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Cooperation between family businesses of different size: A case study

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ABSTRACT

For family businesses, entering into inter-firm cooperation with another family business can be a fruitful strategy for sustaining business success and ensuring survival. However, the typical characteristics of family businesses (e.g. informal organisation structures, restrictive information policy) imply a lower propensity to combine resources on an inter-firm level—which becomes even more prevalent when the relationship is asymmetrical. Against the background that, however, not only research focusing on the cooperation tendencies of family businesses is underdeveloped, but also studies on asymmetrical inter-firm relationships are scant, we aim at examining business-related prerequisites for cooperation between family businesses of different size. By employing a qualitative research design, we gain insights into the importance of similarities in terms of a shared history and synergies in terms of mission and values (i.e., familiness) for balancing deficits in power, from the perspective of the smaller partner. Furthermore, we demonstrate that the development of trust between the cooperation partners, through the active demonstration of a track record as a reliable business partner, as well as making good on promises made, can also aid the long-term success of the cooperation in spite of differences in size and scale of the family businesses involved.

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1. Introduction

The topic 'inter-firm cooperation' is becoming increasingly important: volatile markets, as well as the possibilities induced by new technologies, require strategies that ensure sustainable competitiveness. As the only enduring advantage stems from the ability to generate a continuous flow of new advantages (Harvey, Novicevic, & Kiessling, 2001), flexibility in terms of being able to quickly adapt to changes (Uhlaner, Kellermanns, Eddleston, & Hoy, 2012; Volberda, 1996) is of particular importance. One strategy for developing these flexible adaptations is to enter into inter-firm cooperation (D'Aveni, 1995).

Especially for family businesses, entering into inter-firm cooperation can be a fruitful strategy for sustaining business success and ensuring survival (Sirmon & Hitt, 2003). In this regard, inter-firm cooperation can be seen as a specific type of organisational arrangement between two, legally independent businesses that adjust their behaviour to a joint course of action, in a specific area of their business activities, with the aim of realising joint benefits in the long run (Combs & Ketchen, 1999; Das & Teng, 1998; Hatak, Fink, & Frank, 2014; Lado, Dant, & Teleab, 2008). Such long-term collaborations can contribute to learning (Leidtke, 2001), which is an important ability for adapting to changes in a firm's environment and for developing and launching innovations (Sautet, 2000; Sirmon & Hitt, 2003). Given that engaging in the creation of innovations represents a necessary condition for family business continuity (Kellermanns, Eddleston, Sarathy, & Murphy, 2012), such collaborative learning in an inter-firm context is therefore critical in highly dynamic landscapes (Niemelä, 2004). In particular, for family businesses with their long-term orientation, which is an important asset within inter-firm cooperation (Roessl, 2005), the entering into cooperation with another family business may be particularly useful for gaining access to and learning new resource configuration skills (Sirmon & Hitt, 2003). In this regard, we consider a business a family business to the extent that its ownership and management are concentrated within a family unit and to the extent its members strive to achieve and/or maintain intra-organisational family-based relatedness (Chirico, Ireland, & Sirmon, 2011).

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However, these typical characteristics of family businesses, often resulting in informal organisation structures and a restrictive information policy (see for example Gallo, 1995; Westhead & Cowling, 1998), imply a lower propensity to combine contextual information, framed experiences, values and expert insights, which are embedded in or hoarded by the main entrepreneur in the majority of cases (Cabrera-Suárez, De Saá-Pérez, & García-Almeida, 2001; Hatak & Roessl, 2013), as well as other resources on an inter-firm level (Roessl, 2005). Against the background that, however, "specific research focusing on the cooperation tendencies of family businesses has not yet been conducted" (Roessl, 2005, p. 213), we aim at drawing an empirical picture to Roessl's (2005) theses regarding business-related prerequisites for cooperation between family businesses of different size. Specifically, despite its theoretical and empirical relevance (see e.g. Pittino & Visintin, 2011), the topic of inter-firm cooperation between family businesses has received little attention so far, although recent research suggests a growing interest in the topic (e.g., Memili, Chrisman, Chua, Chang, & Kellermanns, 2011). This gap in the literature is rather surprising because the distinctive traits of family businesses, particularly in terms of owners' goals and organisational governance, are likely to have a relevant influence on cooperation attitude and behaviour (e.g., Roessl, 2005). As proposed by Roessl (2005) and also Lester and Cannella (2006), family-based inter-firm cooperation emphasizes certain features, such as shared values, trust, and mutual support, that may be shaped differently in non-family business cooperation. It is therefore reasonable to assume that the impact of family businesses' features on cooperation is likely to be even more pronounced in asymmetrical relationships between family businesses of different size, where the mesh between ownership, governance and management is even more complex and the strategic and operative leadership of the respective families have a more direct impact on the firm behaviour than in non-family businesses characterized by bureaucratic norms and formalized agreements.

