JÖNKÖPING INTERNATIONAL BUSINESS SCHOOL
JÖNKÖPING UNIVERSITY

Economic Crisis and Relationships

How Economic Crisis Affect Family Firm's Contractual Relationship and What is the Driving Logic for the Change?

Master's thesis within Business Administration

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Abstract

Leading up to the time just before the economic and global melt-down of 2008, economist and theorist forecasted as early as 2005 about and impending financial crisis that would affect every sector of the business and financial community. As we discover in more dramatic detail that family firms are occupying a big percentage in small to medium size enterprises, we wondered how they would be affected by such a high degree of uncertainty and volatility in the financial markets during the economic crisis. With these factors in mind, we would like to see it in a more day–to–day, practical application within family firms. In the supply chain or procurement life-cycle, firms need to receive products and services from the supplier and the supplier will in turn offer those same services to the customer. The firm will tend to structure this tradeoff with a contractual structure to guarantee achievement of mutual benefit and economic objectives of the firm. On the other hand, family firms are famous for being distinguish from non-family firms in their non-economic objective they persuade along their businesses. Considering these two different logics that affects the decision of the firm in structuring contractual governance with the exchanging party. We ask the following questions in our purpose.

Purpose: To enhance our understanding of family firm's contractual relationship during the economic crisis of 2008, the aim of the thesis is twofold:

1. How contractual relationship have changed during the economic crisis for family firms?

2. What logic drives the choice of family firm's contractual relationship during the economic crisis?

Methodology: Qualitative case studies have been conducted to examine this phenomenon. In-depth interviews with three individual family subcontractor in auto inustry are the primary data collection sources. Company brochures and reports are complementary data sources. Cross-case analysis technique is used to analyze qualitative data.

Conclusion: Before the economic crisis, the contractual relationship was long-term informal agreement or contract. During the crisis, the contractual relationship did not get closer formally because of the non-economic objectives of family firm. However, our investigation also shows the relationship between the family subcontractor and customer became much stronger (not in the form of contract) due to family firm's non-economic objectives.

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1 Introduction

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2- What logic drives the choice of family firm's contractual relationship during the economic crisis?

To elaborate more, it is necessary to take a more detailed look at family firms. Upon doing so, we hope that the reader can gain an appreciation for the role that family businesses play in the economy and to the extent how an economic crisis can affect contractual relationships. We would like the readers to get familiar with the logics which have an effect on persuasion of contractual relationships in general and specifically for family firms. Finally, our motivation for performing the research, and particulary for the family firms is due to the heavy involvement of this business type in Sweden.

1.1 Problem Discussion

Around the time of September 2008, the economic crisis begin to show signs first in the micro-economic level when bank defaults and negative Wall Street speculation began dry up liquidity in the economies of the West. This micro-contagion then spread to the greater economy or macro-economies of nation states thus causing a financial melt-down where banks foreclosed and businesses could not borrow money to advance new products or suppliers purchase equipment. The results of the calamity produced mass layoffs, depressed economies and an un-easiness among those decision makers in the business community to create or invest in opportunities that would spur growth. As the number of employed workers decreased and the under-employed or unemployed grew, households that once had disposable income or the ability to purchase non-essential items decreased, either by saving money or just a fear of the future and not spending at all. Nevertheless this mindset exacerbated an economy dependent upon cash infusion or purchases. Relatively speaking, you can see this same attitude happening at the macro level as banks and other lending institutions refused to lend money to move the economy along or give a proverbial 'jump start'. Understandably, business confidence diminished and from a pure economics perspective, with this malaise reaching the decision makers looking at the 'bottom line' for revenue generation, overseeing the shortage in cash flow and payment of debts becoming longer was a business killer (European Commission, 2009). The economic crisis created an environment where there was uncertainty of demand. We know that planning becomes harder when there is an uncertainty, firms quite often have to fight for few shares in market and precarious industry setting that causes less opportunity recognition (Khandwalla, 1972) so the decision makers of the firms try to mitigate against this uncertainty.

As part of our thesis, we decided to take dead aim on particular types of firms; more specifically family firms. Almost 60 % of all European companies are family firms and they represent 40 % - 50 % of all jobs. This number includes a vast range of firms of different sizes and from different sectors. Family firms constitute a substantial part of existing European companies that have a significant role to play in the strength and dynamism of the European economy (European Commission: enterprise and industry directorate-general report, 2009). This contribution also have a major part in Sweden economy where family firms employee 56% of working population and also represent 86% of all privet firms (Campden

FB, 2011). Therefore, it is evident that the economic crisis will also influence family firms as it does with all firms.

With the increasing level of uncertainty in the business environment caused by economic crisis, firms will try to insulate themselves by structural devices like vertical integration and forward contracts (Khandwalla, 1972). Vertical integration is defined as a "make-or-buy" decision to make things in-house or buy from a supplier (Shelanski & Klein, 1995). Therefore if they decide on buying decision, it would ask for some sort of legal structure or transaction governance. The alteration in relationships has happened due to change from market base transaction to vertical integration. Therefore, transaction in form of legal force, contracts, has also changed in continuum of contractual relationship from arm-length to more obligational and closer contractual relationship (Sako 1992; Heide & John,1990). We briefly explain each and define our intension by a close relationship.

- Arm length relationship: specific and separated transaction (Sako,1992)
- "Hybrid" contracting modes: long-term and reciprocity agreement (Shelanski & Klein,1995)
- Long-term commercial contracts: long-term, re-negotiated and incompleteness contracts because of unpredictable nature of work (Shelanski & Klein,1995)
- Informal agreements: based on reputation and long term relationship (Shelanski & Klein,1995)
- Joint venture or alliances: the degree of interpretation of organizational boundaries where they carry out the focal activities in a cooperative or coordinated way. In the extreme situation other party gets to totally involve in partner's exchange life (Heide & John, 1990).

Here we want to define a close relationship as the high adaptation of exchange party where there is a formal contractual force that binds them into the transaction. Therefore, any loss in control of the firm or loss in influence of the owner over the firm which is accompanied with some sort of contractual force will be considered as an alteration in the relationship.

Furthermore, family firms like every other business have to safeguard the transaction through the hazard of uncertainty of economic crisis. In other words, the general logic for all kinds of firm is to satisfy their economic objectives through making sure that their contractual relationship is efficient and will lead to financial rewards. There has been discussions on effective level of strategic integration of entities with downstream and upstream of supply chain (Won Lee, Kwon & Severance, 2007; Power, 2005; Frohlich & Westbrook, 2001). As we have noticed the level of integration has been an controversial subject, they try to prove how much integration of organization's boundaries and activities will lead to better performance and reward the supply chain with above average financial rewards. This discussion goes back to an historic theory which has emphasized on safeguarding the economic objective through a probable decision on contractual relationship; transaction cost economics. Transaction cost economics explains firm's objective of decreasing the cost of transaction through different governance structure. This effort has been dedicated to develop and maintain the relationship, monitoring and safeguard the firm through opportunism behavior (Pilling, Crosby and Jackson Jr, 1994; Williamson, 1985). Therefore based on this theory the prediction of contractual relationship differs under particular dimensions which will be explain more in frame of reference.

Without question, family firms are unique and not always follow the general logic that has been introduced in transaction cost economics. The recent studies about family firms

Gomez-Mejia, Haynes, Nunez-nickel, Jacobson and Monyano-Fuentes (2007) indicate that the family firms tend to have different logic in decision making. Family firms consider their non-economic objective more important, loss or any harm to their endowment is unacceptable for them, even though the other options would promise financial benefit. Therefore they stand distinctively from non-family firms. Regarding the management of relationships with stakeholders, family control and identity, preservation of family dynasty have great influcen on decision makings. Scholars have named those as socio-emotional wealth. Due to these endowments, differences in decision makings and management of relationships for family firms are evident (Berrone, Cruz & Gomez-Mejia, 2012; Cennamo, Berrone, Cruz and Gomez-Mejia, In press; Berrone, Cruz, Gomez-Mejia, Larraza- Kintana, 2010). Considering distinction of non-economic introduced in socio-emotional wealth with economic objective introduced in transaction cost economics, we take into account that socio-emotional wealth might have an influence on preference of contractual relationship. However, there is few studies about that. Therefore, based on the dimensions of socio-emotional wealth, we predict the kind of contractual relationship under high uncertainty of economic crisis. In empirical finding we will investigate the accuracy of our prediction and answer our purpose: what logic family firms consider most important regarding their contractual relationships during the economic crisis?

Finally, it is important to mention that main customers and suppliers are the exchanging parties that we refer to as stockholders. Freeman (1984, p. 6) defines a stakeholder as "*any group or individual who can affect, or is affected by, the achievement of a corporation's purpose*". There are two reasons for our choices: first, in transaction cost economics contractual relationship is mostly investigated for exchanging parties where a good or service is traded between two entities. Second, the other external organization such as banks, unions, governmental institution, society and also internal stakeholders such as employees are only considered important if it will cause family firm to deal with its contractual relationships differently.

1.2 Context

Sweden is one of a few countries in the world that is highly depended on its own automotive industry. In the last twenty years carmakers have increasingly focused on customers and marketing areas, simultaneously they have had outsourced responsibility for production and product development to the subcontractors. These subcontractors globally produce between 75-80 percent of the value added and the trend is increasing within manufacturing of heavy vehicles. Even with growing numbers, Swedish medium size subcontractors have faced competition in lower price, smaller complex components and high volumes from Eastern Europe and Asia. Due to this competition and also the effect of economic crisis, they had to lay off employees in large amount. This hit has significantly impacted the employment of Sweden because automotive industry represents 125000 jobs and half of them are employed by subcontractors. Many of these suppliers have not been able to gain a new competitive advantage to encounter with recession started in 2009 and even lost more to the global market (Swedish Automotive Industry Association, 2010). Sveriges Radio, January 25, 2012 pictures the current situation with following number that 51 percent of the 120 companies that responded to the Automotive Component Group survey are pessimistic about the turnover of 2012 and it is not just about Saab bankruptcy and decrease of their demand from spring of 2011. Swedish family firms play an important part in Swedish economy as well as auto-industry. Therefore we tend to focus our research on a more impressionable part of auto-industry and that is family subcontractors. Consolidation among suppliers, regardless if Tier 1, 2's or 3's have in a way created a form of vertical integration among them and between them (International labor organization, 2005). However, because of the sheer size/girth of the Tier 1, and their ability to take on more responsibility of designing and testing components, the smaller T2's and 3's run a substantial risk of being cut of the market share (International labor organization, 2005). And that is because of Tier 2's-3's inability to reduce their prices and have a profit margin (International labor organization, 2005). Also, because of a limited amount of highly skilled labor, they cannot design and test components as say a Tier 1 (International labor organization, 2005). Therefore it would be interesting to see what logic our family firm subcontractors would follow in economic crisis regarding their relationships, the economic crisis as we have discussed above seems to push subcontractors to merge and acquired by big plays such as Tier 1 supplier in auto industry when they loss their ability to compete.

1.3 Key Definitions

For clarification of key words used in the context, it is necessary define them. Therefore we introduced three of the most important ones.

1.3.1 Family Firms

The wide accepted definition of family firms, according to European Commission: enterprise and industry directorate-general (2009, p.10) is defined by general notion of 'businesses in which a family has influence'. It is applied to family firms in any size and even those that haven't passed the firm to the next generation and also sole proprietors and the self-employed entities.

- ✓ *"The majority of decision-making rights is in the possession of the natural person(s) who established the firm, or in the possession of the natural person(s) who has/have acquired the share capital of the firm, or in the possession of their spouses, parents, child or children's direct heirs.*
- ✓ *The majority of decision-making rights are indirect or direct.*
- ✓ *At least one representative of the family or kin is formally involved in the governance of the firm.*
- ✓ *Listed companies meet the definition of family enterprise if the person who established or acquired the firm (share capital) or their families or descendants possess 25 per cent of the decision-making rights mandated by their share capital."*

Furthermore, Family firms have a shared identity, with which they can be distinguished, about 95% of all family firms consider themselves to be family business owners and 69 % of them always describe themselves to others as such (Annual Family Business Survey, March 2011).

