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Examining relationships among family influence, family culture, flexible planning systems, innovativeness and firm performance

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ABSTRACT

The purpose of this article is to draw on the resource-based view of the firm and the upper echelons theoretical perspective to position family influence, family business culture and flexible planning systems as drivers of firm innovativeness, and subsequently firm performance. We establish these relationships using SEM statistical techniques to analyze responses of small- to medium-sized family businesses using established survey instruments. We find evidence that family influence positively influences family culture, that family culture improves the ability of families to be strategically flexible and that this flexibility positively impacts firm innovativeness, subsequently benefitting firm performance. The implications for practitioners are discussed.

1. Introduction

Businesses controlled by family owners who are consequently able to shape strategic direction while simultaneously having a concern for family relationships and an intention of generational continuity, are different. The extant literature has framed these differences in positive as well as negative terms (Habbershon, Williams, & MacMillan, 2003; Irava & Moores, 2010), and meta-analytical studies are informing our understanding of the influence of unique-to-family resource endowments on firm performance (see, Van Essen, Carney, Gedajlovic, Hengens, & van Osterhout, 2011).

Family owned businesses, particularly those categorized as small–medium enterprises (SMEs), are distinguishable from non-family firms due to their family influenced resource endowments as well as the "closer interaction among departments, shorter lines of communication, better personal links, more unified culture and stronger identity" (Aragón-Correa, Hurtado-Torres, Sharma, & García-Morales, 2008, p. 90). As such, the resource-based view (RBV) of the firm is used as a foundation in the development of our model in this research. RBV is an appropriate theoretical lens through which to investigate our relationships due to the assumption that "each organization is a collection of idiosyncratic resources and capabilities that differentiate firm performance across time and is a source of their returns" (Hitt et al., 2001 in Habbershon et al., 2003, p. 459). As well, recent evidence points to family-owned firms having a distinct advantage over their non-family counterparts due to the utilities owners derive from their family resource endowments, in particular the noneconomic aspects of their businesses (Gomez-Mejia, Takacs-Haynes, Nunez-Nickel, Jacobson, & Moyano-Fuentes, 2007). Factors contributing to enhancing and preserving this distinction, and sustained competitive performance, include management processes, strategic choices, organizational governance, stakeholder relationships, and business venturing (Gomez-Mejia, Cruz, Berrone, & de Castro, 2011). These factors have been variously introduced in the literature through conversations and studies that have examined, for example, long term orientation (Lumpkin, Bringham, & Moss, 2010), decision making (Miller & Le Breton Miller, 2005), patient capital (Arregle, Hitt, Sirmon, & Very, 2007), risk (Zellweger, 2007), attitudes toward the natural environment (Berrone, Cruz, Gomez-Mejia, & Larraza-Kintana, 2010; Craig & Dibrell, 2006; Sharma & Sharma, 2011), corporate social responsibility (Dyer & Whetten, 2006), and lower overall costs due to minimal agency related issues (Cruz, Gomez-Mejia, & Becerra, 2010; Fama & Jensen, 1983). Each of these factors has a flipside that has the potential to negatively impact firm performance, and which has also been discussed in the extant literature (e.g., Barnett, Eddleston, & Kellermanns, 2009; Claessens, Djankov, Fan, & Lang,

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2002; Kets de Vries, 1993; Morck & Yeung, 2003; Schulze, Lubatkin, & Dino, 2003; Schulze, Lubatkin, Dino, & Buchholtz, 2001).

We contribute to this discourse in this research through the investigation of the role of two unique-to-family resource endowments, family influence and family culture, in small–medium sized family businesses. Our thesis is that family influence provides distinctive difficult to imitate resources to businesses with family ownership (Arregle et al., 2007; Habbershon et al., 2003; Hoy & Sharma, 2009; Kellermanns, Eddleston, Sarathy, & Murphy, 2012; Sirmon & Hitt, 2003) and that this resource contributes to an idiosyncratic family culture, which has also been shown to further distinguish family businesses (Astrachan, Klein, & Smyrnios, 2002; Astrachan, Richards, Marchisio, & Manners, 2010; Klein, 1991).

We complement the RBV perspective with insights drawn from upper echelons theory (Hambrick & Mason, 1984) and further enrich the theoretical underpinnings by considering the role of schematic frameworks (Aragon-Correa, Mattias-Reche, & Senise-Barrio, 2004; Barr & Huff, 1997; Judge & Douglas, 1998). Our inclusion of innovativeness embeds the discussion in the entrepreneurship literature as innovativeness is a widely recognized indicator of entrepreneurial behavior (Cohen & Winn, 2007; Lumpkin & Dess, 1996).

