and bias which means different researcher has different way to conduct interview and interpret data. In these case studies, there is only one researcher. Thus, there is no different understanding in this case.

3.5.2 Validity

Validity is another important issue which concerned with whether the findings are really about what they appear to be about (Saunders, Lewis & Thornhill, 2009). Zikmund (2000) also claims that validity puts forward the problem of whether a measure measures what it is supposed to measure. History, testing, instrumentation, mortality, maturation and ambiguity about causal direction are all factors threat validity. These case studies are not affected by those factors; however, it is not generalisable. These companies under analysis are Chinese family business firms, which mean the findings, may not applicable for family business in other areas in the world. Still, this study has drawn attention on the family business study in terms of economic crisis and also the findings might have implications for further study in this area.
### 3.6 Limitations of the study

First of all, due to the time limit, this research is conducted for only four months. The investigation of the factors in family business which is influential to confront economic crisis is not deeply enough.

Second, due to the long distance between Sweden and China and the budget limit for this research, the interviews can only be conducted in tele-interview. Conducting interview via telephone may lead to low reliability because you can not see each other’s face. The non-verbal communication between the interviewer and the interviewee is missing in this case. The author had summarized the key information of the interview content in the tape after the interviews and sent them to the interviewees for double confirmation. This action helps to reduce the misunderstanding in the long-distant communication and enhances the information accuracy.

Third, due to the mother tongue of the interviewees is Chinese, all the interview are conducted in Chinese. The researcher needs to translate and interpret all the content into English. This process may lead some misinterpretation. In order to mitigate the risk of such occurrences, two other persons with Chinese mother tongue have listened to the interview in order to verify that the translated material into English is of high quality. The outcome was that the other persons agreed to the quality of the translation.
4 Empirical Findings & Analysis

This chapter mainly focuses on the details of two family firms in China and their actions towards current economic crisis. Combining the theories and models which have been mentioned in the previous chapter and the findings collected in the interview, an analysis in comparison between the two firms is adopted to investigate the result.

4.1 Fujian Ailia Group

4.1.1 Brief Introduction

The founder of Fujian Ailia Group is Mr. Jinyun Zheng. He is one of the top 10 richest people in Putian, Fujian province in China. Back in the early 1990s, Mr. Zheng was involved in wood business in the beginning. In 1996, with some financial support from his relatives and friends and also some money from previous wood business, he went to Brazil to explore new opportunities. He succeeded in exporting shoes and other leather products from China to Brazil and generated very good profit. However, the business was affected by the devaluation of Brazilian Real in the late 1990s. In 2001, he decided to go back to China to expand the shoe business both internationally and domestically. Fujian Ailia Group was established in Putian which is Mr. Zheng’s hometown in Fujian province, China in 2002.

Ailia Group is in the first generation of this big family company. Mr. Jinyun Zheng is the current Chairman of the Board. There are 17 members in the board and all of them are family members and relatives. His brother Mr. Jingui Zheng is the CEO. Two other brothers are the general managers in branch companies in Putian and Chile respectively. Another brother-in-law works as general manager in Brazil branch. The rest of the board consists of scotch cousins. The family owns 75% of the group.

With 28 million USD investment in total, the group consists of Putian ALA Footwear & Clothing Co., Ltd., Fujian ALA Sports Goods Co., Ltd., Fujian ALA Sunroll Footwear Co., Ltd. and Fujian ALA Ravin Garments Co., Ltd. The group has totally 13 shoe forming lines, 18 apparel production lines, and over 6,000 skilled workers.
Putian ALA Footwear & Clothing Co., Ltd. has a land area of 60,000 square meters, 7 shoe forming lines and 2,600 employees. It specializes in producing all kinds of sports shoes, skateboard shoes, casual shoes and children's shoes with annual production of more than 4 million pairs.

Fujian ALA Sports Goods Co., Ltd. has a land area of 75,000 square meters, 4 football shoes forming lines and 1,500 employees now. The factory specializes in producing all types of soccer shoes with annual production of more than 3 million pairs.

Fujian ALA Sunroll Footwear Co., Ltd. has a land area of 70,000 square meters, 2 shoes forming lines and 700 employees now. The factory specializes in producing outdoor shoes, waterproof shoes, and working shoes with annual production of more than 1.5 million pairs.