1.3.2 Subcontracting

EIM Business & Policy Research report (2009) uses this term to describe subcontracting:

"Business arrangement by which one firm, contracts with another firm the subcontractor, for a given production cycle, one or more aspects of production design, processing, manufacture, construction or maintenance work."

The tier structure has been a model to describe the relationship between contractors (OEM Original Equipment Manufacturer.) and suppliers in Auto industry. Tier-1 is a supplier works directly to OEM and in turn Tier-1 buys from Tier-2 supplier which buys from Tier-3 and so on (Swedish Automotive Industry Association, 2010). However this independent enterprises can also supply and work with 1, 2, 3-tiers in their level or be different level tires based on their products and projects (Swedish Automotive Industry Association, 2010).

1.3.3 Economic Crisis and Subcontracting

The economic crisis, according to EIM Business & Policy Research report (2009), is characterized by two main traits:

1. Financial crisis that pressures both contractors and subcontractors through reduction in credit lines and high interest rate forced by financial institutions.
2. The macroeconomic environment caused by financial crisis, is characterized by growing recession, leading to reduction in demand and ineffectual demand forecast. Consequently the contractor will postpone its payments and order cancellation will increase.

Based on the report there are consequences of economic crisis on subcontracting:

1. Some subcontractors have fallen prey to the liquidity trap due to the long term contractual agreement between contractor and subcontractor and increase in raw material price.
2. Subcontractors with weakest financial capability are more affected by late payment and limited access to credit of external resources
3. Suppliers are searching for new customers and trying to sell their products to different businesses entities apart from the industry they are currently servicing.

2 Frame of Reference

In this chapter we will introduce two types of logics that drive the family firm decision regarding their contractual relationship; transaction cost economics and socio-emotional wealth. First, we will introduce transaction cost economics and explain the dimensions of this theory. Further explanation of the relationship alteration under the influence of these dimensions will be on display throughout the thesis. Second, we shall introduce the concept of socio-emotional wealth and explain the dimensions of this theory. By this approach, our attention is to provide a clear view as to what might occur under the influence of these dimensions to relationship alteration.

2.1 Transaction Cost Economics

Transaction cost economics is concerned with the structure of exchanging relationship in frame of formal contract to reduce the cost of transaction between parties. These costs are involved in monitoring the relationship, maintaining the relationship and safeguarding it against opportunism (Pilling et al., 1994). Williamson (1979) emphasized the consensus that opportunism is the important concept explaining economic activity. According to Williamson (1985, p.47), opportunisms in individuals is a "*self-interested seeking with guile*". He defines the opportunities a behavior associated with subtle form of deceit and believes if there was no presence of opportunisms the behavioral uncertainty wouldn't exist. Concern over opportunistic behavior is motivator to establishment of much closer relationship (Pilling, Crosby and Jackson Jr, 1994) such as merge and alliances. In order to safeguard against this situation, parties use contractual arrangements to minimize the transaction costs.

The cost of transactions is a key determinant for firms, and it influences the economic objective of maximizing the exchange through reducing the cost of writing, negotiating and enforcing contracts. Transaction cost becomes important under certain environmental condition, especially, in the presence of uncertainty (Lee, Yeung & Cheng, 2009). Not to forget that uncertainty isn't the only dimension that influences the governance structure. Williamson in 1979 identified dimensions that have direct effect on the preference of decision maker to choose a governance structure that reduce the costs, associated with transaction. These dimensions along with some behavioral factors shape the governance preference of firm to serve its economic objectives (Williamson, 1985).

2.2 Transaction Cost Economics Dimensions

2.2.1 Asset Specificity

Asset specificity is the essential factor specifying the transaction attribute (Tadelis & Williamson, 2010). When we say asset specificity, we mean those assets that are not available to third party for alternative uses (Williamson, 1985). Through the contract implementation, asset specificity builds up an interdependent relationship between the exchanging parties. This specific investment made by the firm has considerably less value outside the focal firm relationship (Pilling et al., 1994). Williamson (1985) mentions that absents of asset specificity is source to striking commonalities among transaction and it just valid to be considered when it is examined in present of bounded rationality/opportunisms and in presence of uncertainty. According to Williamson (1989), asset specificity includes site specificity, physical asset specificity and human specificity, dedicated asset, brand name capital. 1- Site specificity has been defined as location choice, made by the firm to minimize transportation expenses and level of inventory; 2- Physical asset specificity can be referred to superior possession of the firm that are used to produce a component; 3- Human asset specificity is a know-how intellectual property of the firm; 4- Dedicated assets are those investments made by the firm that is not valuable outside the relationship investment; 5- Brand name capital is associates with reputation that is attached to the firm.

2.2.2 Uncertainty

Tadelis and Williamson (2010) said that *disturbances for which programmed adaptations are needed* is the another essential element for transaction governance. The disturbances they mentioned stands for the complexity and uncertainty of the transaction and contractual incompleteness.

According to Williamson (1989), there are two kind of uncertainty, primary and secondary uncertainty. Primary uncertainty is unavoidable, there is no way to reduce or delete it. Noordewier, John and Nevin (1990) define this kind of uncertainty as environmental uncertainty which is unanticipated changes in circumstances surrounding an exchange. Authors mention that in dealing with environmental uncertainty the goal is to arrange an agreement with good continuity and adaptation properties, to quickly and easily change to new circumstances with arranging mutual adjustment procedures rather than forward planning via a prior agreement.

One unavoidable uncertainty is volume unpredictability, and that is inability to assess fluctuation of demand in relationship (Walker & Weber, 1984). Another unavoidable uncertainty can be referred to technological unpredictability, the pace of change in technology and ability of supplier in adapting to this change (Walker and Weber, 1984).

Secondary uncertainty is created because of problems in communication which can be intentional or unintentional. For intentional uncertainty to occur, there is higher possibility of opportunisms (Williamson, 1989). Therefore, if the OEMs assume that they don't have clear picture of their supplier performance, they will increase the level of verification (Pilling et al., 1994). In other words they continuously check the supplier to make sure they are qualified to live up to their expectations. Joshi and Stump (1999) define secondary uncertainty as the inability to predict partner behavior or changes in the external environment that gives rise to an adaptation problem. They believe OEMs only consider verification if an specific investment from their side to the suppliers exist.

Williamson (1985) has mentioned that the influence of uncertainty on economic of organization is conditional and it is closely related to the involvement of asset specificity. Considering uncertainty without asset specificity gives contradicting picture (Williamson, 1985; Shelanski & Klein, 1995). In other words, concern of the firm rises when uncertainty is present and firm's assets are involved in the process of transaction and their economic objectives will be heavily threaten if something goes wrong.

2.2.3 Frequency

Frequency in exchange permits the recovery of the cost required to craft specialized governance structure (Pilling et al., 1994). It also has a critical role in justifying the amount of investment in transaction-specific asset (Williamson, 1985). This dimension in our study has been looked at as the degree of involvement of exchanging parties during the economic crisis.

2.3 Prediction of Transaction Cost Economics about Relationship Alteration

To elaborate on the preference of dimensions integration, one can refer to two questions; who makes the decision and why they prefer one governance structure over the other. Managers faced by given level of transaction cost economics dimensions (asset specificity, uncertainty and frequency of integration) make decision on the best option for the firm and its shareholders. We know that preference of integration level of these dimensions is to reduce cost of transaction between exchanging parties with forming a proper governance structure. "*Economic costs are inherently subjective, because different decision makers sacrifice different alternatives at the moment of choice based on different perceptions of and preferences for the alternative opportunities in a world of uncertainty*"(Chiles & Mcmackin ,1996, p.77). Therefore as we see and Chiles and Mcmackin (1996) confirmed, cost is an objective for manager's choice of governance not the other way around to serve the economic objectives of the firm.

Uncertainty and Alteration

Regarding uncertainty, we start with the study done by Heide and Johan (1990). Their results regarding the effect of uncertainty show that technology change has negative effect on joint venture. Volume unpredictability on other hand doesn't show any positive effect on perceiving with a stronger formal contractual relationship. For solving this issue we took into account the resent study of Lee et al., (2009) regarding contradicting studies about the effect of uncertainty. They believe that these differences in predicting the level of joint action between manufacturer and supplier on unanticipated changes in the circumstances surrounding a buying firm haven't been seen separately and carefully. They say that the pace of technology change should increase the chance of supplier alliances and market uncertainty which can be defined as the rate of the change occurrence in the product market of the buying firm decrease the chance of alliances. Taking into consideration other forms of uncertainty we found out that there is a positive relationship between manufacture asset specificity and joint venture that will be enhanced with increasing levels of decision making uncertainty (Joshi & Stump,1999). The authors also indicate a positive effect between the asset specificity of manufacturer and the joint action with supplier.

As we have discussed the effect of uncertainty is related to the level of asset specificity involved in exchange relationships, therefore the correlation between these two dimensions is evident. As Shelanski and Klein (1995) mention in their review, studies that have investigated uncertainty without the level of uncertainty and emphasis on the different result they have received.

Asset Specify and Alteration

Regarding the effect of asset specificity on the level of integration between exchanging parties. Heide and John (1990) indicates a positive relationship between specific investment of supplier in OEMs and increase in probability of joint venture. To emphisize on this result one can refer to the rejected hypothesis of Joshi and Stumpe (1999) about the negative effect of supplier specific investment on OEMs, it confirms the result of Heide and John (1990). The positive effect of specific investment on joint venture is also true for OEMs in supplier. In addition, according to authors specific investment of supplier in OEMs increases the expectation of frequency that leads to joint venture. It is not the same for OEMs, although.

Furthermore, they have mentioned that specific investment done by OEMs increase their verification effort of supplier. In other words, OEMs would prefer to closely monitor and make sure of the qualifications of their supplier as they invest more in them and involve their assets and this term ask for close contractual relationship such as alliances and joint ventures. These specific investments can include training of supplier's personnel, tools, equipment, operating procedures and systems that are tailored for use with specific firms.

Frequency and Alteration

As we've explained frequency or expectation of continuity has an effect on the probability of joint venture and alliances. But since our investigation of the relationship alteration between the subcontractor and its main customer and supplier, we only take frequency into account when we are investigating extend of decrease or increase in the workload during the economic crisis.

2.4 Socio-Emotional Wealth

Familie's affective needs; as we have called previously non-economic objectives are close identification of family members with the firm that carries the family name and reputation. The ability to exercise family influence and control over the firm's affairs and relationships, perpetuation of family dynasty and the enjoyment of family influence over the business in the long run is essential (Stoy Hayward, 1989; Gomez-Mejia et al., 2007; Berrone et al., 2012; Cennamo et al., In press). Family-controlled firms consider preservation of non-economic objectives as key reference point of making decisions and for family firms it is the first thing they consider (Gomez-Mejia et al., 2007). Reference point means the logic that the decision maker considers to be important. To take for example Gomez-Mejia et al., (2007) study, he found out the family owners of olive oil mils in Spain rather be independent and not join the cooperation of olive oil miles. This joint venture of cognitive olive oil miles have had many financial benefit such as; 1- significant tax benefit, 2- The members of cooperative enjoy a substantial vertical integration of inputs (olives), process (machinery, equipment, and technology to transform olives into oil), and output distribution channels (to sell and deliver olive oil to various markets), 3- greater economic of scale, 4- substantial technical, managerial, and marketing support for the members, 5- being a member gives access to financing from other sources than family itself 6- guarantee on the fix price 7-The coop handles distribution and marketing of the product to external buyers, reducing the possibility that unforeseeable events. However, majority of family firms intentionally refused to take this opportunity because of what we call socio-emotional dimensions (more information on development of this theory is in Appendix 2). Transaction cost economics theory doesn't have any answer for this action. According to TCE, the rational choice should be joining the cooperation for several reason, 1- uncertainty would disappears to great extend 2- assets are shared between the members and the opportunisms doesn't exist since cooperation is in control 3- frequency or continuity of transaction is guaranteed under supervision of cooperation. Therefore, as we can see socio-emotional wealth expects family firms to make different choices under some dimensions regarding their relationship with stakeholders.

