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Entrepreneurial paths to family firm performance

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ABSTRACT

This article draws upon a new framework, proposing that family firm financial performance does not depend on single distinctive antecedents, but rather on the combination (configurations) of multiple entrepreneurial, governance- and family-related factors (innovativeness, proactiveness, risk-taking, transfer intentions and family involvement). Drawing on a sample of 149 family firms, this study employs a fuzzy-set qualitative comparative analysis (fsQCA) to investigate these configurations as antecedents of firm performance. Its findings show four common configurations which strongly relate to above-average performance. In seven qualitative follow-up interviews, the study discusses these four configurations and three additional contrarian cases that also lead to positive performance.

1. Introduction

Research is increasingly interested in explaining family firm performance (Xi, Kraus, Kellermanns, & Filser, 2015) with a particular focus on entrepreneurial behavior and attitudes (Chirico & Nordqvist, 2010) as the main antecedents of family firm performance. Because "family dynamics affect entrepreneurial processes" (Aldrich & Cliff, 2003, p. 574), investigating the connections between family firm and entrepreneurship research is of the utmost importance (Salvato, 2004). Prior literature also shows that entrepreneurial behavior helps explain variations in family firm performance, suggesting their dependence upon complex family dynamics (Kallmuenzer, 2016; Nordqvist, Habbershon, & Melin, 2008; Zellweger & Sieger, 2012).

This article attempts to explore the interplay among entrepreneurial behavior and family firm dynamics, aiming to identify the multiple possible configurations of entrepreneurial (innovativeness, proactiveness, risk-taking), governance (transfer intentions), and family-related factors (family involvement) leading to above-average firm performance. A sample of 149 Austrian family firms employs the novel method fuzzy-set qualitative comparative analysis (fsQCA) to offer counterintuitive insights into these respective configurations as antecedents of family firm performance (Kraus, Ribeiro-Soriano, & Schüssler, 2017). A subsequent qualitative verification of seven follow-up interviews (Woodside, 2014) provides further insights into the identified configurations and additional uncommon constellations (remainders). Findings show that four main configurations of entrepreneurial behavior and family firm dynamics lead to above-average results. The additional investigated remainders lead to above-average firm performance when the succession process is planned in spite of unclear transfer intentions (remainder cases 1 and 3), or when the firm is taking an appropriate amount of risk when facing hostile environments (remainder cases 2 and 3).

2. Literature review/theoretical part

2.1. The significance of family firm entrepreneurship

Families own or manage about two-thirds of all enterprises worldwide (Short, Payne, Brigham, Lumpkin, & Broberg, 2009); they dominate most economies around the world (Chrisman, Kellermanns, Chan, & Liano, 2010). Family firms are typically firms where ownership and management operate within one or more families (Chua, Chrisman, & Sharma, 1999), and frequently for several generations. The major challenge is often to keep the entrepreneurial spirit alive across generations (Cruz & Nordqvist, 2012). Despite the fact that each generation attempts to be competitive and innovative by adapting their entrepreneurial behavior (Kellermanns & Eddleston, 2006), family firms face specific entrepreneurial challenges (Zahra, Hayton, & Salvato, 2004). Naldi, Nordqvist, Sjöberg, and Wiklund (2007). This suggests that family firms display specific entrepreneurial behavior and are robust sources of entrepreneurial activity.

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2.2. Entrepreneurial orientation in family firms

Research sees entrepreneurial behavior as a decisive antecedent of firms' strategic renewal, growth, and performance (Miller & Le Breton-Miller, 2011; Semrau, Ambos, & Kraus, 2016). Entrepreneurial behavior is also present in family firms, and family dynamics influence this behavior (Nordqvist et al., 2008). Due to the growing interest in family firms' entrepreneurial behavior, the concept of entrepreneurial orientation (EO) (Miller, 1983) and its dimensions (innovativeness, proactiveness, and risk-taking) have become increasingly relevant in family business research (e.g., Naldi et al., 2007). Family dynamics such as passing on the business to the next generation or maintaining family control over the firm affect the entrepreneurial behavior of family owner-managers (Berrone, Cruz, & Gómez-Mejía, 2012; Habbershon, Williams, & MacMillan, 2003).

Innovativeness refers to a firm's will to act creatively and progressively toward new product development (Covin, Eggers, Kraus, Cheng, & Chang, 2016; Filser, De Massis, Gast, Kraus, & Niemand, 2017). Bergfeld and Weber (2011) observe that family involvement enhances the innovative behavior of family firms. Proactiveness is the opportunity-seeking attitude that introduces new products and services in the market before competitors do (Knight, 1997). Within family firms, proactiveness often occurs in "carefully selected proactive moves" (Zellweger & Sieger, 2012, p. 78). Risk-taking means acting courageously in uncertain business activities with uncertain outcomes, returns or costs (Hughes & Morgan, 2007). This behavior is less prevalent in family firms, where keeping family control over generations is often more important (Craig, Pohjola, Kraus, & Jensen, 2014).