Fujian ALA Ravin Garments Co., Ltd. has a land area of 70,000 square meters, 8 apparel production lines and 400 employees. It specializes in men's and women's padded jackets, winter protection clothes, sportswear, casual wear, children's clothes and pants.

Ailia has imported advanced equipments and technologies and recruited talents from worldwide to implement 5S management system and abide by international standards of ISO9000, ISO1400, SA8000. They always aim at enhancing their core competences in corporate management, production and R&D to achieve their strategy of mutual complement of advantages, resources sharing and win-win business model. Adhering to offering the honesty-service, competitive price and always vogue designs, Ailia group has succeeded in developing overseas business in more than 10 countries.
4.1.2 Current economic crisis impact

The current economic crisis flared up in 2007 does have a huge negative impact on Ailia Group. As both shoe manufacturer and trading company, Ailia was affected internationally and domestically.

4.1.2.1 International Market

Ailia Group overseas business mainly focuses on South America, Middle East and Europe. They set up sales offices in Brazil, Chili and Dubai. One sales manager is posted in Cologne in charge of the whole European market. Brazil is a high profit market among all these areas. In 2008, the business in Brazil was attacked severely by the exchange rate of the Brazilian Real (Figure 3). It is very clear that the Brazilian Real dropped dramatically in 2008 which is the lowest point among the five years. The exchange rate between the two currencies reached 1:2.7664 in November 2008 which means a huge disaster for Ailia because all the profits made in Brazilian Real have to be exchanged into Chinese Yuan to pay for the cost. According to the international market director Mr. Zhong, the net profit for exporting shoes to Brazil is around 5%. However, the devaluation of Brazilian Real is more than 5%. Although the sales volume and clients did not change much in the Brazilian market, the whole year profit offset the loss on currency devaluation. This was a huge attack for Ailia in 2008.

Table 7: Ailia Group Business Activities in Domestic and International Markets
Another severe effect from the current economic crisis is the sales in Europe went down sharply. According to Mr. Zhong, the sales volume of Ailia products dropped dramatically around 30%-50% at different periods in Europe because Europeans cut consumption budget during the economic crisis. In addition, due to the devaluation of Euro, the cost for the shoe distributors in Europe increased and the profit generated in Euro decreased when it was exchanged into Chinese Yuan. These factors formed another main negative impact by the current crisis.

4.1.2.2 Domestic Market

Although China was not immune to the current crisis in 2008, Ailia did not get much negative affection in the domestic market. They are almost monopolistic in this industry in China. Their suppliers and customers kept stable. However, in Putian, there are many family owned firms and they are connected with each other by either the family tie or other social networks. It became a trend that these companies in upper industry and lower industry or even in the same industry are the bank guarantees for each other to get bank loans.
In 2008, one local clothing manufacturer which is one of the bank guarantees of Ailia met a big business downturn and the bank demanded the debt for around 80 million RMB ($11.6 million). In order to keep the long term cooperation with that firm and also guarantee its own bank loan, Ailia paid the 80 million RMB debts for the clothing manufacturer. The total annual net revenue of Ailia is around 1 billion RMB and deducted the 80 million RMB, the net revenue in 2008 was extremely low.

4.1.3 Actions towards economic crisis

4.1.3.1 Human Capital

Ailia is a big family controlled company. There are 17 people in the board and all of them are family members. Mr. Jinyun Zheng is the founder and also the Chairman of the board. Mr. Jingui Zheng is the brother of Mr. Jinyun Zheng. He is the Chief Executive Officer of the Group. Others are either direct or indirect relatives.

During the current economic crisis, they did not lay off any staff and did not recruit new employees as well. In addition, no family members left the group. The crisis did influence Ailia’s business negatively, but the group did not get a deficit. All the board members are family members and many relatives work in this company which makes it is very hard to fire anyone. Mr. Zheng said, “As a family business corporation, Ailia is also a big family for all employees. We could never overcome the difficulties without our members’ support. Thus, layoff is definitely not a good option for it. We believed we can make it and we did.”