2.5 Socio-emotional Wealth Dimension

2.5.1 Family Control

Family firms need power in order to lead the direction of the firm, manage firm's affair according to their ethics. Therefore they need to be able to exercise their power in the firm. It is not about how much of the firm they own, it is about how much they can decide about its strategic direction (Casson, 1999). Influence and control are desired by all members of family (Zellweger, Kellermanns, Chrisman, & Chua, 2011), it is an integral part of social-emotional wealth and its aim is to keep the firm under the control of the owner(s) regardless of financial consideration (Berrone et al., 2012). Desire of control is mostly rooted in the CEO to run the family organization as he knows best, and he/she knows that it is only probable with staying in control even if the firm might have to endure below performance level (Gomez-Mejia et al., 2007).

Family Dynasty

Staying in control is essential for the family firms to fulfill the endowment of persevering the firm down to the next generations and enjoying the continuity of their legacy in future (Berrone et al., 2012; Cennamo et al., In press; Gomez-Mejia et al., 2007). Casson (1999, p. 17) explain this passion in following: "*To the founder of the firm, the firm is his baby; it is the true object of his devotion, because it is a living symbol of his own achievement*". Therefore, next generation of the owner, probably his/her children are chosen to preserve the objective of firm. The chosen child is not supposed to consume her/his inheritance but rather to preserve and transmit it onward (Cassom, 1999). Ownership of the firm and management structure closer to owner are more likely to be independent because of strong family value (Gomez-Mejia et al., 2007).

2.5.2 Family Identity

According to Zellweger, Nason, Nordqvist and Brush (2011, p.5) "*Identity-forging elements of family history include memories of happy and sad times, anecdotes, artifacts from earlier times, signs of achievements, or inherited possessions. Through the retention of these symbols, a family serves as a unique biographical museum for its members. A family is a "world", in which selves emerge, act, and acquire a stable sense of identity built by the particular common history* ". Family firm is highly concerned of a fit between family and the firm's identity. This concern drives members to care about the overall impression that the company have on non-family stakeholders. Therefore, the degree of concern about company reputation in turn will have impact on pursuance of non-family centered non-financial goals (Zellweger, Nason et al., 2011). In other words, the history of the family firm and its identity that closely related the family to its name will creates a reputation in eyes of suppliers and customers to see the firm as an 'extension of the family'. It is this name recognition and heritage that is greatly valued by the members of the family firm to persuade non-financial goals that benefits others rather than family members only. (Berrone et al., 2012). The family firm identity has effect on how members develop their social capital and channel their emotions through the firm to the stakeholders. We know that the goal of most businesses are to be profitable and maximize their shareholders benefit but the thing which is different with family businesses is that they consider their identity more important even if stakeholders are not family member(s) and that action doesn't have a evident financial benefit.

Identity oriented motives have another aspect as well and that is the long-term perspective attached to ownership of family firm. Long term perspective of the family firm leads to investments that promote firm's legitimacy, image and respect. This happens since they commit themselves to the firm and act as a steward toward preserving company legacy in long run (Berrone et al., 2010). Therefore, they develop long-term relationship with stakeholders to better align the firm's long-term strategy and trajectory with the family principle, vision and generational investment strategy (Cennamo et al., In press).

Social Ties in Family Firms

Creating strong social ties in family firms is related to development of social capital (Cennamo et al., In press). Social capital is defined as '*the aggregate of the actual or potential resources which are linked to possession of a durable network of more or less institutionalized relationships of mutual acquaintance or recognition*' (Bourdieu, 1980 cited in Arregle, Hitt, Sirmon & Very, 2007). Based on the proposition of Arregle et al., (2007) family member dynamic influences the organizational social capital. Therefore, family's good will to each other and altruistic behavior that create strong devotion to the firm and other members of the family will have organizational wide influence and shapes the organizational social capital. The reason for extension of social ties between family members to social ties with stakeholders is given in the following: this influence is laid on the power and the time of family shareholder(s). The power of members in controlling and exercising their decisions without considering any shareholders rather than themselves and their perception of saving the business for next generation gives them time to create strong bonds with their network. Therefore, their long-term involvement in firm allows the family members to have deep influence over all aspect of the family firm so it is naïve to think that family name and reputation as it have been mentioned in family identity is not the driving force of good will family firm persuade regarding their relationship with stakeholders.

Furthermore, according to Brickson (2005, 2007), the reciprocal social ties encourage the firm to pursue welfare of those who are affected by the function of the firm even if there are no obvious economic gains (Cited in Cennamo et al., In press). Family firms are more positive towards addressing the problems collaboratively with their stakeholders (Cennamo et al., In press). This means that they share their sense of belonging and family values with their close customers and non-family employees (Berrone et al., 2012).

Family Emotions and Behavior

Emotions, more importantly trust, should be interpreted as complimentary function to contractual relationship in the family businesses. It appears that trust have more profound function in contractual relationship and itself work as a reference point for making decisions regarding the need for stronger formal contract. Therefore, emotions within family members as a socio-emotional wealth factor can be a base for forming relationships with external stakeholders (Beronne et al., 2012; Cennamo et al., In press). For example, doing right by the external stakeholders is just right thing to do for family firms and it might not always be on the same page of maximizing the shareholders profit. Organizational action that have an negative impact on the firms stakeholders might feel like harming one of their own member of family and turning against the core value of the family (Cennamo et al., In press). This honest act of family members that have the same altruistic behavior that they have with each other with their suppliers and customers create trust between them and their network. Therefore, it seems that the boundaries between family and corporation is blurred (Beronne et al., 2010) and family identity is shining through every member of the organization and influences the feeling of the members in every relationship they establish and have with their stakeholders.

Casson (1999) points out that family relationships are a basis of trust and it can reduce the transaction cost imperfectness. It is worth mentioning the extend of influence that trust have on a successful relationship. Trust is important in successful contractual relationship and family business with their unique nature of having non-economic objectives as well as economic objectives create trust in more profound meaning. For example Carrigan and Buckley (2008) says that trust is the distinction that separates family firms from non-family firms. Trust is engendered because customers can 'talk to the people' who ran the businesses, and believed there to be more honesty in the transaction which is done face to face. Therefore, transaction under this unique connection shows how much the identity, the name and emotions of family firm are involved.

2.6 Prediction of Socio-emotional Wealth about Relationship Alteration

Family Control

As noted initially, family control and influence over the firm affairs is one of the driving factors for the family firm to continue their independence and use less joint ventures where their influence might decline (Gomez-Mejia et al., 2007). In case of diversification, family firms expand to other outlet either in another location in the country or internationally to expand their market share by acquiring a competitor (horizontal alliances) or acquiring a supplier (vertical integration). This strategic decision is made in order to receive an economic of scale. The study about family firms diversification shows that the founding-family ownership is associated with less corporate diversification and use less leveraging to reduce firm risk (Anderson and Reeb, 2003). The conclusion is "*concentrated shareholders have an impact on the diversification process but in a fashion contrary to popular belief….our analysis suggests that the shareholder-value losses from diversification must be substantial to dissuade undiversified investors from seeking its risk reduction benefits*" (Anderson & Reeb, 2003, p.679). But authors haven't taken into consideration the non-economic objectives of the firm which is the reason for them not to diversify. Family firms don't avoid diversification for being risk adverse, they consider their endowment more important to preserve; (1) In international extinction there is need for external funding which might lead to outsiders to claim a say in firms affairs; (2) Less influence in international markets; (3) Less control on the management of international outlets; (4) More dependence on human and relational capital outside family control (Gomez-Mejia et al., 2011; Gomez-Mejia et al., 2010).

Therefore, based on the study of Gomez-Mejia et al. (2007), the family control and influence prevent family firms from establishing any close formal contractual relationship with which they have to share their firm with another party to some extent. The study of Gomez-Mejia et al. (2010) indicates that family control plays an important part in the family firm strategic decision regarding acquireing a supplier or competitor or building another factory. This affect is negatively preventing the family firm to diversify due to the distance that creates a gap in exercising their influence and control over the firm.

Family Identity

According to Zellweger et al. (2011), for family members who care if their identity fits with the identity that the family firm represents to the public, three elements have critical roles.

1- The visibility of the family, it means that the decisions and actions taken from the firm will be affiliated to its members and public expect that he or she to behave in a certain way.
2- Transgenerational sustainability intention, sameness or continuity in the way this family have been dealing with its stakeholders through generations.
3- Self-enhancement capability of the firm, the firm positive image and self-esteem will encourage members to follow the firm's path in continuing this image.

Reputation is a core value that the family firm communicates to their stakeholders. These factors are creating a level of concerns among stakeholders who regard the firm's reputation as a priority. However this concern and strategy will encourage family members to persuade non-economic goals for stakeholders that are not part of the family. Reputation and the name that the members appeal to, drives them to persuade objectives that normally are not financially beneficial, one of them is to establish an strong social ties with their network and persuade their welfare as much as the members in the firm. Take for example an act in benefit of a supplier or customer that might not be the best option for the firm in the moment but that loyal act creates trust that is deep and profound. This trust in turn will increase commitment (Morgan & Hunt, 1994; Kwon & Suh, 2004) in the exchanging parties.

Therefore, we believe that the family firm subcontractors would persuaded their contractual relationship with their major suppliers and customers even though keeping the same level of transaction might not be beneficial for the firm with the extreme uncertainty caused by economic crisis. In addition, they wouldn't go as far as sharing the control or influence of the firm in benefit of the stakeholders.

3 Methodology

This chapter describes the methodology behind the study. Our research purpose is exploratory study and the research strategy we adopted is qualitative multiple-case studies. We used interviews and documentary as our primary data and secondary data sources. After the data collection, we analyzed our data with cross-case analysis. At the end of this chapter, the credibility of our findings and delimitation are discussed.

3.1 Research Purpose

There are three types of research studies: exploratory, descriptive and explanatory (Robson, 1993). Exploratory research asks questions about what is happening in reality, especially the phenomenon which is not known enough (Gray, 2004). Saunders, Lewis, and Thornhill (2009) also pointed out that exploratory study helps clarify the unsure nature of the problem. Since we are studying the contractual relationships for family firms during the economic crisis in automotive industry and we tend to discover the logic behind of this alteration. Therefore, we need to explore if there were any relationship changes and what factors are behind it and these questions ask for exploratory study.

Furthermore, by taking the form of exploratory study, a great advantage is that the researcher can change the direction because of the new data and new insights (Saunders et al., 2009). This gives us research flexibility and adaptation to change.

3.2 Research Strategy

The case study is one of many ways when it comes to choosing a research strategy. Robson (2002, p.178) specified case study is 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 (cited in Saunders et al., 2009). Moreover, Yin (2003) stated that under the situation of "how" or "why" questions are being raised, little control over the events from the investigator, and focus of a contemporary phenomenon within real-life context, the case study is the preferred strategy. Both authors mentioned the importance of context.

For this paper, we chose case study as our research strategy because the development of contractual relationship is contextual phenomenon. We are asking "how" the relationship changed during the economic crisis and the reason which is "why" can be answered by finding out what logic has a leading role in family firm contractual relationship alteration. The characteristics of case study fit our topic nature.