In adopting this perspective as our analytical framework, we first identify the imbalances and the resulting asymmetrical dependencies in exchange structures between different-sized cooperation partners based on the resource- and the power-dependence approach. Secondly, we explore business-related prerequisites for cooperative relationships between family businesses. By employing a qualitative research design, we bring the previous parts together, thus examining the business-related prerequisites for cooperation between family businesses of different size. Over several rounds, we interviewed both the owner of a small family business (whisky distillery) and the owner of a medium-sized family business (brewery) maintaining a long-term cooperation between their businesses. Content analysis (Mayring, 2000) enabled us to gain in-depth insights into the functionality of the cooperation and the conducive business-related factors regarding the development of cooperation between family businesses of different size.

Our study contributes not only to the underdeveloped body of family business research surrounding inter-firm cooperation, but especially points to the unique challenges of asymmetrical partnerships between family businesses. Content analysis of the interviews quickly reveals imbalances in power in favour of the larger partner. This leads to interesting insights into the importance of similarities in terms of a shared history (in this case in terms of regionality and a sense of responsibility to the local community) and synergies in terms of mission and values (i.e., familiness) in balancing these deficits in power, from the perspective of the smaller partner. Furthermore, we also demonstrate that the building of trust capital between the two businesses, through the active demonstration of a track record as a reliable business partner, as well as making good on promises made, can also aid the long term success of the cooperation in spite of differences in size and scale of the family businesses involved.

2. Theoretical background

2.1. Cooperation between businesses of different size

In general, the advantages of cooperative relationships arise from the functioning coordination of the partners' behaviour within the area of the cooperation. Only if each partner in a cooperative arrangement forgoes short-term opportunism and short-term advantages in favor of common long-term objectives (Das & Rahman, 2010; Wathne & Heide, 2000), the cooperative relationship can lead to competitive advantages for each cooperation partner (Fink & Kessler, 2010). Hence, cooperators and the cooperation's success are dependent on the uncertain behaviour of their cooperation partners (Hatak et al., 2014; Madhok, 1995). This uncertainty concerning the partner's behaviour makes it possible for the latter to act on his or her own behalf and to pursue short-term interests (instead of common long-term interests).

In our analysis of mutual dependencies, we revert to the resource-dependence approach (Pfeffer & Salancik, 1978), which focuses on evaluating the resources derived from a cooperation arrangement, to identify the imbalances and the resulting asymmetrical dependencies in exchange relationships between different-sized cooperation partners. Based on the power-dependence approach (put forth by Emerson, 1962), asymmetrical dependencies lead to inversely asymmetrical power positions (Roessl, Fink, & Kraus, 2010).

Asymmetrical dependencies are found when each partner perceives a different balance of incentives received and contributions to be made. The partner with the higher perceived net incentive will have stronger interest in the cooperation; this partner is more dependent and thus the less powerful one (Cook & Emerson, 1978). However, the more dependent partner profits to a larger extent from the cooperative relationship, thus indicating that dependency is not a problem in and of itself. Rather, the problem lies in balancing differences in power, as the more powerful partner can change the structure of the cooperation unilaterally in his or her own favor without endangering the cooperation arrangement (Cook & Emerson, 1978; Roessl et al., 2010).

Essentially, the level of dependencies and the associated differences in power within cooperation is subject to the resource structure of the cooperation partners. To be precise, differences in business size between the cooperation partners can lead to asymmetrical exchange structures (Dant & Schul, 1992). With regard to dyadic cooperative relations, the larger business is normally less dependent on the smaller partner due to its bigger action radius, or as Hancké (1998, p. 239) puts it, "The products that they [the small businesses] supply could, in principle, be found on a market without tremendous loss for the buyer". Whereas the smaller business is confronted with constraints regarding e.g., the access to alternative resources and the construction of capacities for self-provision, can the larger partner – even if the smaller business is the single source of supply – create resources on its own, if only acquiring the smaller partner (Roessl et al., 2010). Accordingly, one problem lies in the fact that the leeway for opportunism on the part of the larger business can make the smaller business the less powerful cooperation partner, thus making cooperation with a larger partner risky for the smaller business. However, given that small businesses – aside from cost-related and financial barriers – often lack the time to install their own production capacities or global distribution systems, etc., their resource dependency often forces them into asymmetrical exchange relationships (Combs & Ketchen, 1999).

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