Our findings demonstrate (1) the positive contributions that family influence has on family business culture within the firm, (2) the positive association between family business culture and the firm's ability to build capabilities that enable them to respond strategically to changes in the external environment by capitalizing on flexible planning systems, (3) that these flexible planning systems positively influence firm innovativeness, and (4) how firm innovativeness subsequently impacts firm financial performance positively. Establishing these relationships extends resource-based view (RBV) related conceptual modeling in the context of family businesses, notably that which was introduced previously by Habbershon and Williams (1999) and Sirmon and Hitt (2003).

Our article proceeds as follows. After an overview of upper echelons theory and schematic frameworks, we provide the impetus for our study through the introduction of family influence and family business culture and reason why and how these are related. We proceed to establish why and how relationships exist between our other constructs, specifically, flexible planning systems, and firm innovativeness. It is in these paragraphs also that our hypotheses are introduced. We follow on with the methodology section that details our sample and statistical analysis approach used before a discussion of the managerial and theoretical implications are outlined. Limitations are also canvassed and invitations for further extensions close our study.

2. Previous literature and hypotheses development

2.1. The upper-echelons theoretical perspective

With foundations strongly linked to the Carnegie School theorists (Cyert & March, 1963; March & Simon, 1958), Hambrick and Mason's (1984) upper-echelons perspective explains how the top-management team effectively makes complex decisions as a result of behavioral factors rather than perfectly rational analyses based on complete information. In their view, "bounded rationality, multiple and conflicting goals, ill-defined options, and varying aspiration levels – and, in turn, actions or inactions – are all derived from beliefs, knowledge, assumptions, and values that decision makers bring to the administrative setting" (Finkelstein & Hambrick, 1990, p. 484). This behavioral explanation assists in understanding how managers frame appropriate responses vis-à-vis their ability to distil important information and discard information that is less so (Weick, 1979). Specifically, what and how they respond is dependent on their interpretation of the presenting situation. This reasoning suggests that managers respond by applying general rules, which have proven reliable, and that enable them to formulate simplified response sets (Jarzabkowski, 2008; March & Simon, 1958; Ranson, Hinings, & Greenwood, 1980).

Top management teams in family businesses are, or will be as the business morphs across generations, hybrids of family and non-family members. Additionally, how strategic decisions are made, and by whom, can be complicated due to family owners who are not involved in the management of the business. As such, the upper echelons in a family business are more appropriately framed as dominant coalitions. But, it is important to reinforce that the upper echelons perspective centers on cognitions, values and perceptions, which highlights that dominant coalitions rely on schematic frameworks (aka, schemas) to make strategic choices (Carpenter, Geletkancyz, & Sanders, 2004).

2.2. Schematic frameworks

Organizations, for a variety of reasons, respond differently to changes in the business environment. A major reason for this relates to the way an issue is interpreted (Dutton & Duncan, 1987). Weick (1979) earlier suggested that the (organizational) environment is not an 'objective' thing to be known but rather the product of interpretation and action (Barr & Huff, 1997). Others (e.g., Bartunek, 1984; Meyer, 1982; Milliken, 1990; Scheid-Cook, 1992) concur that the variability in the content or certainty of a strategic response can be attributed to variations in interpretation about the environment. Schemas that individuals have already formulated help individuals make sense of and act within their environments (Fiske & Taylor, 1991; Neisser, 1967; Walsh, 1995), whereas a schema is defined as "a set of interrelated, largely unquestioned assumptions that highlights certain characteristics of new stimuli and establishes the grounds for categorizing them as similar to or different from those encountered before" (Barr & Huff, 1997, p. 339).

Individuals pay greater attention to occurrences that support their existing assumptions (Hedberg, Nystrom, & Starbuck, 1976) and then act to confirm these beliefs (Kiessler & Sproull, 1982). As well, stimuli that cannot be placed within existing frameworks may generate new schema, but this process is time consuming and uncertain, which led Starbuck and Milliken (1988) to note that "the belief systems held by managers regarding what is important in the (organizational) environment are more likely to push information that might indicate the need for new schemata to the background of attention where they are unlikely to be acted upon" (in Barr & Huff, 1997, p. 339).

The influence of schemas in managerial decision-making, therefore, underlies the arguments presented in this research. As schemas can both facilitate and limit attention to, and encoding of, salient information about the influence of family and how family culture is leveraged as a distinctive resource, the manner in which family-linked resource endowments are interpreted will be influenced by the collective mental models of the family (Ensley & Pearson, 2005).

2.3. Family influence

In family businesses, it is the influence of the family that contributes to making a family business different from a business with no family ownership or involvement (Astrachan et al., 2010; Kellermanns et al., 2012). Importantly, family transmitted tacit knowledge is acknowledged as a potential