Besides, case study may comprise a group of cases which is cross-case study (Gerring, 2007). As Yin (2003, p.133) said, *having more than two cases could strengthen the findings even further*. In order to enhance the data validity, we use multiple cases to collect our data. Due to the time restriction, resource limitation and difficulty of asking for participation of companies, we examine three individual Family firms as cases which are Esskå Metallindustri AB, Levi Peterson Industri AB and Beckers Group. We chose them because they are all family business subcontractors in automotive industry and in the manufacturing section of automobile business From those companies, we would get empirical insights regarding the contractual relationship and related perspectives of socio-emotional wealth and transaction cost economicss.

3.3 Research Technique and Procedure

There are several ways to execute data collection such as interview, observation, archival records etc. Each single source of data collection has its pros and cons (Baxter & Jack, 2008). The opportunity to utilize different sources of data collection is the main advantage of case study (Yin, 2003). The data sources could be divided into primary data and secondary data (Saunders et al, 2009).

For this paper, we combine interview and documentary together as our data sources. And the interview and mail response are our primary data collection.

3.3.1 Primary Data

Conducting interview was as our primary data source because this method is one of the most reliable data collection methods for qualitative case study (Yin, 2003). Valid and reliable data relative to the research purpose can be obtained through the use of interviews (Sanders et al, 2009). Furthermore, there are lots of advantages by using this type of technique choice. One of the most important advantages is that interviewer can get immediate feedback from the respondent and clarify the confusion of respondent during the conversation which is easily to be accomplished (Zikmund, Babin, Carr & Griffin, 2009). At the same time, interviewer may probe deeper or relatively complex answers from respondent (Zikmund et al, 2009). And respondents are more likely to share their information and hesitate to say "no" since there is no reading and writing requirement (Zikmund et al, 2009).

In terms of interview design, there are many different interview types that can achieve obtaining rich and thick data. According to Gall, Gall and Borg (2003), there are three formats of interview which are informal conversational interview, general interview guide approach and standardized open-ended interview. We conducted standardized open-ended interviews because they were fully organized and structured with open-ended response.

Table 1 The arrangment of primary data collection

Date	Company	Interviewee	Job Title	Means
2012.04.10	Esskå	Mikael Morin	Sales Manager (son of the owner, potential heir of the company)	Personal interview
2012.05.07				Mail response of follow-up questions (Appendix1)
2012.04.12	Levi Peterson	Fredrik Idin	President (sole owner of the company)	Personal interview
2012.05.03				Phone interview of follow-up questions (Appendix 1)
2012.04.30	Beckers	Mikael Lundström	Business Manager	Skype interview & mail response of the interview questions (Appendix 1)

3.3.2 Secondary Data

Apart from interviews as our primary data, we used documentary as our secondary data. According to Sanders et al (2009, P.258), *documentary secondary data include written materials such as notices, correspondence (including emails), minutes of meetings, reports to shareholders, diaries, transcripts of speeches and administrative and public records.*

In this paper, we obtained secondary data from the forms listed as below:

- Company brochures
- Company reports - Amadeus reports
- Organizations' websites

3.3.3 Design of Interview

As Turner (2010) stated, designing questions of interview process is one of the most essential elements of interview design. Our interview questions have four units and mainly based on two perspectives which are transaction cost economicss and socio-emotional wealth.

The first part of the interview is asking the background and general information of the company. Through this part, we had knowledge about the company history, business, main customers and suppliers.

The second part of the interview is about the impact of economic crisis on the company and contractual relationship. Through the interview, we knew how economic crisis affected the family firms such as sales loss, layoff etc. At the same time, we understood what kinds of contractual relationships were during the crisis.

In the third and fourth sections of interview, we separately asked details regarding the perspectives of transaction cost economicss and socio-emotional wealth. Under each perspective, there were different dimensions which could affect the alteration of contractual relationship of family firms such as asset sharing, family control etc. From their answers, we see how each dimension affected the result.

Interview questions (attached in Appendix 1) are pre-designed and sent to the interviewees before the interviews.

3.4 Data Analysis

3.4.1 Transcribing Qualitative Data

The interviews for this paper were audio-recorded. In order to process our data analysis, we prepared our data by transcribing. Transcription is *reproduced as a written (word-processed) account using the actual words* (Sanders et al, 2009, p.485). Furthermore, Creswell (2007) said, after interview data collection, researchers are supposed to edit data into sections or groups which are known as themes or codes. In order to facilitate our further analysis, we transcribed our interviews by categorizing the contexts to each dimension (refer to empirical study).

3.4.2 Cross-case Analysis

The technique we used to analyze our qualitative data is cross-case analysis. Cross-case analysis was introduced by Yin (2003) which is specifically executed on the analysis of multiple cases. This technique is easy to be understood and the findings are likely to be much stronger (Yin, 2003).

A word table was created to present the data from each of our individual cases in the uniform framework (in empirical study). With doing this, the analysis of the word table enabled us to draw cross-case conclusions about our study (Yin, 2003). However, the challenge of conducting cross-case analysis is that the examination of word table is strongly dependent on argumentative interpretation instead of numbers (Yin, 2003). We tried to meet the challenge by asking more details from family firms and referring to previous related findings.

3.5 The Credibility of Research Findings

3.5.1 Reliability

Reliability *refers to the extent to which the data collection techniques or analysis procedures will yield consistent findings* (Sanders et al, 2009, p.156). There are four threats to reliability (Robson, 2002, cited in Sanders et al, 2009). The first one is subject or participant error. It implies that the different data could be collected when the time and conditions are chosen differently. In our thesis, we scheduled the interviews according to the convenience of the interviewees. Before we started the interviews, we made sure that the interviewees were comfortable and willing to answer our questions. . In our two cases, Levi Peterson and Esskå, the interviewees were either the owner or son of the owner. Therefore, we could get a deep inside to our questions without making them uncomfortable. I Beckers case, the manager were very confortable to answer any question he know that could reflect owners perspective.

The second threat is subject or participant bias. It means the interviewees may offer answers which intend to cater to their bosses. In our cases, two out of three interviewees are family members controlling the companies. During the interviews, they were claiming that they are honest and telling the truth. Though Mr. Mikael from Beckers is not family member and has higher superior, he said he is trying to give fair answers.

The third and fourth threats are observer error and bias. They refer to the situation that different observers may have different ways to conduct interviews and interpret answers. The number of authors for this paper is two. We both attended each interview. And before we conducted the interviews and interpreted data, we reached consensuses.

3.5.2 Validity

As Sanders et al (2009, p.157) said, *validity is concerned with whether the findings are really about what they appear to be about*. The threats to validity include history, testing, instrumentation, mortality, maturation and ambiguity about causal direction (Sanders et al, 2009). In our thesis, we did not face these threats.

3.5.3 Generalizability

Generalizability concerns if the research findings can be suitable to other research settings (Sanders et al, 2009). For this paper, we conduct three cases studies and our research results are not generalizable to all populations of family firms. Auto industry is highly competitive industry where the profit margin of whole chain is closely monitored by the main car manufacturer. Family firms in this industry have to consider how to be more efficient and cost effective and, lower their prices as much as they can in order to compete globally and regionally. This fact might not be the same for a local family owned shops, farms or etc.

3.6 Delimitation

The number of individual cases in the empirical study of this paper is limited due to the difficulties of seeking suitable companies and asking for participation. Therefore, the generalization of the result is limited. In addition, the size of Beckers is much bigger than Esskå and Levi Peterson and Bechers had much more bargaining power. The interviewee of Beckers is not the member of the family and has been working as a business manager in group branch in Sweden. Because of the time and resource limitation, we did not successfully have access to the family member of Beckers. This made Beckers distinct from other cases.

4 Empirical Study and Analysis

As we continue our study on the relationship between suppliers and customers for family business in the automotive industry during the economic crisis, three individual company cases were examined as empirical study to support our findings. We shall begin with Esskå Metallindustri AB to give you a sense of the dynamics that routinely occur in family subcontractors in auto industry.

4.1 ESSKÅ METALLINDUSTRI AB

On April 10, 2012, we conducted an in-depth interview with Mikael Morin who is a member of the family and functions as sales manager in the company. Through-out the interview, we discussed how the financial crisis impacted the family business, how company relationships between suppliers and customers were affected and family values.

4.1.1 Background of Esskå

Esskå began its inception in 1958 by Stig Karlsson. Later Stig relocated the business to the southwestern part of Sweden; in Långaryd, where it has been ever since. Esskå continues today as a privately owned business. At the very beginning, Esskå produced electrical clamps, cable trays and stainless steel discs. However, the company was not nearly as profitable with this business model and reaching bankruptcy status, Stig made the decision to sell the company to Lennart Morin in 1991 and a new family business began.Under his leadership, Lennart guided the company to profitability. Esskå; once referred to as the "black sheep" of the business community by a business consultant, was now turning a profit and becoming a healthy and vibrant company. At present, Esskå offers metal production in automotive industry and strive to be a reliable and consistent supplier to auto makers. The main customer of Esskå is Scania (the world's most prestigious manufacturer of trucks, busses and engines) and the suppliers of Esskå are raw material metal suppliers such as Alcoa an aluminum supplier in Hamburg.

4.1.2 Financial Crisis Impact & Contractual Relationship Alteration

According to Mikeal, during the crisis, the company was going through a hard time and struggling financially, especially in 2009. When the global financial crisis erupted in 2008, the revenue (turnover) dropped from 9,715,909 EUR to 5,086,796 EUR during this period of time. An almost 50% drop in revenue, coupled by the fact that sales orders were diminishing, Lennart Morin had to make the unfortunate decision of laying off almost half of the employees of Esskå. The working hours were decreasing from three shifts per day, two shifts per day, daytime and ultimately four days per week. From the table illustrated below, which is taken from the Amadeus database of comparable public and private companies in Europe; we can see how companies fared over a four year period financially from 2007 – 2010. (https://amadeus.bvdinfo.com)

Table 2: key financial and employee index, Source: Amadeus Report

	2010 (EUR)	2009 (EUR)	2008(EUR)	2007(EUR)
Op. Revenue (Turnover)	9,913,258	5,086,796	9,715,909	12,872,594
Cash flow	786,013	-63,597	-13,063	1,193,142
Total assets	6,533,016	6,129,419	7,387,024	8,081,381
Shareholders' funds	1,351,751	1,062,228	1,690,615	2,550,030
Profit margin (%)	1.35	-14.45	-5.71	1.59
Number of employees	40	30	54	51

In the figure below provided from Amadeus we also can see the impact of economic crisis clearly.

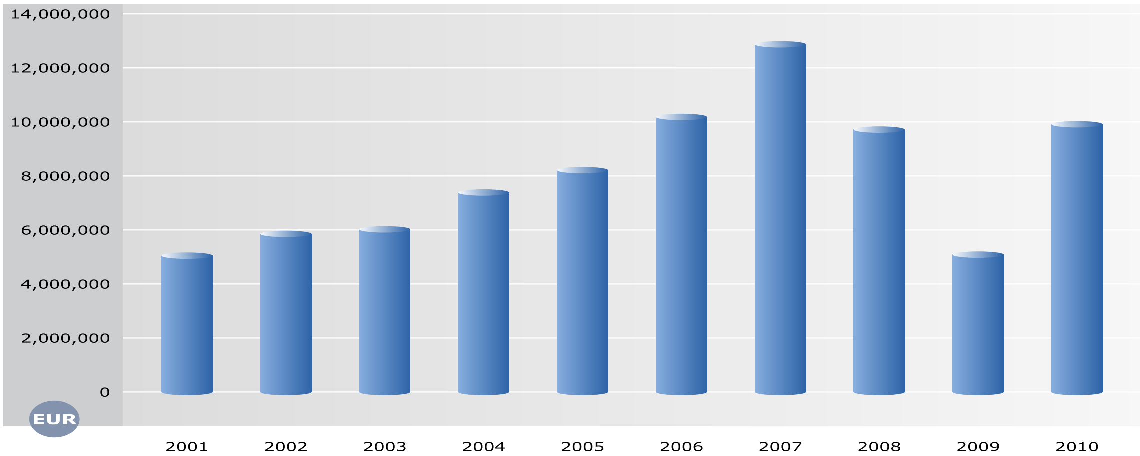

Figure 1: key variable, Year and Revenue, Source: Amadeus

During the economic crisis, Esskå had a chance to increase its cash flow by accepting investors offer at the cost of losing a certain degree of family control. Esskå rejected the investment because they wanted to fully control the business instead of considering other party's decision.