As the author has mentioned in the literature review, human capital in family firms have extraordinary commitment and intimate relationships. Furthermore, the foundation of trust in family firms is more solid than non-family firms. Since the board members are all family members in Ailia, they trust each other that they would all put as much effort as they can to solve problems and help the business recover during the crisis. Not like many non-family companies, the first thing they have done in the current economic crisis is downsizing.

4.1.3.2 Social Capital

Putian is an area full of family owned firms in Fujian province, China. Since the establishment of Ailia was in 2002, this expanding group has maintained good relationship with
both local firms and government during these years. The products of Ailia have been awarded as star products several times. The entire group also has won several awards in terms of its advanced management and social responsibilities. The founder Mr. Jinyun Zheng is a member in different business committees and National Committee of the Chinese People's Political Consultative Conference (CPPCC). Ailia group has built a good reputation in this industry.

Suppliers and customers are the most important parts in the business. In the shoe making industry in China, textile manufacture, shoe accessory manufacturer, shoe sole manufacturer and the shoe manufacture are mainly involved in. Ailia as a big group has many suppliers to guarantee large production every day. There are about 1/3 of the suppliers have certain family relationship with Ailia in China. The family networks and good relationship with the other 2/3 suppliers kept the numbers same as before during the crisis. In terms of domestic customers, thanks to Ailia's good reputation and high quality products, the number of domestic customers did not reduce either.

For the overseas market, the clients are local distributors. Due to the good relationship and long time cooperation, the number of customers did not drop although the orders decreased in Europe.

### 4.1.3.3 Patient financial capital

As a family business, the financial capital for the start-up was collected by several family members such as Mr. Jinyun Zheng's brother Mr. jinggui Zheng, their other brothers and sisters etc. The total investment reached 400 million rmb nowadays. The patient financial capital is mainly from family members, relatives and friends.

With the expansion of the group, they also got financial support from bank. Average bank loans reach 150 million rmb nowadays. There are about 30% are long-term bank loans which has 5 years term. 50% are short-term loans. Another 20% are the bank loans guaranteed by other companies.

During the current economic crisis, patient financial capital kept the same as before. That is to say there was no patient financial capital was invested from new sources.
4.1.3.4 Survivability Capital

“Survivability capital in Ailia group is the bank guarantees which are some other family business firms. Those firms have certain family relationship with Ailia more or less” stated by Mr. Zheng. During the economic crisis, Ailia did not ask help from other family firms directly. Instead, they helped one local clothing firm to pay for the bank debt around 80 million rmb. Because this clothing firm is one of the bank guarantees for Ailia, this support helped to keep the group’s bank loan in an indirect way. From the clothing firm’s perspective, this 80 million rmb is a survivability capital for them during the economic crisis.

4.1.3.5 Corporate governance

Corporate governance in family firms is distinguished not by the separation but by the unification of ownership and control (Carney, 2005). The owner-managers view the firm as their own business. Ailia is such a family corporate full of the founder Mr. Jinyun Zheng and his brother Mr. Jingui Zheng’s efforts and energy. From 2002 till now, Ailia has expanded from being a footwear and clothing company into a big group consisting out of four sub-companies and sales offices in South America, Middle East and Europe.

During the current economic crisis, the management team has held several meetings with the representatives of employees immediately after the firm got the negative effects. They briefed the situation of the economic crisis and made anti-anxiety strategies to help employees to get rid of worries and fears. In addition, they kept the same incentive system and guaranteed the bonus would be the same as before to enhance worker’s morale. However, those multinational companies such as Seagate and Maersk have deducted their employees’ salary to one degree or another in China.
4.2 Ningbo Tongzhou Logistics

4.2.1 Brief introduction

Ningbo Tongzhou Logistics is a company specialized in international container shipping and warehousing. It is located in Ningbo, Zhejiang province of China. This family business was created in 2002 by Mr. Kangrong Liu. There are two warehouses occupy 6000 and 10000 square meters respectively. The international container shipping service includes lines to United States, Europe, Africa, East Asia etc. The annual turnover is around 15 million rmb.

