Journal of Family Business Strategy 5 (2014) 41–51

Contents lists available at ScienceDirect

Journal of Family Business Strategy

journal homepage: www.elsevier.com/locate/jfbs

Diagnosing capabilities in family firms: An overview of visual research methods and suggestions for future applications

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ARTICLE INFO

Keywords:
Family firms
Competence visualization
Visual methods
Action research
Competence diagnostics

ABSTRACT

Family firms often develop unique capabilities over time, but these organizational competencies are difficult to identify, isolate and describe independently of the key individuals in the family firm. In this article, we provide examples and an overview of research methods that can be used to identify and visualize organizational competencies in family firms. We report from pilot applications of such visual competence diagnostics in an action research mode. We structure our article as follows: We first show the relevance of the competence visualization topic for family firms. In a second step, we classify available methods for competence visualization in a simple framework. In a third step, we report on our experience on researching a family firm with the help of visual competence diagnostics methods. We conclude the article with implications for family firm researchers and practitioners and provide a brief outlook on visual research methods and their role in better understanding family firms.

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1. Introduction

In his seminal review of the state-of-the-art of family business strategy research, Astrachan (2010, p. 8) identifies as one of ten fruitful and needed research areas the question of how to best "leverage the resources and competitive capabilities of family businesses." This seems a particularly relevant area of research when family businesses undergo a major transition such as when they face a succession (Cabrera-Suárez, De Saá-Pérez, & García-Almeida, 2001). As Cabrera-Suárez et al. (2001) have pointed out, one of the main challenges of succession in family firms is the difficulty of acquiring the predecessor's key knowledge and skills adequately to maintain and improve the organizational performance of the firm. By informing decisions of knowledge exploitation versus exploration, the diagnosis of competences can mitigate the problem of organizational inertia typical of family businesses (Webb, Ketchen, & Ireland, 2010). As explained by Chirico and Nordqvist (2010), family businesses often lose their competitive edge as founders become unwilling to undertake the risks of entrepreneurship and become trapped in a tendency to over-exploit existing competences. More broadly, the resource-based view has the potential to sustain the competitiveness of family businesses, by assisting the identification of resources and capabilities to be developed internally or acquired externally (Mazzi, 2011). The resource based view also promises to be one of the most fruitful research paradigms to study the idiosyncrasies of family firms and to develop a sound and distinct theory of family firms and their strategizing (Chrisman, Kellermanns, Chan, & Liano, 2010; Mazzi, 2011, p. 167).

Our article addresses this challenge from a research methods perspective and provides an overview of visual methods for competence diagnostics, a framework for their use, and an application experience from the family firm context. More specifically, we propose a methodological approach enabling family businesses to perform – with the help of researchers – competence identification and management (either individually or through strategic alliances). With a clear understanding of the architecture of their competences, family firms can then make informed decisions as to how to further develop their capabilities, or to acquire new ones. With this contribution we thus hope to enable family firm researchers to follow Astrachan's (2010, p. 8) call for more resource- and knowledge-based research on family firms that is empirically grounded. The resource-based view in fact is at the very core of the concept of "familiness" (Habbershon & Williams, 1999; Habbershon, Williams, & MacMillan, 2003), defined as the unique bundle of *resources* developed through interaction between the family business, its individual members and competitive environment (Sirmon & Hitt, 2003). We believe that competence visualization methods can be instrumental in surfacing the key elements that constitute such familiness; for

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http://dx.doi.org/10.1016/j.jfbs.2014.01.009

example by making explicit the competences that are at the roots of the business. To this end we first outline the relevance and the challenges of competence management for family businesses in the next section. We then systematically review existing approaches to identify (in Section 3) and map (in Section 4) organizational competencies. In Section 4 we also summarize existing approaches through a simple classification and an organizing framework. We present a real-life illustration of how researchers can employ such methods (in Section 5) and describe pitfalls to avoid in this process. In Section 6 we derive implications for family business researchers and discuss limitations and development needs of organizational competence mapping approaches for the family business context.

2. Challenges of competence management for family businesses

Family businesses are an important source of economic development and growth, as their long-term nature is uniquely suited to sustain the allocation of resources for innovation and risk taking (Zahra, Hayton, & Salvato, 2004). In spite of their importance, most family businesses do not have a long-term strategic plan due to the lack of time, inadequate knowledge of the planning process, or reluctance to share strategic plans with external consultants (Sharma, Chrisman, & Chua, 1997). Furthermore, most of the strategy literature and research methods do not specifically address the resource needs and constraints of family businesses, but have been developed for the skills and resources of large non-family enterprises (Sharma et al., 1997).