Though the business environment of 2009 which was sluggish, the relationships between Esskå and its suppliers and customers were not declining. Mikeal said, during the financial crisis, main suppliers allowed Esskå to delay their payments for 14 days because Esskå did not have cash flow to pay on time. So to some extent, Esskå had help from the suppliers. In addition, Esskå received help from the bank and also their customers who were proactively working with Esskå to help them survive. During the economic crisis, there was no significant contractual relationship change between Esskå and its suppliers and its customers.

Before economic crisis, the contractual relationship between Esskå and its suppliers were long-term informal agreement without any contracts. The only existing agreement between Esskå and their suppliers was price agreement based on the material weight and the period of time they negotiated the agreement. Mikeal pointed out that the company value has been focusing on quality and reputation, key benchmarks that are important to Esskå. Based on these criteria, they selected suppliers according to price and quality, and if Esskå could find alternative supplier with cheaper price and same quality, they would switch the supplier.

With the company value of quality and reputation as the measure of success, it became easy to form bonds of trust with existing customers and the by-product of this trust relationship, informal agreement could be achieved. Whenever there was a demand from Esskå, the suppliers could always fulfill the orders and ensure the product quality. Additionally, because of the high quality and fine reputation of Esskå, the company was recognized and placed on the list of high performance suppliers of Scania. During the financial crisis, Mikeal said there was no opportunistic behavior happening to their detriment from predatory companies and the business was fair in his perspective. No matter it was supplier or customer, they all struggled to keep the business going through. So in a sense, they "sat in the same boat".

4.1.3 Transaction Cost Economics Dimensions

4.1.3.1 Asset Specificity and Uncertainty

Mikeal said, as one might expect during times of financial insecurity and uncertainty, investors, creditors and business customers will want to see the financial stability of a company. Our major customer, Scania was no different. During this rough period, Scania was checking financial book of Esskå monthly, regularly checking the cash flow, balance sheet etc. to safeguard themselves against their supplier's probable bankruptcy. Esskå's financial situation was almost transparent to Scania during the economic crisis. In addition, Esskå's profit margin had always been around 6% and Scania was really sensitive about this percentage. In order to maintain this percentage, Scania would periodically check Esskå's financial statement and give advice in order to mitigate or resolve any potential problems. If for example, the percentage is lower than the 6% baseline Scania and Esska would make the necessary adjustments to stay within the baseline. If the percentages were higher than the agreed upon top margins, Esska would make the necessary price adjustments. Scania is almost the "only" customer of Esskå with more than 90 percent of their capacity. They are trying to find more customers in order to be less dependent to Scania.

In terms of asset specificity, Esskå does not require its supplier's facilities to be located close to the company and there was no asset sharing with suppliers. Between 2007 and 2008, Esskå invested a lot in new machinery and a new building to support Scania trucks. During the visit, Mikeal showed us around their factory and demonstrated how certain components are produced with the machines of Esskå and using the tools that Scania provides. Mikeal pointed out that with this type of arrangement, i.e. using the tools of Scania, at any time, the customer could come to the factory to take away their tools. Therefore none of the assets of their customers are in hold of Esskå.

As continued to reiterate throughout the interview, for a long time now, Scania have been our main customer. This reality puts Esskå in a uncomfortable position. Scania controls Esskå by forcing them to reduce the price and increase the production capacity. Mikeal shows being "uncomfortable" of dominance Scania has in their business decision. From the side of Esskå's supplier, Esskå has much more power and control the business direction.

4.1.4 Socio-emotional Wealth Dimensions

4.1.4.1 Family Control

At present, only two members of the family are working in the company. Lennart Morin (managing director) is the only owner of Esskå and fully controls the company business. Mikael Morin; who is responsible for the sales and purchasing business, manages the daily operations of the company. According to Mikeal, his father is usually dealing with external stakeholders. Family control and being independent are important principle for the Morin family. Accepting investments from outside and agreeing to lose part of control of the business would be the last option for them to expand business. In order to guarantee control over the firm, passing the family business to the next generation is very important to Esskå. Mikael mentions that his father, Lennart is 60-years old and will not retire until 68. Lennart Morin has two children, Mikael and his sister. According to Mikael, his sister has no interest in the family business unlike her brother. On the contrary, Mikael is very interested in this family business.

4.1.4.2 Family Identity

In terms of family identity, Mikael said maintaining the family name the is essential. To some extent, reputation and name of the business comes first, and revenues second. . Esskå has name and reputation recognition among their existing and new customers, in addition to being recommended by their suppliers and supplier customers. Esskå, as their family business affords Mikael a certain, all-be-it social identification and status. This feeling is very important to him personally because of the fine reputation and name recognition of the company in the social environment. As a high profile business and customer of Scania, the relationship between the two is one of mutual respect. Mikael describe their relationship with Scania and other customers as: "We want them; our customers, to see us as a top supplier with the best delivery performance and quality outcome. Our relationship between the customer and Esska today is good but more improvements can be realized." He/Mikael further adds that they want their suppliers to be part of their achievement as a top subcontractor in international market and that they have a good-open minded relationship. The relationships of Esskå with both suppliers and customers can be described as on a long-term.

From the interview, we were told that the family business is the passion of Lennart Morin and he has no other interests other than those which involve Esska. Since childhood Mikael has witnessed his father working approximately ten hours a day. From this vantage point, we see the emotional depth and behavior of Lennart Morin to the business. As for Mikeal, he would love to spend more of his time to the family business because he feels the same passion, enthusiasm as his father, and considers it to be his life work also.

With the passion and zeal of his father, Mikeal also realizes that a healthy, energetic and caring working environment is fundamental to the success of Esska as a family business and a priority. Mikeal is determined that they build up warm, caring and helpful environment/culture within the business where the employees spend most of their time away from family. They want their employees to feel love and like the working condition. It was clear to us from the moment we stepped into the door of the company; we had the cozy and family feeling also.

4.2 LEVI PETERSON INDUSTRI AB

On April 12, 2012, we conducted an in-depth interview with Fredrik Idin who is the solo owner and president of the company. Through the interview, we discussed the impact of financial crisis, company relationship with its suppliers and customers and family value.

4.2.1 Background of Levi Peterson

Levi Peterson was founded in 1914 in Anderstorp, Sweden by great grandfather Levi Peterson. 1968 was ~~is~~ the year that the company became a supplier to auto industry. The company has been passed on for six generation and now CEO, Mr. Fredrik Idin owns the whole company. The group internationally has 100 employees. In Section 1.2.2 table 5, illustrates the number of employees in Sweden.

"Levi Peterson develop, manufacture and market customized sheet-metal components and accessories for the automotive industry" (Levi general information, p.2). Since 2005 Levi Peterson has expanded to other countries. He has another factory in Lithuania which he has bought from his largest supplier in 2005. Levi Peterson also holds sale offices in Germany, founded in 2006, Belgium in 2008 and America in 2010. In terms of its expansion to Lithuania, Fredrik Idin was quote in their website to explain it in this way: "This is a natural step in our future strategy, securing manufacturing capacity when developing our business. We have an aggressive vision for the next 3 years and this is the first step in our strong future plan".

4.2.2 Financial Crisis Impact and Contractual Relationship Alteration

Mr. Idin mentions that the crisis first hit them in November 2008. He compares 2008 with 2009 and says they almost lost 50% of their turnover. As depicted in the Amadeus database of comparable public and private companies in Europe their turn over have dropped from 9,209,838 to 5,062,508. The ensuing result he mentioned in our conversation was that he had to lay off a number of employees during ~~in~~ that time. According to the report, it is almost half of employees. When it came time to reduce headcount, Mr. Idin took the personal courtesy to clearly explain the situation to them one by one. Levi Peterson also had to reduce the salaries and cut down the working hours to keep the level of employees who were remained in the firm, their board of directors was working for free when the company was dealing with economic crisis and even Mr. Idin did not receive a salary for six months. Therefore he mentions that "every employee knew this and they wanted to help also". He says it is like being in war together; you come stronger and closer after that with both customers and employees.

Table 3: Key financial and employee index, Source: Amadeus Report

	2010 (EUR)	2009(EUR)	2008(EUR)	2007(EUR)
Op. Revenue (Turnover)	9,675,842	5,062,508	9,209,838	9,824,862
Cash flow	782,223	-78,521	471,665	353,441
Total assets	6,488,983	4,093,140	4,747,375	6,709,770
Shareholders funds	1,625,534	885,288	1,081,784	1,048,673
Profit margin (%)	8.08	-5.09	2.75	1.28
Number of employees	31	26	42	29

In the figure below provided from Amadeus we can see the impact of economic crisis clearly.

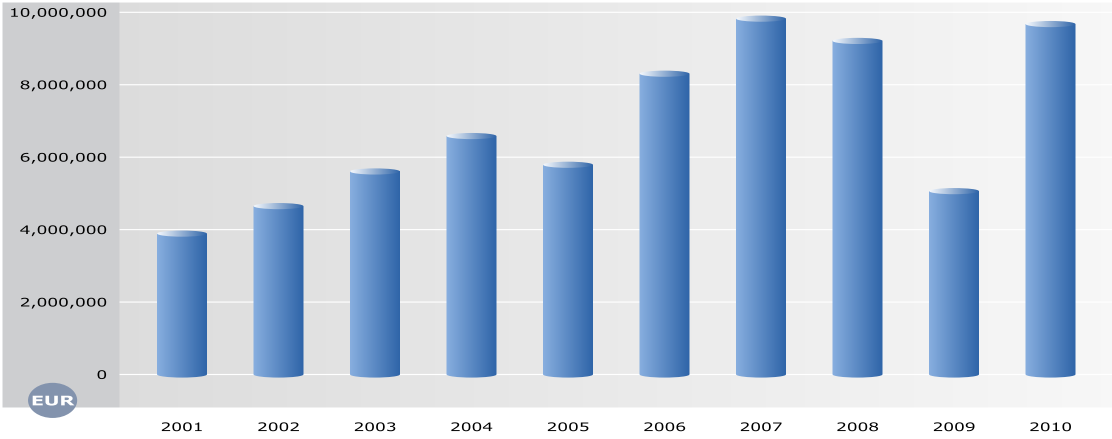

Figure 2: key variable, Year and Revenue, Source: Amadeus

According to Mr. Idin their main supplier have been local traders who import the components they need from Taiwan and China and sell it to them. He describes that the local suppliers are cost competitive in supplying component they need. However, with their increasing need for bigger amount of components Levi Peterson has adapted a new strategy regarding their supplier. He says he would like to keep certain level of exchange with the supplier but not in quantity as before. They are trying to directly buy from the supplier in China or Taiwan to cut extra profiteers since they are expanding to be more international in both suppliers and customers. He also describes this change as their strategic choice and not related to the economic crisis. The main customer of Levi Peterson at the moment is Steel Scania which controls almost the whole production of steel in Sweden and also supplies steel for Bosch, MIM Trucks and Daf Trucks.

