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Long-term family firm survival and growth considering owning family adaptive capacity and federal disaster assistance receipt

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ABSTRACT

Natural disasters are expected to increase in number and severity. This study initiates a stream of research on effective family business strategies to address the threat of natural disasters to long-term survival and growth of family firms. The purpose of this study was to analyze the mitigating effects of the owning family's adaptive capacity and federal disaster assistance on long-term survival and growth of family firms. Data for 282 family firms in the National Family Business Panel were merged with data on federal disaster assistance from the Public Entity Risk Institute. Indicators of family adaptive capacity had both more numerous significant effects and larger effects on survival and growth than did business characteristics. Experiencing fewer negative family stressors meant a greater likelihood of remaining open from 1997 to 2007 and increasing revenue from 2000 to 2007. Consistent family leadership in times of stability and change and resource focused-management practices decreased the likelihood of survival. Family firms benefitted indirectly from federal disaster assistance to the county and directly from federal disaster assistance when a natural disaster hit their own family firms.

1. Introduction

Business sustainability after natural disasters depends on adaptive capacities of owning families and the communities in which they reside (Landau, 2007; Stafford, Bhargava, Danes, Haynes, & Brewton, 2010). However, most family firm survival literature takes little note of such external disruptions as natural disasters even though they are expected to increase in number and severity (Gall, Emrich, & Cutter, 2011; Mazzi, 2011). Ignoring the accumulated effects of omitted variables such as natural disaster exposures, receipt of federal disaster assistance by the firm directly or indirectly through the surrounding community, and the availability and use of owning family adaptive capacity is a specification error that has repercussions for our understanding of long-term family firm sustainability.

To ignore the effects of omitted variables such as natural disasters is akin to paying attention to only the part of an iceberg that is visible above water. For example, past research on family firm performance has focused on factors internal to the firm such as business and owner characteristics and business management practices (Danes, Stafford, & Loy, 2007). When effects of the business environment have been examined in family firm performance research, the focus has been on location and family characteristics (Niehm, Miller, & Swinney, 2008; Eisenhardt & Martin, 2000; Wang & Ahmed, 2007). However, this focus only captures what is above the waterline of icebergs. An unanswered question is what resources and forms of capital of the entire owning family/firm system create adaptation to external disruptions such as natural disasters? Without considering effects that natural disasters have on family firm survival and growth over time, researchers may erroneously attribute their consequences to other causes. This study uses longitudinal panel data (National Family Business Panel, NFBP) to address this literature gap. The study purpose is to investigate the effects of owning family adaptive capacity and federal disaster assistance receipt on long-term survival and growth of family firms.

The study is grounded in the Sustainable Family Business Theory (SFBT) that takes a systemic approach to the study of family firms. SFBT is inclusive of family, firm, family/firm interconnection and the community in which the family firm is embedded. SFBT considers processes in times of change and disruption as well as processes during time of stability. The theory defines disruptions as events, either internal or external to the owning family or firm system, that significantly challenge the stock of capital and routine management practices of the family firm (Danes & Brewton, 2012).

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Small business owners differ from wage earners when external disruptions such as natural disasters occur because they often are stressed twice, once as business owners and once as private citizens (Haynes, Danes, & Stafford, 2011; Runyan, 2006). Furthermore, natural disasters can affect firms directly with structural damage or they can affect firms indirectly via damage within the surrounding community or firms can experience both effects. Survival research that considers the impact of natural disasters is critical because standard operating procedures do not work well in unexpected situations such as natural disasters (Stallings, 1998). Rather, what is needed to more successfully respond to disasters is exception routines, described as unique adaptations for unexpected situations (Stallings, 1998) and we suggest those unique adaptations emanate out of an owning family's adaptive capacity.

Adaptive capacity is the ability of owning families to adjust resources and interpersonal processes in response to disruptions (Danes, 2006). Gallopin (2006), in addressing conceptual precision about concepts as vulnerability, resilience, and adaptive capacity, indicated that adaptive capacity is not a generic term, but rather refers to adaptiveness to specific environments. Thus, it is critical to investigate the adaptive capacity of family firms to a specific environment such as natural disaster disruptions. From the perspective of Danes and Gallopin, drawing on owning family adaptive capacity after a natural disaster facilitates constructive responses essential to long-term family firm sustainability. These constructive responses might be securing available external community support such as federal disaster assistance.

By merging the NFBP (Winter, Danes, Koh, Fredericks, & Paul, 2004) data with data from the Public Entities Research Institute (PERI, 2008), this study is able to investigate the impact of the owning family's adaptive capacity and receipt of federal disaster assistance on family firm survival and growth over time. Drawing on Stalling's (1998) premise that unique adaptations from routine management practices are needed for unexpected situations, this study takes a different analytical approach to the study of long-term survival and growth. The conventional factors used to predict business survival and growth are controlled in this study to place the focus on the impact of owning family adaptive capacity and federal disaster assistance receipt. The article is organized into five sections. First is the "Introduction". Second is the "Theoretical underpinnings and literature review", which includes hypotheses. The third is "Methods" which includes sampling, variables, and analytical procedures. The fourth is "Results" while the fifth section discusses both results and their implications for strategy.

