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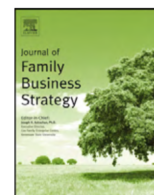

Determinants of rural and urban family firm resilience

Katherine E. Brewton [a,*], Sharon M. Danes [a,1], Kathryn Stafford [b,2], George W. Haynes [c,3]

[a] Department of Family Social Science, University of Minnesota, 290 McNeal Hall, 1985 Buford Avenue, St. Paul, MN 55108, United States
[b] Department of Consumer Sciences, The Ohio State University, Campbell Hall 265B, 1787 Neil Avenue, Columbus, OH 43210, United States
[c] Department of Agricultural Economics and Economics, Montana State University, 210E Linfield Hall, Bozeman, MT 59717, United States

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ABSTRACT

Data from 311 rural and urban family firms from the National Family Business Panel (NFBP) were used to investigate the relative contributions of human, social, and financial capital resources, normative and non-normative disruptions, and federal disaster assistance on family firm resilience. Results indicate that the sets of social capital and disruption variables were significantly and negatively related to firm resilience for rural firms, while perceiving the business as a way of life was significantly and positively related to firm resilience for urban firms. Federal disaster assistance was negatively related to firm resilience for both rural and urban firms. Additional findings, conclusions, and implications of findings are discussed.

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Although extensive literature exists on components of family firm survival, that literature focuses primarily on structures and roles in the firm rather than resource processes in both family and firm (Danes, Lee, Stafford, & Heck, 2008). And yet, several studies have found that a family firm's capacity to access human, social, and financial resources and effectively plan for predictable as well as unforeseen circumstances was positively related to family firm sustainability (Danes, Stafford, Haynes, & Amarapurkar, 2009; Hammond, 2003; Haynes, Walker, Rowe, & Hong, 1999). Sirmon and Hitt (2003) described this pooled set of family resources as survivability capital and indicated that it can help sustain the business during poor economic times or during such disruptions as unforeseen circumstances.

Given Sirmon and Hitt's (2003) survivability capital description as integration of owning family's human, social, and financial capital, one might argue that survivability capital is a type of social capital akin to resilience capacity. Resilience capacity can be built in both family and firm. Resilience capacity created in families is permeable and transmitted across boundaries to the firm (Danes, Lee, Amarapurkar, Stafford, & Haynes, 2009; Patterson, 2002). If owning families have built a stored capacity for resilience, when it encounters a disaster or acute disruption, the store of trust and creativity in problem solving can be more easily and quickly tapped and adapted to the new situation. Since family firm sustainability depends, in part, upon how it adapts to change, it is important to understand in detail the resource transactions that compose owning family resilience because it increases the probability of successfully responding to change. It is also important to investigate the relative contributions of various family resource types, the processes used to access those resources, and the effect of risk exposure to normative and non-normative disruptions.

Owning family resilience and adjustment to disruptions is core to the Sustainable Family Business Theory (SFBT), which was the theory that guided this research (Danes, Loy, & Stafford, 2008; Stafford, Duncan, Danes, & Winter, 1999). The resource stocks of family members and the processes they use in accessing these family resources during times of change caused by disruptions may facilitate or inhibit family firm sustainability (Danes, 1999; Danes, Reuter, Kwon, & Doherty, 2002). Using the metaphor of stock and flow in economics and system dynamics modeling, a stock of resilience capacity can be built in either the family or firm, and that capacity can flow across permeable boundaries when it is needed. During times of disruption, managers must reconstruct resource processes within both firm and family to incorporate adaptations that each system has made to accommodate the disruptions (Danes, Haberman, & McTavish, 2005).

SFBT locates entrepreneurship within the social context of the community in which the firm operates (Danes, Lee, et al., 2008). Thus, resilience of rural and urban firms is compared because it is believed that community context contributes to resilience capacity of family firms when exposed to a natural disaster. Dahlhamer (1998) concluded that recovery of a particular firm from a natural

* Corresponding author. Tel.: +1 612 625 1981; fax: +1 612 625 4227.
E-mail addresses: Brewt007@umn.edu (K.E. Brewton), Sdanes@umn.edu (S.M. Danes), Kstafford@ehe.osu.edu (K. Stafford), Haynes@montana.edu (G.W. Haynes).
[1] Tel.: +1 612 625 9273; fax: +1 612 625 4227.
[2] Tel.: +1 614 292 4564; fax: +1 614 688 8133.
[3] Tel.: +1 406 994 5012; fax: +1 406 994 4838.

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disaster depended on how neighborhoods, critical infrastructure, and the greater community were affected by a natural disaster rather than on their direct physical damage. Although, there is evidence that dynamics of rural and urban family firm survival differ (Olson et al., 2003), it is not known whether components impacting family firm resilience capacity differ by rural/urban location.

Family firms comprise a larger portion of rural economies compared to urban economies and rural economies are smaller than urban ones. Well-being of rural communities and citizens is closely linked to the health of their locally owned family firms (Besser, 2002; Flora, Sharp, Flora, & Newton, 1997). Many of those rural family businesses are small businesses and Habbershon (2006) states that family influence is more extensive in smaller firms. Family firm distribution among industries is different in rural and urban areas, as well; agriculture and small family firms comprise a large share of rural economies and both are riskier than average. The purpose of this study is to investigate the relative contributions of human, social, and financial capital resources, normative and non-normative disruptions, and federal disaster assistance on family firm resilience for rural and urban family firms. Previous research about the impact of natural disasters on small firms has primarily been conducted in urban locations after single disasters, and at one point in time with small convenience samples.