Mr. Idin describes their relationships as an informal agreement which can be up to one year with both customers and suppliers. Therefore if they decide to change the supplier, it will take up to one year. He also mentions that the agreement is not like a written contract, but that the supplier and Levi agree upon the estimation of their yearly need and in case they want to change, they buy all of the supplier stock. In Mr. Idins view suppliers look at them in the best possible light because during and after the crisis because they have been a good customer and they have paid them on time. The auto industry is a competitive industry where efficiency and effectiveness is highly valued, consequently Levi Peterson also has to reduce its cost and cut the extra profiteers. Therefore, they had to change their long term relationship with supplier to more of a 'arms-length relationship' to be able to be more cost efficient. Mr. Idin mentions this change started from half a year ago.

Levi Peterson has strong relationship in the customer-subcontractor side, since the customer wishes that the supplier survive so they help them in tough times. Therefore, there hasn't been any opportunisms behavior from Levi Peterson's customers. As Mr. Idin has pointed out their future steps are aimed at buy competitors and expand their market share rather than buying suppliers. On the other hand he says he never considered merging with the customer or share control with others.

4.2.3 Transaction Cost Economics Dimensions

4.2.3.1 Asset Specificity and Uncertainty

In the times of uncertainty caused by economic crisis of 2008 Levi Peterson's customers were asking to check the financial situation of Levi Peterson continually because they were afraid of bankruptcy of their suppliers, the customers also monitored closely the plans Levi Peterson had with its own supplier. On the other hand, Levi Peterson back up plans for safeguarding themselves during the economic crisis was to have an alternative in case that the supplier go bankrupted and in two cases that suppliers were bankrupted, they start working with new owners that bought them.

Mr. Idin sees his company distinguished from competitors in the crisis because they have cut down the wages of administration staff including Mr. Idin but kept the same level for their new projects and innovation department. Therefore, they were able to be demanding with their customers.As it has been explain to us, being close to customers is more vital for Levi Peterson than being close to suppliers. Actions taken by Levi Peterson in this matter have been buying a factory in Lithuania to be close to their customers in Germany and France.

Regarding sharing physical assets, they have small percentage of sharing with suppliers. However, they share tools with the customers; they might own it 100% or less depending on an agreement.

Human assets or know-how have been deeply involved with customer's projects. They also sometimes ask for this kind of involvement from their supplier. Mr. Idin believes that "you have to expose yourself and your knowledge. He says that when you have helped the customers with a product and transferred knowledge, the customer might take that knowledge and go to another supplier. I know that I have to do this because in 8 to 10 cases they come to us for recurring business but in one or two cases we lose".

Furthermore, we see that during economic crisis of 2008 Levi Peterson and their customers have reduced the uncertainty by developing deeper channels of communication and being routinely updated of their supplier situation. It is not the assets which safeguard the relationships; it is ability of the Levi Peterson to perform efficiently in the economic crisis.

4.2.4 Socio-emotional Wealth Dimensions

4.2.4.1 Family Control

Mr. Idin describes 2008 as a year in which they lost a lot in month of November - December and that he couldn't see where the bottom was. He also stated that, even if somebody would say they can help him in exchange for a share in the company, he would rather not do it and "fight himself" to keep the business under family control. He mentions it is not his style and he likes to do it alone. Mr. Idin clearly mentioned his position by saying that "I didn't even think one second about selling the company at that time". Then we ask what if the situation got worse? The answer was he might have considered it if he couldn't manage and the last thing was bankruptcy for them. Nevertheless, he points that he likes his board of directors, managers and employees, he emphasis on their contribution in developing the business.

As we can see president and solo owner of the Levi Peterson, Mr. Idin has a strong sense of control and independence for his firm. According to him, he listens and gets the signals from his management team but he is the one who makes the final decisions at the end and employees and managers are well aware of their limits in decision making process. It is worth mentioning that he expressed that he doesn't have the same feeling of control about the outlet in Lithuania "I don't feel it is mine, I just bought it, it was our biggest supplier and same as with the United States, I am not there working in that office, when I come there I don't feel like home".

At last, Mr. Idin doesn't think that passing the business to next generation is that important. The reason he gave us is that running a company has its ups and downs through the tough times. He desires that his only child would choose this on his own, to get involved. Mr. Idin said that he would respect his chose whatever it is.

Surprisingly, even with strong sense of belonging in Mr.Idin, he claims that he doesn't consider anyone from the family to run the business after him which we heavily doubt. He stated that if the time comes and he wants to sell the firm he rather sell it to highest bidder; no preference if he/she is a family member.

4.2.4.2 Family Identity

Mr. Idin expressed his feelings about the company by saying that "in this 20 years of working here 90% of employees have been hired by me so of course the company has been affected by how I run the company". Furthermore, he explain that all residents of Anderstop; The city which the mother company is located; know this company by him and when he is in the company he feels the company is his. The name of Levi Peterson is well known in Anderstop and its contribution to providing jobs and good treatment of their employees.

According to Mr. Idin and regarding the Levi Peterson relationship with customers usually they are the ones that contact the customer and the criteria that they evaluate them is their ability and expertise to produce an well-made component with low price in comparison of other subcontractors. He mentioned that 80% of all negotiation that ends up in order they have contact them. The evaluation appears to be not related to the name and reputation of company in customer side. However we tend to challenge that to some extent, as Mr. Idin once mentioned, Scania believe that its family subcontractors have come out of crisis better and more successful even though that the Scania purchasers and managers seek for the lower cost and better quality they acknowledge this fact.

One interesting point mentioned by Mr. Idin regarding the long term perspective of Levi Peterson was that what he wants with the customer he doesn't want with the suppliers. He would like to have this long-term relationship with customer and them being fully depended to them but he doesn't want to miss his chance of finding cheaper and more qualified supplier because of long-term relationship.

4.3 BECKERS GROUP

On April 30, we conducted Skype interview with Mikael Lundström who is the Business Manager for Beckers Sweden. He is not a member of the family; however, we can still see the family value from the non-family member point of view.

4.3.1 Background of Beckers

Beckers was founded by a German chemist named Carl Wilhelm Becker who immigrated to Stockholm in 1865. At the very beginning, Beckers was doing retail paints in Sweden. A major step into industrial coatings was taken when Beckers acquired Arvid Lindgren Färg & Ferniss in Märsta Sweden in 1951, a site still in use. Over the years they have grown both organically and through strategic acquisition. In 1961 Beckers took its first steps into mainland Europe by establishing a subsidiary in Germany. In 1985, Lindén family procured the company and became the sole owner of Beckers. Beckers entered the Asian market in 1987 by exporting coil coatings to China and in 1997 their first company was established there, through a joint venture. The same year, another joint venture took them to India. In years that following they expand into Malaysia, South Korea and Vietnam.

The 1990s also they had their first venture into coil coatings in North America through the acquisition of a Canadian company in 1998. In 2007 another company in the US was acquired. The first company on African soil was acquired in 1999 after many years of manufacturing through a license agreement.

The present owner and chairman is Jenny Lindén. With the business growing by acquisition and exploiting new markets, Beckers has positioned itself as a global family owned coating group having branches all over the world in places such as China, USA etc. Beckers is specializes in coil coatings and special coatings in automobile, architectural, construction and agricultural industries. In the auto industry, they supply the coating for the body and accessories of the car. The main suppliers of Beckers are Bayer, Clarient and Basf. The main customers are Plastal, Plastic Omnium, Ytab and IAC.

4.3.2 Financial Crisis Impact and Contractual Relationship Alteration

During the period of six months in economic crisis, Beckers reduced the number of employees and working time was shortened to four days a week. According to the table shown below, we can see the comparison of key figures between 2008 and 2009. Though Beckers was negatively affected by the economic crisis, the company sales/volume was not dramatically diminished as other companies. According to Mikael, the reason of this is Beckers was exploring the new market in crisis such as Russia.

Table 4: Key financial and employee index, Source: http://www.beckers-bic.com/

	2010 (SEK-million)	2009 (SEK- million)	2008 (SEK-million)
Sales	4328	4185	4391
Investments	85	74	184
Avg. no. of employees	1686	1678	1779

From the point of view of Mr. Lundström, Beckers Sweden is not quite a large company but have a long-term strategy. Jenny Lindén thought it was not moral to fire employees only due to the sluggish economy. At the same time, it is quite difficult to find the right people to the business because coating technology is a very narrow segment and there is no education infrastructure for this technology. Therefore losing skilled personnel is more costly in long run.

Before the economic crisis, there were long-term contracts and yearly price reduction between Beckers and its customers and suppliers. During the crisis, long term contracting became a huge problem between Beckers and some of their customers. For example, some customers of Beckers were going through bankruptcy; which made it impossible to establish long-term contracts while the customers' attorneys were managing the company through bankruptcy proceedings. With the economy getting better, they are now working back to the normal business procedures with more and more contracts and normal 30 to 60-days payment term.

4.3.3 Transaction Cost Economics Dimensions

4.3.3.1 Asset Specificity and Uncertainty

With regard to uncertainty, Mr. Lundström said, during the crisis, credits were very important. Beckers offered different solutions to the companies which had different credits. With the high quality partners, Beckers took the risks by themselves to keep the business;

in contrast, Beckers adopted safeguard actions to protect themselves during the period. In order to safeguard the business, Beckers was asking certain customers to pay in advance before they delivered the products because of the mistrust, which was quite different from what was before the economic crisis. Before the economic crisis, Beckers allowed their customers to pay within 90 days after delivering. If the payment could not be made before the delivery during the crisis, Beckers at least asked the customer to reduce the pay circles such as to 10 days. On the supplier side, Beckers was checking the books of their suppliers frequently to safeguard their business. At the same time, they also had back-up solutions of alternative suppliers in case the old suppliers went bankrupt or could not supply.

According to Mr. Lundström, the suppliers and customers of Beckers are all over the world and they don't share any physical and human assets.

4.3.4 Socio-emotional Wealth Dimensions

4.3.4.1 Family Control

Since 1985, Beckers has been under the control of Lindén family. Nowadays, it is a second-generation who is running the family business. The former owner which is the first generation of the family business passed away three years ago and handed the business to his daughter, Jenny Lindén. At present, the current CEO and owner are married couple running the company. Through the interview, we did not get an answer for family dynasty importance for this family firm.

Mr. Lundström claims that Jenny Lindén, the owner is quite close to her staff. Through the long historic conversations between him and Ms. Lindén, he feels family control and independence are very important to Lindén family and it is long-term objective.

There has been investment offers to Beckers all the time. However, the owner did not consider taking the offers especially under the condition of Beckers has been quite stable in financial situation.

4.3.4.2 Family Identify

Mr. Lundström mentioned the important thing for family is that this business should be profitable in the long run. Beckers has been developing products and their profitability in long run created a good reputation among the local Swedish banks to give them credit when they need. This strategy made it much easier for people to work in this family firms.

Although, Mr. Lundström is not the member of family, he is proud of working for this family firm. A lot of employees have been working for Beckers for decades and Mr. Lundström also has been working for Beckers almost twenty years. Furthermore, Ms. Lindén has her style of going to work every day and motivate people to work with her.

Regarding their social ties, it is worth to point to their relationship with their largest automobile customer, Plastal situated in Gothenburg. Beckers has approximate 70% market share with Plastal. During the crisis, the business between them was unusual. Beckers took the risks delivering the painting materials to Plastal without any guarantee but trust. This case represents Beckers have good social relationships with certain high quality partners. And these kind of special offers to certain partners made Beckers have closer and tighter connections with them.

In the business environment, Mr. Lundström pointed out the brand name and reputation of the company is very important to them. Furthermore, Mr. Lundström said, personal relationships in business community and individual professionalism are the essential elements for this family business. Lots of the decisions have been made on the fundamental level instead of high management level. And this business can help people develop personal relationships with customers and people's business sense.