2. Theoretical underpinnings and literature review

Since SFBT's theoretical underpinnings (Stafford, Duncan, Danes, & Winter, 1999) were so closely aligned with data collection of the three waves of NFBP data and organization of this study, the theory and literature review sections are integrated into one. Discussion is organized around the two most pertinent SFBT propositions applying to this study. They are (a) resource and interpersonal processes in family or firm may facilitate or inhibit family firm sustainability, and (b) a positive symbiosis between family, firm, and its community host is productive for the firm. SFBT (Fig. 1) is a behavioral systems theory capable of addressing the behavioral complexities of long-term firm sustainability (Danes & Brewton, 2012).

In contrast to conventional firm or hazard models, SFBT gives equal recognition to family and firm and to the family/firm interplay in achieving mutual sustainability. A further distinction between SFBT and business conceptual models used to study family firms is that SFBT assumes that family and firm are interdependent and congruent systems rather than distinct and

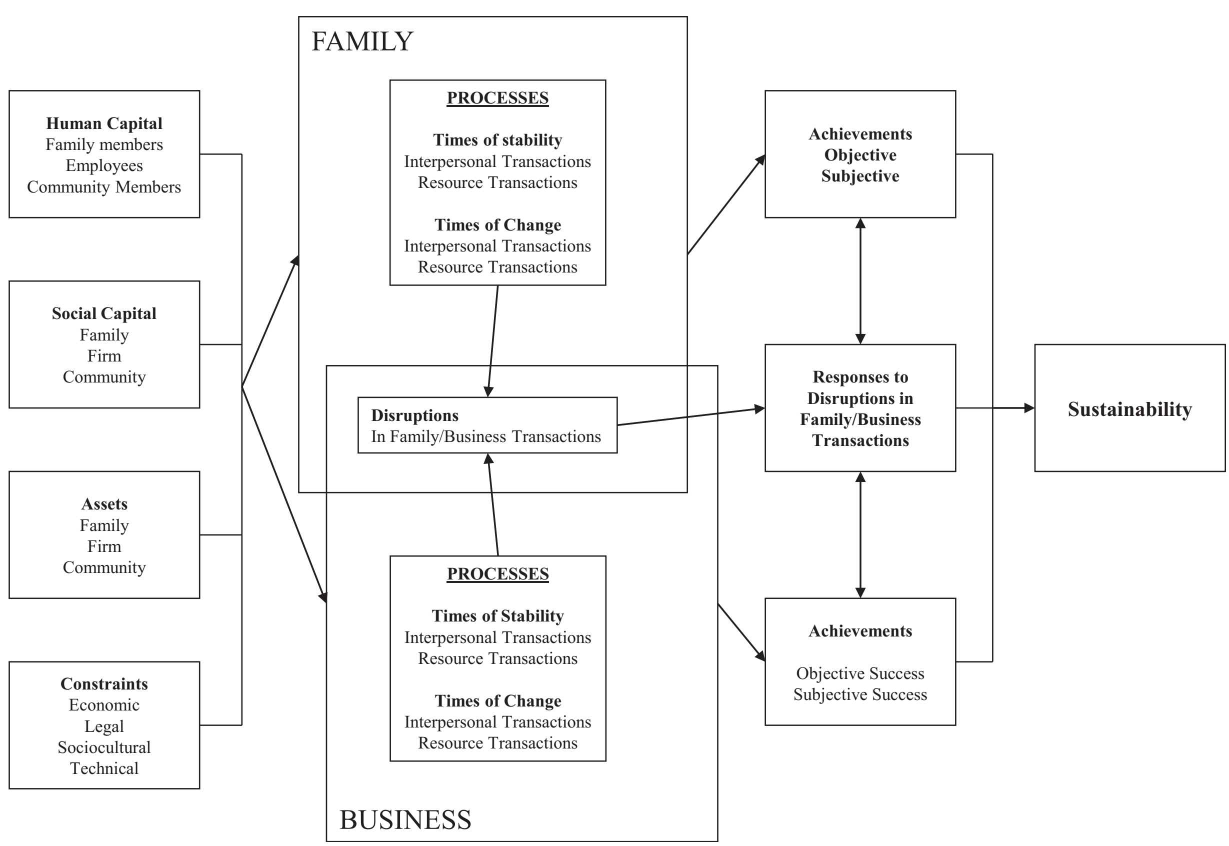

Fig. 1. Sustainable family business model.