Ningbo Tongzhou is also in the first generation. There are there are 16 family members in this company. Out of eleven people in the management team, five are family members. Mr. Kangrong Liu is the general manager and his brother in law, Mr. Jianrong Li is the deputy general manager. Other three family members are relatives work as department managers. The family owns 100% of the company.

<table>
<thead>
<tr>
<th>Container Shipping</th>
<th>Warehousing</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>6000 m²</td>
</tr>
<tr>
<td>Europe</td>
<td></td>
</tr>
<tr>
<td>Africa</td>
<td>10000 m²</td>
</tr>
<tr>
<td>East Asia</td>
<td></td>
</tr>
</tbody>
</table>

Table 8: Ningbo Tongzhou Business Activities

4.2.2 Current economic crisis impact

The current economic crisis that started in 2007 has strong effects on companies doing international trade business. Ningbo Tongzhou was affected directly from the second half of 2008, from September till September in 2009. The business went down tremendously. The
turnover decreased approximately 30%. Other companies in the same industry in Ningbo also had a decrease around 30%.

The reason for the turnover decrease is the demand of importing products from China has been reduced. There are two main causes for that. First, influenced by the US subprime mortgage crisis, the number of products exported to US decreased sharply. The order decreased 1/3 in the worst situation from 14000 containers decreased into 9000 containers annually. Second, the exchange rate between Chinese RMB and US dollar changed a lot (See Figure 4). Due to US dollar devaluation, the cost of production in China increased relatively. Facing increased production cost and decreased orders, many small manufactures in China stopped production. This gave Ningbo Tongzhou a hard time.

Figure 4: United States Dollar in Chinese Yuan 2005-2010 (Google finance, 2010)

From the chart, it is clear that US dollar dropped sharply from the late 2007 and reached a lowest point in 2008. According to the date provide by Google Finance, the lowest point of US dollars VS. Chinese RMB was in July 2008 at about 6.8167:1.
In terms of the current financial crisis, Ningbo Tongzhou has predicted that it may have influence in China when the US subprime mortgage crisis erupted in 2007. However, they didn’t expect it will have huge attack for China later on. In Ningbo area, the total sea shipping routes decreased around 20%.

However, in order to make up for the loss in US shipping line, Ningbo Tongzhou expended their business to other markets in Africa, East Asia to get more business. In addition, they cut off the investment for new projects.

4.2.3 Actions towards economic crisis based on resource based view

4.2.3.1 Human capital

Ningbo Tongzhou has less than 200 employees. There are 80 full-time employees, 40 contract staff and 50 part-time workers. As a family business, there are 16 family members in this company. Out of eleven people in the management team, five are family members. Mr. Kangrong Liu is the general manager and his brother in law, Mr. Jianrong Li is the deputy general manager. The organization chart is as below.

![Organization chart of Ningbo Tongzhou](image)

Table 9: Organization chart of Ningbo Tongzhou

Although the business suffered quite severely in the beginning of 2009, they did not lay off any employee. However, there were some employee left the company but none of them are family members. According to Mr. Liu, most of the employees are backbones in this firm. It costs more to train new staff in the future. They believed that the financial crisis won’t
last long for export business and they tried to solve the problems by other means instead of lying off. Although the firm had a 30% decrease in turnover in 2008, it was not in deficit in total. They only had deficit in January, February and March in 2009. From April 2009 onwards, the business started to recover and till September 2009, it has recovered about 80%.

However, Mr. Liu also revealed that those non-family owned logistics firms in Ningbo area had laid off 1/3 employees on average. This is a big difference between family owned firms and non-family owned firms in that area. In family firms, people have more trust and are more closed to each other.

Despite the bad business in US shipping line, Ningbo Tongzhou recruited five more people for the expanded markets in 2009 in which two people are family members.

4.2.3.2 Social Capital

Ningbo is also an area full of small medium sized family controlled firms in Zhejiang province, China. They are specialized in mechanics, textile, transportation and logistics, plastic manufacture etc.

Because Ningbo Tongzhou is a service provider, they do not have any supplier for business operation except of those machine vendors. The number of clients didn’t decrease, but the order decreased 1/3 in the worst situation 14000 containers decreased into 9000 containers in 2008

During the crisis, local companies in the logistic industry all suffered a lot. However, a big part of warehouse which covers 12000 square meters was empty during the economic crisis. In order to make up the loss, other family business firms in Ningbo areas rented a part of the warehouse temporarily to help them.