4.5 Cross-case Analysis

We continue our thesis by cross-case analysis. The word table shown below is used to categorize and summarize our data. We perform the analysis dimension by dimension.

Table 5: Display of empirical data

	Esskå	Levi Peterson	Beckers
Contractual Relationship Alteration	Informal agreement before the crisis; no formal change during the crisis. Adaptation to Esskå from Scania has increased.	Informal agreement before the crisis; no formal change during the crisis. Adaptation to Levi Peterson from customer has increased.	Contracts before the crisis; contracts cancelled during the crisis Adaptation to Beckers form customer Plastal has increased.
Opportunism	No opportunism	No opportunism	No opportunism
Asset Specificity and Uncertainty	Scania share tools with Esskå Scania gives counseling help in order to keep the profit margin of Esskå on 6% Close monitoring of books of Esskå from Scania	Customers share tools with the Levi Peterson Levi Peterson share know-how with the customer Levi Peterson have bought a factory in Lithuania in order to be close to the customer Close monitoring of books of Levi Peterson from customers, backup plan of Levi Peterson for suppliers	No asset sharing Beckers Closely monitored customers and suppliers during the economic crisis
Family Control	Family Control is vital - No investment or sharing firm control is considered. Family Dynasty is evident- Mikael is the probable next heir.	Family Control is vital - No investment or sharing firm control is considered Family Dynasty is not considered at the moment	Family Control is vital - No investment or sharing firm control is considered Family Dynasty is evident - Jenny have been the next owner after his father and her husband is the CEO
Family Identity	Family identity name and reputation is highly important in relationship with stockholders Family Social ties through long-term perspective with their customer Scannia and their suppliers.	Family identity is evident through the way Mr.Idin proceeds with his employees. Family Social ties through long-term perspective with customers but not with suppliers.	Family identity is evident through the importance of brand name and reputation of the Beckers Family Social ties through professional and personal relationship with customers and suppliers

4.5.1 Contractual Relationship Alteration

From the presenting of empirical study, we see that before the economic crisis, both Esskå and Levi Peterson had long-term informal agreements with their customers and suppliers. All the transactions were based on reputation, trust and personal contacts, and done by handshakes. Beckers had long-term contracts with its partners. During the crisis, there was no formal contractual relationship change for Esskå and Levi Peterson. And for Beckers, they cancelled their contracts with certain partners because partners went bankrupt.

It seems like the contractual relationships for family business in auto industry had nothing changed or became looser (contracts cancelled). However, to some extent, companies became closer and more dependent to certain high quality partners. Due to the sluggish economy in crisis, they were all negatively influenced, struggled but all have been sitting in the same boat. Therefore, as all of cases confirm there haven't been any opportunistic behavior by their stakeholders. In a sense, business partners were trying to help each to other survive. The suppliers of Esskå allowed Esskå to delay their payments for 14 days. The customers of Levi Peterson wished Levi Peterson to survive so they could cooperate with Levi Peterson in new projects, since they were able to keep good level of innovation when other subcontractors have been cutting down their R&D in wish that they can survive the crisis. Beckers took the risks delivering products to certain high quality customers without payment in advance and contracts because of trust. These actions were helping to build up good relationships between customers and suppliers.

4.5.2 Asset Specificity and Uncertainty

Asset specificity is the important element when it comes to transaction governance, which includes site specificity, physical asset and human assets (Williamson, 1989). The more asset specificity sharing, the closer the contractual relationship would be in presents of uncertainty (Joshi & Stump, 1999; Williamson, 1985; Shelanski & Klein 1995). This uncertainty as we know have started around September of 2008 for our auto-industry subcontractors and it last around one year after that (refer to Figure 1, 2 and Table4), we can't say that economic crisis is over specially with debt crisis taking over Europe due to Greeks having problem managing their economy and consequently effecting all the Europe. But our result shows that auto-industry subcontractors have recovered after 2009 and back to normal. Our cases claim that the demands have got so much more and that their facilities are working almost fulltime now. Due to the uncertainty caused by economic crisis of 2008, Esskå, Levi Peterson all had to have a back-up plans in case their suppliers go bankrupt, part of this action was forced by the customers to make sure of their capabilities, to supply them on time. Both cases mentioned they were closely monitored by their main customer and they had to fill long questioners about their future plans, in addition to presenting their figures every month to the customers. In Beckers case it has been to some extend different, they had to design a back-up plans in case, their suppliers would go bankrupt or have technological problems to supply products but they were the ones who set up terms and conditions for the customers. They were asking the customers for insuring Beckers about their capabilities to pay on time.

Regarding asset specificity, Levi Peterson built a factory in Lithuania to be close to the customers who were in Germany and France in 2005 and they have always been sharing tools and expertise/knowledge with their customers. Between 2007 and 2008, Esskå invested in new machines and buildings to support customer Scania and have always been sharing tools with Scania. Beckers have been acquiring companies since 1999 instead of joint ventures and partnership in international market. Their most recent acquisition has been in 2007 in America. We think this change in strategy have been taken to safeguard through hazards of joint venture through a turbulent environment after 1990's. Beckers also share its knowledge and expertise with customers regarding coil coating and special coating and customer design finishes.

Furthermore, as the theory confirms, uncertainty increases level of verification and verification increase the possibility of joint venture (Heide & John, 1990). And also asset specificity either in supplier side or customers will increase the chance of this action (Joshi & Stumpe, 1999; Heide & John, 1990). Our finding doesn't support such an event during the economic crisis because the contractual relationships haven't changed to any closer relationships either with suppliers or customers of our case studies.

4.5.3 Family Control

During the economic crisis all three firms, Esskå, Levi Peterson and Beckers encountered with the downturn of economic crisis. Esskå and Levi Peterson lost almost half of their revenue and had to do layoff to almost half of their employees. Beckers on the other hand, was able to face the crisis much easier since they are large company and were expanding by investing in Russia and new markets. We have seen that all of our cases have chosen one option and that is continuing the business without any partners that ask for share in control. As Gomez-Mejia (2007) predicted, control and influence of the family as a factor of socio-emotional wealth will affect owner's desire to of sharing his or her control over the firm's affairs negatively. He or she will decline it without considering economic objectives of this decision. All three firms had offers during the crisis to ease the situation and boost up their cash flow but they choose not to accept them.

Furthermore, we know from the theory that founding-family ownership is associated with less corporate diversification and use less leveraging to reduce firm risk (Anderson & Reeb, 2003) Although, diversification might influence the direct control and influence of the owner to some extent. Two of our cases, Beckers and Levi Peterson show that owners are perfectly able to exercise indirect control and influence over other outlets in broad. Mr. Idin have mentioned that he doesn't feel that those are his because he is not present there all the time. But still all the employees know their limit in decision making and all the orders and negotiations are finalized by him. Obviously, influence of this dimension of socio-emotional wealth on the relationships with suppliers and customers have great impact on the way family firms proceeds regarding its expansions. Levi Peterson rather to be independent from suppliers therefore they choose to acquire them or establish a long-term relationship that mutual trust is embedded in the relationship but lateral choose seems to be only reasonable to Levi Peterson if the financial benefit is evident. This strategy has been followed from half a year ago in Levi Peterson. In Esskå they have expanded their facilities right before the crisis in request of Scania for new projects and work load. Therefore, they bought lands nearby, start building and bought machineries in order to keep up with the demand. But when the economic crisis have had its impact on 2008-2009 they were threatened by the load of debts and decrease demand of Scania and their new promised future projects. According to Mr. Morin, now their relationship have went back to normal and that they are trying to keep up with Scania again since their work load has started to increase but they are also trying to find new customers to protect themselves from hazard of having a sole customer. It seems that the treat to the control of the firm has an effect on how the family firms deal with the stakeholders after sensing a treat to their endowment in this case "their control".

Control as integrated part of family firms has an influence on willingness of the firms to pass the business to the next generation. Therefore, we see that the Esskå is considering to pass the firm to the next heir, and in Beckers the new owner have recently took over and both considering the long term objectives as their strategy in relationship with both suppliers and customers. In Levi Peterson, Mr. Idin is highly considers control and long term objective with customers but didn't express any decisions regarding the transaction to the next heir. We think, it is due to this fact that his child is young and he is still in age that he doesn't have to think of the future of the firm in the next 20- 25 years. Other than that evidences show that he is willing to save the control of the firm at any price.

At the end, as we have predicted family firms rather be independent and not consider establishing any close relationship even though that decision might have helped them to boost up their cash flow and ease up their problems.

4.5.4 Family Identity

From the theory we know that identity is created through history of the firm and tightly related to the owners. "*The identity of a family firm's owner is inextricably tied to the organization that usually carries the family's name. This causes the firm to be seen both by internal and external stakeholders as an extension of the family itself*" (Berrone et al., 2012, p.6). A concern of the owner(s) about the family reputation is because the name that represents the organization is their family name or a sign of their history that they controlling so they can't separate themselves from it (Dyer & Whetten, 2006). Therefore, they highly care about the welfare of external and internal stakeholders, even when the financial benefit is not clear in a short-term (Zellweger, Nason et al., 2011). As we discussed previously in family firm's identity, relationships established by the family firms contain a long-term view due to the fact that the family owners are the benefiters of the firm. For that reason, they have the power and time run the business as they please and establish name and reputation which is known to the stakeholders. As we explain in emotions aspect of family firms, the concern here is to peruse the welfare of others because the owner(s) consider it as harming one of their own if they do otherwise. Family firms relationships are a basis of trust and it can reduce the transaction cost imperfectness and act as a distinguisher of non-family firms. In prediction of alteration due to the family identity we predict that this motive will result to persuasion of relationship regardless of financial rewards. The following is our interpretation of our results from the cases.

As we have seen in the cases, long term perspective is much more valued if it is with customers. Mr Idin mentioned that the auto industry is highly competitive and customers are more pressuring them to be cost efficient. Therefore long term contractual relationship with suppliers wouldn't be financially reasonable for them, so they are trying to cut down the number of suppliers and work with those that can supply them with best quality and lower price. Economic crisis have pushed customers such as Scania which is the main customer of both Esskå and Levi Peterson to be more sensitive to the price and quality. They also highly require their subcontractors to live up with their expectations. Beckers on the other hand have more power in dealing with customers; there are not so many competitors in the market (according to Mikael only two). Therefore they are the one who set up the terms for the customers, so there is no pressure to change their strategy of long-term view with supplier. Esskå also mentions their perspective in the following sentence "To be able to find a solid and stabile way to work we are always looking for a long term relationship with both our suppliers and our customers. This is the base for continuously improvements to be made. We don´t believe in short term agreements". In our point of view, what distinguishes these family subcontractors is their perspective of establishing a long-term relationship. This long-term perspective of all three cases in dealing with customer in economic crisis has had a significant result, and that is adaptation of customers to our family firm subcontractors. This adaptation has been build up by trust in the ability of these family firm subcontractors to encounter with economic crisis successfully and manage their facilities and pay the suppliers on time without cutting down their innovation and new project development.

At the end, we have seen that our family firm subcontractors are willing to take the risk of high uncertainty for their customer and keep the relationship going in hopes of future financial rewards. However, in the case of the suppliers it is not that simple, they are not willing to put themselves in a high hazard of bankruptcy just to deal with their supplier's problems.

5 Conclusion and Discussion

Before the economic crisis, the contractual relationships between the family firms and partners were long-term informal agreements or formal contracts. During the crisis, there was no formal change for the long-term informal agreements. For the formal contracts, they were cancelled because the companies went bankrupt. Literally, the contractual relationship did not become stronger. Through the study, we believe this is due to the non-economic objectives introduced in the social-emotional wealth such as family control and family identity. Social-emotional wealth suggests that family firms consider family control and family identity more important than business increase caused by investment, joint ventures and alliances. Family control and the perpetuation of family dynasty are more essential to family firms. Those elements prevented the contractual relationships from getting tighter as a formal contract during the crisis.