To overcome methodological limitations of current research and to extend it to less understood populations, such as rural communities, this study utilized the longitudinal National Family Business Panel (NFBP) data combined with national data on natural disasters and federal disaster assistance to investigate the relative contributions of human, social, and financial capital resources, normative and non-normative disruptions, and federal disaster assistance on family firm resilience. Unique contributions of this study to existing literature include the utilization of a resource process approach to the study of resilience within small family firms, baseline firm financial data prior to a disaster, a longitudinal, national, and representative household sample of family firm-owning families and small firms, and inclusion of federal disaster assistance and owning family resilience over time.

1. Literature review

1.1. Family firm resilience

Family firm resilience conceptually refers to the reservoir of individual and family resources that cushions the family firm against disruptions and is characterized by individual and collective creativity used to solve problems and get work done (Conner, 1992; Danes, 1999, 2006). Patterson (2002) stated that a family's belief in their ability as a group to discover solutions and new resources to manage challenges is the cornerstone of resilience. Although Gimeno, Labadie, Saris, and Mayordomo (2006) identified the concept as family management, they, too, indicated that family management practices often enhance the family's capacity to identify, accept, and resolve differences with a natural by-product being increased business competitiveness and, therefore, better financial performance.

Family firm resilience is further defined as the perception of family members about decision-making and activity coordination that fits together harmoniously into group knowledge and action for the firm (Stafford & Avery, 1993). Family firm resilience is not a stable trait, but rather an ongoing, often emergent process (Patterson, 2002). At any point in time, the flow of resilience capacity, represented by congruity among family members, can vary depending upon current conditions at the family/business interface. Lack of resilience undermines efficiency and reduces cooperation (Danes, Loy, et al., 2008).

When families are functionally strong, they have a stock of resilience that buffers both the family and firm against stresses emanating from internal and external disruptions (Danes, Loy, et al., 2008). Family interactions, such as family adjustment strategies, are actually implicit rules guiding member behavior and are the result of rationally making previous financial and social decisions and devising solutions to problems (Moen & Wethington, 1992). These behavior patterns or implicit rules can be drawn upon when needed and enhance a family firm's resilience capacity. If families have built a stored capacity for resilience, when a disruption is encountered, the store of trust and creativity in problem solving can be more easily and quickly tapped and adapted to new situations (Danes et al., 2002). Family resources may be more than the sum of resource endowments because resources can be combined in different ways in varying circumstances (Danes, Stafford, et al., 2009).

The family business literature implies that management decisions about resource exchanges are made within the boundaries of either the family or business. Recent research, however, finds support for the SFBT premise that resources are shared between business and family systems, and that family businesses are, indeed, cross-system organizations (Paul, Winter, Miller, & Fitzgerald, 2003). Olson et al. (2003) determined that family business success depends upon family processes and responses to disruptions rather than simply how the owner manages the business. In fact, responses to disruptions had a greater effect on family firm revenues (20% of variance) than the family's resources (2%). Winter, Puspitawati, Heck, and Stafford (1993) found that nearly half of home-based businesses used or traded family resources to spend more time on business. Fitzgerald, Winter, Miller, and Paul (2001) discovered that female business owners are more likely to reallocate family resources to the business than male business owners. And Haynes, Rowe, Walker, and Hong (2000) found that use of family financial resources in the business occurs more when the business owes money to financial institutions or when the owner is older, more experienced, and without children.

Disaster studies describe resilience as intrinsic resources that can be called upon to help maintain or regain pre-disaster levels of functioning and manifest successful adaptation. Successful adaptation to disasters involves more than simply restoring the built environment because the effects of disasters are complex and long-lasting. Firms often experience change in social, political, and economic relationships and capability, which are part of the community context in which family firms operate (Alesch, 2005). Although it is possible to maintain or regain pre-disaster levels of functioning or adapt successfully, it is also possible for resilience to foster business growth (Paton, Violanti, & Smith, 2003; Violanti, Paton, & Dunning, 2000). For example, owning family social capital resources, a critical component of resilience capacity, can be relied upon to uphold social norms and reciprocate favors (Zuiker, Katras, Montalto, & Olson, 2003) for the firm's benefit.

Family resources are rooted in strong family ties (Heck et al., 2006). Owning families accumulate "stocks" of individual and family resources, such as family integrity and personal qualities, that can reduce the consequences of family firm disruptions. Several studies point to family fortitude as one way to survive tough economic times in family firms (Hammond, 2003; Weigel & Ballard-Reisch, 1997). Thus, material and human resources of owning family members are key when examining natural disaster recovery (Hammond, 2003).

The dependent variable in this study is family firm resilience. Since family influence is more extensive in small firms, this variable represents the resilience capacity of the owning family. The owning family is the vehicle by which the resource stock (human, social, and financial capital) that composes the owning

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