2.3. Governance in family firms

Family firm research extends Jensen and Meckling's (1976) conclusion that the alignment of ownership and management avoids agency problems. Indeed, other agency problems arise from the altruistic and relational preferences of family members (Mustakallio, Autio, & Zahra, 2002) originating from self-control issues (Sieger, Zellweger, & Aquino, 2013) such as keeping family control in the firm and preferring certain family members when selecting successors. This behavior can lead to moral hazards and adverse selection problems resulting from information asymmetries between family members and the abuse of strong family relationships (Mitter, Duller, Feldbauer-Durstmüller, & Kraus, 2014; Schulze, Lubatkin, Dino, & Buchholtz, 2001) which negatively affect family firms' performance. This is why family firms aim to reduce agency behavior by aligning individual preferences with family firm goals (Fama & Jensen, 1983; Jensen & Meckling, 1976); socio-emotional wealth (Gómez-Mejía, Haynes, Núñez-Nickel, Jacobson, & Moyano-Fuentes, 2007) and stewardship behavior (Davis, Schoorman, & Donaldson, 1997) are driving forces behind this. One way to reduce agency behavior is to express clear transfer intentions (Schulze et al., 2001). After all, uncertainty regarding succession increases agency threats. Finally, governance and agency behavior also depend on the presence of (external) non-family managers (Anderson & Reeb, 2003; Jaskiewicz & Klein, 2007). In this case, despite the benefits externals bring to the firm (e.g., additional knowledge), agency problems can still come into play, depending on the degree of separation between ownership, control, and the diverging individual preferences that result.

Summing up, although previous research clearly shows that family firm performance (Anderson & Reeb, 2003; Nordqvist et al., 2008) depends on multiple (but individually analyzed) entrepreneurial, governance, and family-related factors, there to date is a lack of understanding of the relationship among these factors. Do different configurations of these factors impact family firm performance, and if so, to what extent? This study aims to answer the question of what prevalent factor configurations in family firms lead to high financial performance. We specifically propose that different configurations of entrepreneurial (innovativeness, proactiveness, risk-taking), governance-related (transfer intentions), and family-related (family involvement) factors lead to above-average family firm financial performance.

3. Methodology/empirical analysis

This study applies a set-theoretic approach employing fsQCA, an analytical set-membership technique from complexity theory (Ragin, 2008; Woodside, 2014). It stands in contrast to correlation-based methods. The method has recently gained attention in management (Fiss, 2011), innovation (Ordanini, Parasuraman, & Rubera, 2014), and marketing (Grohs, Raies, Koll, & Mühlbacher, 2016). Its use in family firm research is scarce, with only two studies applying this method to date: Garcia-Castro and Casasola (2011), who analyze the relationship of components of family involvement; and Kraus, Mensching, Calabrò, Cheng, and Filser (2016), who investigate success paths to family firm internationalization.

Whereas most traditional methods presume that causal conditions are independent variables, modeled in a linear and additive manner (e.g. main-effects with two-way interaction models, etc.), QCA logically represents and analyzes causal conditions, with its cases serving as configurations of conditions. This approach allows an examination of "how" variable combinations explain an outcome, and even account for more than one combination of conditions (i.e. alternative mechanisms) that lead to high outcome variable values (Woodside, 2013). This is why we refer to a configuration as one alternate explanation path among many; this is a logical statement placing only essential variables within a relationship. This study employs QCA to describe and explain high scores in financial performance by identifying typical configurations or profiles of family firms. It also identifies contrarian cases that counter the generalized causal relationship (Woodside, 2014). We propose that multiple paths are observable and have to be taken into account.

3.1. Measures and reporting

As recommended by QCA literature (Woodside, 2014), our data result from a survey conducted in Austria in 2014 in a first step, with follow-up interviews providing deeper insights into the identified configurations in a second step. For the survey, we invited 1000 family firms of all sizes, industries and ages to participate. The Austrian Chamber of Commerce database helped identify and locate them, and introductory defining questions helped make sure that these firms met common definitions of family firms. These questions included the alignment of ownership and management in the same families, a majority of shares held by the families, and at least two family members being active in the firm (Miller, Le Breton-Miller, & Scholnick, 2007; Westhead & Cowling, 1998). This approach yielded 149 valid responses, equaling a response rate of 14.9%.

Six items measured the dependent variable "financial performance", evaluating financial indicators in the past three years (e.g., return on sales, net profit) on a 7-point Likert scale (Lumpkin & Dess, 2001). 7-point Likert scales of three items for each dimension (Lumpkin & Dess, 2001) also measured the EO's dimensions of: innovativeness (example item: "In general, the top managers of my firm favor a strong emphasis on R and D, technological leadership, and innovations"), proactiveness (example item: "In dealing with competitors, my firm typically initiates actions which competitors then respond to"), and risk-taking (example item: "In general, the top managers of my firm have a strong proclivity for high-risk projects (with chances of very high returns)"). The question on clear transfer intentions as the dichotomous variable (variable "Clear Transfer Intentions") came from Schulze et al. (2001). Another dichotomous variable accounted for was the presence of non-family members in the management team (variable "FamOnly") (Jaskiewicz & Klein, 2007).

We evaluated convergent validity of all scales of the analysis by