Another firm owned by Mr. Liu’s brother is a seafood supplier in south east area in China. That firm didn’t get affected by the current financial crisis. So during the crisis, the seafood corporate also provided some financial support for Ningbo Tongzhou.
4.2.3.3 Patient Financial Capital

As Sirmon & Hitt (2003) suggested, family firms do not have access to the traditional equity or debt markets that are available to many nonfamily firm. Ningbo Tongzhou does not take bank loans. When they started in 2002, the total capital is 8 million RMB. 3 millions come from non-family members, 3 millions come from relatives and family members and 2 millions is accounts payable which has rather long period.

During the current economic crisis, Ningbo Tongzhou got some financial support to help the cash flow from his brother-in-law’s seafood company. Actually, when the seafood company was just created, Ningbo Tongzhou also supported large amount of finance capital in the start-up.

4.2.3.4 Survivability Capital

The survivability capital in Ningbo Tongzhou is mainly about the financial support and more business opportunities and cooperation from family members and their networks. As it has been mentioned before, Mr.Liu’s brother gave Ningbo Tongzhou some financial support during the crisis. Also, some relatives’ companies became Ningbo Tongzhou’s warehousing clients to reduce the loss on empty warehouse.

4.2.3.5 Corporate governance

When the financial crisis impacted the business severely, many employees were worried and anxious. Especially those non-local workers, they were afraid the firm will collapse and some of them left the firm. Compared to them, family members are more stable. They believed that the firm will be able to survive and get over this bad economy. In the same time, family members also played important roles to ease non-family members’ anxiety and persuaded them to stay in the firm.

The family members in the management team had several meetings with all the staff during the crisis and they announced new policies short after the tough time started. For instance, before the crisis, the piece rate wage is calculated by the number of shipping container. The workers need to accomplish quota each month. In order to keep the staff stable and ease their anxiety, the new policy guarantee the salary is no less than 500 containers’ workload
even they cannot achieve 500 containers per month. This made employees feel secure under this unpredictable situation.

The local government also had some new policies to help enterprises cope with the crisis.

1. During the months affected by the crisis severely, small medium sized companies did not need to pay the insurance tax for the employees. This policy let those small companies have more cash flow to deal with the crisis.

2. The average minimum salary guarantee was increased by the government to stabilize the hard situation.

Regarding to the employee income, the annual bonus was not reduced. However, the piece rate wage for workers decreased 5% compared to the good business period. It is related to the number of the container for shipping directly. The income of administrative staff kept the same.

### 4.3 Cross Case Analysis

In order to explore how family businesses to cope with the current economic crisis by using their resources, comparison of the actions they had taken between the two cases was conducted to generate the findings (See Table 10)

<table>
<thead>
<tr>
<th></th>
<th>Ailia Group</th>
<th>Ningbo Tongzhou</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Human Capital</strong></td>
<td>1. No layoff/ Recruitment</td>
<td>1. No layoff, recruited five people</td>
</tr>
<tr>
<td></td>
<td>2. Family members helped to ease other employees’ anxiety and fear.</td>
<td>2. Family members helped to ease other employees’ anxiety and fear.</td>
</tr>
<tr>
<td><strong>Social Capital</strong></td>
<td>1. Suppliers &amp; customers number kept same</td>
<td>1. Customers number kept same</td>
</tr>
<tr>
<td></td>
<td>2. Support another firm in the family social network</td>
<td>2. Got support from other firms in the family social network</td>
</tr>
<tr>
<td></td>
<td>3. Good reputation and corporate culture stabled employees</td>
<td>3. Good reputation and corporate culture stabled employees</td>
</tr>
<tr>
<td>Patient Financial Capital</td>
<td>Kept same</td>
<td>Kept same</td>
</tr>
<tr>
<td>---------------------------</td>
<td>-----------</td>
<td>-----------</td>
</tr>
<tr>
<td>Survivability Capital</td>
<td>Support another firm financially to guarantee its own bank guarantee</td>
<td>1. Got help from family member’s firm financially</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2. Got help on warehousing business from other relatives.</td>
</tr>
<tr>
<td>Corporate Governance</td>
<td>1. Held meetings to relief employee’s anxiety</td>
<td>1. Held meetings to relief employee’s anxiety</td>
</tr>
<tr>
<td></td>
<td>2. Kept the same incentive system</td>
<td>2. New policies of salary for employee</td>
</tr>
<tr>
<td></td>
<td>3. The leadership of family members played an important role</td>
<td>3. The leadership of family members played an important role</td>
</tr>
</tbody>
</table>