However, given the details from the empirical study, we found out that there are more than just "no formal change" and "contracts cancelled". Under the uncertain environment of economic crisis of 2008 and with the assets increasing, Beckers took the risks of delivering the products without guarantee; Esskå was also expanding its production facilities requested by its customer. Levi Peterson was active in any new project development and design without the promise of their customers. They were taking risks to build up better relationship with their customers. The reputation, trust and personal contacts have been increased. We regard these improvements have been making the relationships stronger. After the study, we believe social-emotional wealth was the leading logic when it comes to the contractual relationship alternation during the economic crisis. Furthermore, the adaptation between the firms caused by socio-emotional wealth made the relationships with the customers much stronger.

In the end, the finding of this paper can be theoretically generalized supporting the existing theory of socio-emotional wealth. In other words, this is the extending of the theory. For future studies, we suggest researchers take our results into the next step which could be done by quantitative study across industries.

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7 Appendix 123

7.1 Appendix 1- Questions

Interview Questions

Relationship between the business partners is one of the important topics in supply chain management. The management of relationship could directly affect the business (such as revenue, output etc), especially in uncertain or hostile environment. Therefore, we would like to examine how the financial crisis affects the relationship closeness for family business in auto industry and we appreciate the empirical insights into this topic from your company.

The in-depth interview is designed and the prepared questions are as following:

1. Who are the main suppliers and customers of the company? Could you please name some?
2. Before the financial crisis, what kind of contract relationship between you and the suppliers and customers? For example long-term commercial contract, informal agreement. Was it changed during the crisis?
3. When the financial crisis came, what was the impact on the company? Such as sales loss.
4. How many generations of this family owned business passed since the inception?
5. Is preservation of family control and independence are important goals for your firm?
6. Have you considered passing the firm to your children?
7. Do you have special personal feeling to the company? Can you explain a bit more?
8. What are your relationship with supplier and customers based on?
9. When the business environment is hostile, do you consider accepting investment or taking-over externally to increase the business but on the cost of losing part of business control?
10. During the financial crisis, did you take any actions to safeguard your business? Such as checking the books of your suppliers? Did your customers take any actions on you to safeguard their business?
11. Do you acquire your suppliers close to your factory? Do you share any assets with your suppliers and customers and how much do you share?

During the economic crisis of 2008, did you feel you were treated unfair by your customers or suppliers?

Follow-up Interview Questions - Levi Peterson

1- How your customers approached you? Where you the one who contact them or they contacted you?

a. If Levi Peterson contacts the customer.
    - ✓ Did they know about your company?
    - ✓ How they evaluate you?

b. If the customers contact Levi Peterson.
    - ✓ From what source they know you?

2- In your relationship with the customers (suppliers) what are the goals you desire to achieve?

- ✓ Who is the contact person in relationship with customers (suppliers)?
- ✓ How much your employees get involved with them?

3- What is your opinion on the Long term relationship with the customers?

- ✓ Positive answer- what objective it fulfills?
- ✓ Negative answer- why do you think it is not important? Do you see it harmful, why?

Follow-up Interview Questions - Esskå

How your customers approached you? Where you the one who contact them or they contacted you?

a. If You contacts them!

- ✓ Did they know about Esskå before contacting you? How?
- ✓ How they evaluate you?

b. If the customers contact you.

- ✓ From what source they know about Esskå?

In your relationship with the customers (suppliers) what are the goals you desire to achieve? Please answer Question for both suppliers and customers separately

- ✓ How do you describe the relationship?

What is your opinion on the Long term relationship with the customers (suppliers)? Please answer Question for both suppliers and customers separately

- ✓ Positive answer- what objective it fulfills?
- ✓ Negative answer- why do you think it is not important?

Mail Responses

Interview Questions for Beckers

Relationship between the business partners is one of the important topics in supply chain management. The management of relationship could directly affect the business (such as revenue, output etc), especially in uncertain or hostile environment. Therefore, we would like to examine how the financial crisis affects the relationship closeness for family business in auto industry and we appreciate the empirical insights into this topic from your company.

The in-depth interview is designed and the prepared questions are as following:

1. Could you please give a brief background of current Beckers? Becker Group is a family owned company. Founded 1865. I will answer from my view working for Becker Industrial Coatings in Sweden.
Who are the main suppliers and customers of the company? Could you please name some? What percentage of your business is dedicated to the auto industry? Example of Suppliers: Bayer, Clarient, Basf etc. Customers: Plastal, Plastic Omnium, Ytab, IAC etc. The percentage is approx. 40%
2. Before the financial crisis 2008, what kind of contract relationship between you and the suppliers and customers? For example long-term commercial contract, informal agreement.

Was it changed during the crisis? Before: LTC, prices, bonus systems on sale volumes. After 2008: No formal contract yet. Informal agreements.
3. When the financial crisis came, what was the impact on the company? Such as sales loss. Of course the crisis were noticed in the company. The working force was reduced and reduced working time during a period of 6 months.
4. How many generations of this family owned business passed since the inception? Who are the owner and the decision maker for the business? The company started 1865 by a German immigrant moving to Stockholm. Today the owning family procured the company in the 70 ties. Today the 2'nd generation owns it. The chairman and owner is Jenny Lindén.
Organisation & Management
Management is led by Dr. Boris Gorella, CEO of **Beckers**. Dr. Gorella holds a Ph.D. in chemistry and an MBA (INSEAD) and has a business career spanning over 20 years in the chemical industry.
Beckers is structured into 5 divisions and reporting directly to the CEO are:
Chief Operating Officer - Dr. Karsten Eller
Chief Financial Officer - Olivier Laune
Senior Vice President Human Resources & Communications - Marcus Kerriou
President Europe & Africa (E&A) - Christophe Sabas
President Greater China - Dr. Christian Kober
President South Asia Pacific & Middle East (SAPME) - Paul Menezes
President Americas - Andy Blake
President Consumer Design Finishes (CDF) - Christian Vogel
5. Is preservation of family control and independence are important goals for your firm? Yes, enables long term objectives and goals.
6. Have you considered passing the firm to your children? N/A
7. Do you have special personal feeling attaching to the company? Can you explain a bit more? The mix of being a global and local supplier is our strength. It makes it possibly to work up personal relations. The short decision-making is also positive when working for Beckers.
8. What are your relationship with supplier and customers based on? Personal and professionalism. Trying to find ways where win/win situation is achieved.
9. When the business environment is hostile, do you consider accepting investment or taking-over externally to increase the business but at the risk of losing part of business control?
10. During the financial crisis, did you take any actions to safeguard your business? Such as checking the books of your suppliers? Did your customers take actions on you to safeguard their business? Yes, by reduced payment terms, checking credits before supply, payment before delivery etc.
11. Do you acquire your supplier close to your factory? Do you share any assets with your suppliers and customers and how much do you share? No. Our suppliers and customers are located all over the world.
12. During the economic crisis, did you feel you were treated unfair by your customers or suppliers? Not in general. We acted in the same way, probably.

Mail Response from Esskå for Follow-up Interview Questions

How your customers approached you? Where you the one who contact them or they contacted you?

If You contacts them!

- ✓ Did they know about Esskå before contacting you? How?
- ✓ How they evaluate you?

If the customers contact you.

- ✓ From what source they know about Esskå?

1. Both, In some cases we are trying to get in contact with new customers lately we have been contacted by companies that heard of us and are looking for a certain production equipment that we have.Some heard about us from colleges, some from exhibitions. They either been told by our supplier or our customers.

In your relationship with the customers (suppliers) what are the goals you desire to achieve? Please answer Question for both suppliers and customers separately

- ✓ **How do you describe the relationship?**

Suppliers: We should be a good, representative for our suppliers. They should feel that due to their achievement they help us on the market to be a top supplier to large international companies. I feel we have a good open-minded relationship to our customers.

Customers: We want our customers to see us as a top supplier with the best delivery performance and quality outcome. Our relationship today is good but improvements could be done.

What is your opinion on the Long term relationship with the customers (suppliers)? Please answer Question for both suppliers and customers separately

- ✓ Positive answer- what objective it fulfills?
- ✓ Negative answer- why do you think it is not important?

To be able to find a solid and stabile way to work we are always looking for a long term relationship with both our supplier and our customers. This is the base for continuously improvements to be made. We don´t believe in short term agreements.

7.2 Appendix 2- Development of Socio-emotional Wealth

Development of Socio-emotional Wealth

It all started with the study done by Gomez-Mejia et al., (2007). They chose the population of 1,237 olive oil miles that were consider family owned at some point during 1944-1998 and then divided them based into ownership and management of family firms in the following order; Founding family member(s) are in control and they manage the firm themselves; Owned and manage by extended family as well as being managed by professionals. These firms voluntary have the chance to join the cooperation (of olive oil miles) and enjoy financial benefit at the risk of losing control over their assets and control over the firm. On the other hand if they decided to remain independed they would face greater possibility of business risk, lower performance comparing to their past performance and average performance level of other olive oil miles. Their choice regarding this decision also might result in business failure.

Gomez-Mejia et al., (2007) finding had significant effect on what had been a common understanding of family firms vs. non-family firms. Family firm have been perceived to be risk adverse because shareholders risks and returns are constrained in a single location so it was believed by scholars that the family firms shareholders don't act like non-family business shareholders do; to just sell their share and invest somewhere which is more profitable

(Gomez-Mejia et al., 2011). However, Gomez-Mejia et al., (2007) saw inconsistency in this theory in family olive oil miles firms in Spain. Even with the financial benefit consisted of joining the cooperation some family firms tended to bear the risk of below performance rate and business failure to save what they thought was more consistent with the core of their family firm which will be explain in later part of Frame of reference. As a result, not only they aren't risk adverse they are willing to receive much higher risk on what it would preserve the family business endowment. Base on this logic they make decisions that are not justified by pure economic objective. This risky behavior even might be followed with lost in financial performance.(Berrone et al., 2012)

Gomez-Mejia et al., (2007) extended, Wiseman and Gomez-Mejia (1998) findings to get an answer on why there is a fundamental paradox in family businesses acting differently. Wisemen and Gomez-Mejia (1998) found out that agents have different reference point for making decisions. As the authors, p. 137 proposed:

"*To the degree that executive wealth is tied to firm performance, risk bearing partially mediates the influence of problem framing on risk-taking behavior so that positively framed problems increase risk bearing, and risk bearing, in turn, exhibits a negative influence on risk taking.*".

Agents frame the problem negative or positive based on what their reference points tells them, positive framed problem generally pledge acceptable expected values in various risky options and negative framed problem pledge unacceptable expected values (Wiseman & Gomez-Mejia, 1998). Therefore as Gomez-Mejia et al., (2007, p.111) says "risk bearing is subjective, representing perceived threats to a decision maker's endowment- what person believe is important to his or her welfare, is already accrued, and can be count on" .

To explain this proposition and to point where agency theory have been wrong. It is worth to mention again that agency theory is more concerned about agent risk preference through his strategic chose for the firm. So a question that Gomez-Mejia et al., (2007) raised was: how the family firms would act based on this theory?

Well, as Berrone et al., (2012) mentions that this theory expects family businesses principle to avoid strategic choices consistent with significant risk that results in financial losses because family's patrimony is tied to one firm. On the other hand, the result of Gomez-Mejia et al., (2007) study with the help of the model is that family firm's primary reference point in management of the firm is potential loss or gain to their endowment/core of family business or as scholars have named it Socioemotinal wealth. To avoid this losses family firm owners are willing to take significant risk to their performance, so not only they are not risk adverse they take much higher risk to maintain their Socialemotinal wealth and as Berrone et al., (2012) phrase it, if the family firms frame an issue negatively in terms of Socio-emotional wealth losses; family principle chooses more risky economic action to preserves it.