Yet having a consistent and clear strategy is essential for the success of family businesses (Astrachan & Kolenko, 1994). It is critical that family business managers develop a strategy plan to sustain competitive advantage over time and to ensure the long-term survival of their businesses. Key to strategic planning is the ability of a company to identify and strengthen its core competences. Core competences are those activities that a firm performs better than any other competing firm (Prahalad & Hamel, 1990). As further explained by Prahalad (1993, p. 45), core competencies result out of the "creative bundling" of multiple technologies, customer knowledge and intuition; combined and managed as a harmonious whole. Without an understanding of their competence structure, family businesses may continue to do "business as usual" in a shifting landscape and become unsustainable in the future. As they rarely have all the resources to compete effectively, family businesses can either develop new skills internally or tap into their external networks (Sirmon & Hitt, 2003). The latter brings along additional challenges such as identifying the appropriate partners or integrating and rationalizing strategic resources and skills. Strategic alliances, in particular, are risky endeavors for family firms, and failure may be particularly consequential for SMEs, where in-house resources are stretched to the limit (Baum, Calabrese, & Silverman, 2000; Narula, 2004).

As further explained by Sirmon and Hitt (2003), managers of family businesses should continuously evaluate their resource and capability inventory, and carefully make decisions as to the addition, and at times, shedding of resources. Yet family firms' managers are often unlikely to make appropriate shedding decisions, "due to the emotional ties, nostalgia and/or escalation of commitment related to their unique social and human capital" (Sirmon & Hitt, 2003, p. 348). While resource accumulation is important to ensure growth, resource shedding can be extremely important for resource-constrained firms, by reducing the opportunity costs of maintaining inferior resources. Besides releasing financial capital and reducing costs, shedding resources can also break path dependencies, therefore addressing the problem of organizational inertia typical of family business. The so-called "family inertia" (Chirico & Nordqvist, 2010, p. 4) is particularly detrimental for preventing the development of dynamic capabilities of renewing the organization to better suit the changing environment.

After the stage of development or acquisition, resources and capabilities should be bundled and leveraged through an appropriate strategy designed to achieve a sustainable advantage (Sirmon & Hitt, 2003). To do this effectively, family firm managers must integrate opportunity and advantage-seeking behaviors in an appropriate strategic plan, which utilizes resources effectively and creates wealth (Le Breton-Miller & Miller, 2006). As explained by Le Breton-Miller and Miller (2006), the strategic plan should leverage the unique features of family businesses, such as concentrated ownership, lengthy tenures, and business expertise. If tied to the value chain, such features are likely to engender competitive asymmetries, i.e. organizational qualities that are difficult for other firms to imitate. At the same time, investments in enduring partnerships enhance access to resources and free family firms from the burden to develop additional skills. And the commitment to a compelling mission is instrumental to turn unique features and external resources into a core competency. Yet bundling and leveraging resources and capabilities in such a way requires a set of mixed and diverse managerial skills that may not naturally reside in family businesses (Sirmon & Hitt, 2003).

Competence development is therefore a key part of the general business strategy of family firms. An empirical exploration of SMEs in the European Union (Snijders, van Lin, & van der Horst, 2003) indicates that involvement in competence development activities has a positive effect on SME competitiveness and performance. Without the ability to continuously analyze their internal and external environment and adjust their strategic goals and plans accordingly, small enterprises and family businesses run the risk of lagging behind, instead of pro-actively tackling market changes. However, such businesses are particularly at a disadvantage in performing competence diagnostics, as they typically suffer from a number of obstacles (Snijders et al., 2003), which include:

- Limited time to take a strategic, long term approach to identifying and maintaining core competences due to short-term business pressures.
- Limited time to map the company's core competences to its existing markets and diagnose effectively their own competence needs.
- Limited time or expertise to identify new core competences required to allow the company to expand to new markets or develop new products.
- Cost (constraints) issues.
- The management team's limited contact with other external sources of competences.

These limitations can significantly reduce the speed at which family firms respond to competitive pressures and hamper their future growth. By having a clear picture of the competence structure of their family businesses, managers could make more informed choices as to which resources they should leverage in order to address competitive pressures and sustain future growth. Visual research methods have been applied to a range of complex organizational processes (e.g., organizational change) in that they are suitable to get access to deeper and unarticulated knowledge (Meyer, 1991). This article applies visual methods for researchers to assist family businesses in the identification and management of competences in an action research mode. As suggested above, family businesses have an urgent requirement for easy to use, time efficient but comprehensive management tools to help them identify their competences and understand their underlying activities, resources, and coordination mechanisms. In addition,

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