Table 10: Solutions for economic crisis comparison between Ailia and Ningbo Tongzhou

From the comparison above, we can see clearly that these two family firms have several similarities in coping with the current economic crisis. Although they are located in different parts in China and specialized in different industries, the same business model, family controlled, make them took similar measures to utilize their unique resources to overcome the difficulties and problems during the economic downturn.

4.3.1 Similarities in Human capital

During the current economic crisis, while thousands of companies in China took layoff as an action to solve the problems, both the interviewed two companies did not lay off any employee. As the backbones in the organizations, no family members left as well.

First, as it has been mentioned in the theoretical framework, the human capital is complicated by its dual relationship. The duality of these relationships creates a unique context for human capital which has extraordinary commitment, warm, friendly and intimate relationships and deep firm-specific tacit knowledge. So the unique family and business combination business model makes the management team hard to fire any family member. In Ailia, the board is full of family members. In Ningbo Tongzhou, although there are only five
family members who work in the board, they all play important roles in the organization. The stability of family relationship makes the management team hard to fire anyone within the complicated and extended social network.

Second, resilient trust helped them build up confidence in each other. Resilient trust is not given in exchange for the fairly immediate rewards. It is based on frequent social interaction with parties and is where the moral integrity of the parties is involved (Leana & Van Buren, 1999). As family relationships grow and mature over time, the recurring interaction and interdependence among members builds resilient trust (Arregle et al., 2007). Once resilient trust has been built, it is hard to break it. When family firms meet problems, the resilient trust keeps binding family members to the organization and enhances their confidence to overcome the difficulties. In both two companies, the interviewees mentioned their trust and faith in their staff.

Third, the norms and culture in these two firms are not in favor of layoff. In Ailia, the company culture is creating a big family for all the staff. In Ningbo Tongzhou, the family and non-family members are collaborative as in the same family. The norms and the culture which have existed in these two family firms for a long time make decision makers avoid using layoff as a measure to solve the problems.

### 4.3.2 Similarities in Social Capital

Social capital is derived from lasting investments in social relationships and requires a significant amount of time to develop and grow (Pearson et al., 2008). According to Nahapiet and Ghoshal (1998), social capital is the sum of the actual and potential resources embedded within, available through, and derived from the network. In family firms, the long-standing internal relationship and external social network due to complicated relationship among relatives and their friends generated relatively stable social capital.

During the current economic crisis, the number of suppliers and customers kept the same as usual in both companies. In Ailia, one third of suppliers are owned by the relatives in the family. Ningbo Tongzhou as a service provider, their customers are mainly located in Ningbo or the nearby area. There is no direct family relationship between the customers and the family; however, some of them still have a connection with the family. According to Adler & Kwon (2002), social capital can affect a number of important firm activities.
such as interunit and interfirm resource exchange, the creation of intellectual capital, inter-
firm learning, supplier interactions, product innovation, and entrepreneurship. Lounsbury
& Glynn (2001) also indicate that, as the family’s social capital increases by connecting di-
verse social structures, the firm can build more effective relationships with suppliers, cus-
tomers, and support organizations. Therefore, Ailia and Ningbo Tongzhou managed to
keep the good relationship with suppliers and customers at the economic downturn thanks
to the stable social network they have built long time ago and also the enlarging social net-
work.

Panic and anxiety is very common when economic crisis come, especially for those entry-
level workers. In family business, resilient trust, long time built reputation and company
norms and culture can ease the panic and anxiety in some certain degrees. The staffs in
both companies have faith in their leaders and the management. They believed under the
leadership of the management, their companies can tip the scales. The shared vision, lan-
guages, culture embedded in these two family firms ensured and enhanced the cohesion
among all level staffs.

4.3.3 Similarities in patient financial capital

Patient capital is financial capital that is invested without threat of liquidation for long pe-
riods (Dobrzynski, 1993). Patient financial capital is a main financial capital in family firms
since family firms have limited sources of external financial capital. However, in these two
Chinese family firms, patient financial capital is mainly from the family members, relatives
and friends. For small sized family firm, such as Ningbo Tongzhou, they don’t have bank
loan at all. Although Ailia has bank loan every year nowadays, when it was just established,
the start-up capital is also collected by the founder’s friends and relatives.

During the economic crisis, both companies did not take any action related to the patient
financial capital and there was no change in it as well.
4.3.4 Similarities in survivability capital

Survivability capital is also a unique resource exists in family firms. Family members are willing to contribute, share benefits and help the business, especially in poor economic times.

During the economic crisis, survivability capital played an important role in both companies. According to Sirmon & Hitt (2003), survivability capital can help sustain the business during poor economic times or after an unsuccessful extension or new market venture. Ailia paid 80 million RMB for another family firm within the family network to guarantee its own bank loan. Ningbo Tongzhou got the support from some relatives’ firms on the warehouse business and also got the financial support from his brother-in-law. This is less likely to happen in non-family firms which lack of trust, strong loyalty and long time commitments.

4.3.5 Similarities in governance structures

The owner-manager governance structure is unique in family business firm. The owner-managers view the firm as “our business”. Since they are both the decision makers and risk takers, they have high enthusiasm and responsibilities in the business. In advanced economies, firms with strong insider-ownership (concentrated management ownership) and certain board structures are better able to withstand unexpected financial shocks than firms with widely held ownership (James, 2008). These two companies both reacted to the economic crisis in a short time and made certain decisions to reduce the loss.

Ningbo Tongzhou has a typical concentrated management ownership. The founder Mr. Liu is the general manager who acts as a main decision maker. Other family members also occupy important positions in the organization. Ailia also had this concentrated management ownership when it was in the beginning as a small firm.

During the economic crisis, both two companies kept or revised the incentive system to reduce the negative effects on employee’s benefits. Ailia promised to keep the bonus as usual years while many non-family firms cut the bonus. Ningbo Tongzhou generated new incentive policy to guarantee a minimum piece rate wage for the workers. They reacted to the economic crisis very fast due to its centered management. The decisions had been made in short time.
The family member leadership also helped to ease employees’ anxiety and panic. They organized several meetings with the employees. By encouraging them and making new policies, the moral was enhanced.

5 Conclusion and Discussion
This chapter provides the conclusion from the analysis and studies in previous chapters. It also contains the implications for family firms. The limitation of the study and further studies are also discussed in this chapter.

The purpose of this study is to investigate how family business firms use their own unique resources to cope with the current economic crisis. By analyzing different resources owned by two family-controlled firms and comparing their measures to confront the economic crisis on a resource based view in the previous chapter, the unique family business ways to deal with economic crisis are explored (See Table 11).

| Human Capital       | • Keep current resource  
|                     | • Family members leadership  
| Social Capital      | • Seek help from family internal social networks  
| Patient Financial Capital | • Keep same  
| Survivability Capital | • Family members are willing to help the business  
| Governance          | • Quick decision making  
|                     | • Care for employee benefits  

Table 11: Actions towards economic crisis in family businesses

### 5.1 Unique ways in family business

#### 5.1.1 Unique ways in Human capital

Family businesses tend to engage in fewer layoffs and enjoy lower turnover than nonfamily businesses (Allouche & Amann, 1997). In these two case studies, both the two companies did not have layoff. This proves that family business firms do not tend to lay off employees during the economic crisis. The blood ties ensure the stability of family members in the organization. In the same time, family companies paid workers and managers better than nonfamily rivals, accorded employees more generous benefits (Allouche & Amann, 1997). In this situation, the employees are more committed, friendly and trustworthy. Family firms believe in united power with all the employees to face the problems in economic crisis.
5.1.2 Unique way in Social capital

Family firms have social networks within the family and with other families. They can access to the resources within the network easily and fast when they need help. In this research, Ailia group helped another family firm to pay the bank loan and Ningbo Tongzhou got financial support from the founder’s relatives during the economic crisis. Both of them did not seek help outside their family social network. Also the good reputation, loyalty and trust inspired the moral in front of problems. This helped the employees felt less anxious and kept motivated.

5.1.3 Unique ways in patient financial capital

These two case studies did not show any action taken by these family firms in China related to the patient financial capital. They did not get investments from new sources, although the current patient financial capital kept the same as before.

5.1.4 Unique ways in survivability capital

Due to the limited external financial resources family businesses can access, family firms tend to get financial support from their social networks which is mainly about family relationship. Family members are willing to loan, contribute or share their own resources to help the family business recover from the economic crisis attack.

5.1.5 Unique way in corporate governance

5.1.5.1 Quick decision making

Family firm structure is more centralized compared with non-family firms. The procedure for reporting is less complicated in family firms. The owner-manager can make decisions faster to react to crisis.
5.1.5.2 Care for employee benefits

In this study, it was found that family firms do not tend to decrease the salary/incentives to reduce cost. Instead, they either generated new incentive strategy or kept the same as before to ease the employees’ worries.

5.2 Further suggestions for family business

During the interviews, the author noticed that both of the companies have no crisis management plan. In the beginning of the current economic crisis in 2007, they did not predict the crisis would affect their business later on. The awareness of crisis management is still very poor in family business firms due to the relatively centered structure and small scale.

In the theoretical chapter, it has mentioned that the missing risk record track and risk management awareness are the weakness of corporate governance under economic crisis. Thus, crisis management plan is quite important for organizations to predict and prepare for future economic crises. It has clear procedures to follow that let managers to react to the crisis in a timely manner. The records from previous crises also give managers the lessons to solve the problems properly next time. Although family business firms are not big in size in most of the cases, crisis management plan still can help the owner-managers use professional solutions to face the crisis.

5.3 Limitations

The study is only based on resources based view to analyze how family business confront economic crisis. The two interviewed family firms are both located in China, thus the result cannot be generalized for family firms worldwide. The number of companies under study is also limited due to the difficulties in seeking for companies to participate in this research.

In addition, this study could be done in a more deeply structure if the interviewed companies could provide more detailed information in each sector.

Last, these two firms are in different industries and scales which have not been taken into consideration due to the barrier to access to more proper samples.
5.4 Further studies

Although this study was carried out as a qualitative study, this topic could also be conducted in quantitative way. The data generated by large amount of companies could help to make the findings more generalized.

Further studies could focus on each type of resource only to do more deeply research. For example, social capital is a complex capital including social network, corporate culture, norms etc. Each aspect could be under investigation to explore the ways taken by family firms.

More studies can also be conducted in a comparative way between family business and non-family business. The samples are preferably in the same industry and located in the same regions with the similar size.
References


Appendix 1
Interview Guide

1. Brief introduction about the firm
   1) The firm’s basic information such as history, family generation, business area, operation status etc
   2) Introduce the family firm’s structure, employee,

2. Current economic crisis impacts
   1) How did your company affected by the current economic crisis? Briefly talk about the situation.
      - Negative effects (Domestic market/International market)
      - Duration
      - Severity
      - Prediction
   2) Does your company have any crisis management plan to apply during this crisis?

3. About company resources
   1) Human capital
      - Family members/Non-family members
      - Family members in the board
   2) Social capital
      - Direct family network and indirect family network
      - Supplier and customers relationship
      - Relationship with other local family firms
   3) Patient financial capital
      - Family member, relatives and friends
      - Other source
   4) Survivability capital
      - Free labor/Loaned labor
- Monetary loans
- Equipment investment
- Others

5) Governance
   - Organization structure
   - Report system

4. Actions towards economic crisis
   1) Human Capital
      - Lay off
      - Hire new staff
      - Resign
   2) Social Capital
      - Supplier
      - Customers
      - New cooperation/Oppportunity
   3) Patient financial capital
      - Reduce/Increase
      - New source
   4) Survivability capital
      - Other family firms
      - Family members, relatives and friends
      - Support others
   5) Governance
      - Incentive system
      - Family members leadership
      - New policies