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Strategic Determinants of Family Firm Performance: A Proposed Research Framework

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ABSTRACT

Studies on family firm have increased rapidly in recent years, as a result of importance of family businesses increased for the global economy. However, still little research is looking at the strategic management of family firms. In particular comprehensively, the strategic alignment with external environment, structure and family involvement influence on firm performance has been largely neglected thus far. The dynamic environment through the world economic crisis proposed the need for more concentration on the strategic alignment between a firm's contingencies, organizational characteristics, results in supreme performance. However, it is has extremely argued that family firms differ in expressions of their strategic orientation, at most as a result of the family influence on the firm compared to non-family. This proposed study addresses the question how strategic orientation contributes to developing performance in family firms and what role can external environment and family influence play. Depending on the distinguished typology proposed to strategy, we considering strategic perspectives of family and environment influence on the firm. Building on a sample of 380 Palestinian family firms, we hypothesized that that strategy aligned with organizational structure, moderated by family and environment influence play an important role for the achievement of top most performance.

Keywords: Strategic perspective, Organizational structure, External environment, Family influence, Family firm performance.

1. Introduction

Family firms have the majority of businesses in most countries (Donckels & Fröhlich, 1991; Miguel Angel Gallo, 2004) and it is considered as a unique and different because of the mutual impact of the family and the firm (Zahra & Sharma, 2004). Therefore, researchers have begun to identify the importance of family firm studies. The beginning attention of family firm research is to recognize and explain differences in the behavior of family firms (Chrisman, Sharma, & Taggar, 2007; Debicki, Matherne, Kellermanns, & Chrisman, 2009; Mazzola, Sciascia, & Kellermanns, 2013) and the way in which these variations influence firm performance (Mazzola et al., 2013).

In last years, a growing number of researches from various disciplines, such as entrepreneurship, internal and external organization studies, finance, social, and economics, has contributed to this manner (A. E. James, Jennings, & Breitkreuz, 2012; McGuire, Dow, & Ibrahim, 2012; Sardeshmukh & Corbett, 2011). However, despite considerable calls by scholars (Chrisman, Chua, & Sharma, 2003, 2005) to some extent limited topics regarding strategic management in family firms is available currently (Lindow, Stubner, & Wulf, 2010). This is surprising because strategic alignment between the family, business characteristics and contingency situations in strategic management is considered to be an important performance driver by strategy researchers (Balkin & Gomez-Mejia, 1987; Sharma, Chrisman, & Chua, 1997).

The conception of strategic co-alignment or fit argues that an alignment between firms' contingencies like strategy, and environment and firm characteristics such as organizational structure results in a positive performance impact (Bergeron, Raymond, & Rivard, 2004; Rumelt, 1982; Nenkat Venkatraman, 1989); consequently, family firms must strive to achieve such an alignment. However, mainstream theories like the concept of strategic alignment were initially proposed for non-family firms (Astrachan, 2010; Marchisio, Mazzola, Sciascia, Miles, & Astrachan, 2010). Despite of some studies , it is still unclear whether this concept is also relevant for family firms (Lindow et al., 2010).

Many factors could be responsible for explaining differences concerning the role of strategic alignment in family firms. First, family firms have been found to be distinctive because of the family's influence on the business(Sharma et al., 1997) and family involvement varies among different family firms, from industry to industry and from environment to another (Dill, 1958; Miguel Angel Gallo & Sveen, 1991; Maury, 2006). Previous research proposed that family firms, because of family influence, differ in terms of their strategic behavior. For example they tend to use a more centralized structure to implement strategy (Yin & Zajac, 2004).

Overall, such differences may potentially lead to varied findings with respect to the alignment of strategy, environment and structure for different family firms. Second, research has proposed that factors arising on account of family and environment influence may be responsible for performance advantages in family firms. (Habbershon, 2006) indicated that strange resources and competencies of family and business indirect relationship contribute to the performance advantages of family firms. Alternatively, others identified family business governance as a factor influencing family firm performance (Mustakallio, Autio, & Zahra, 2002). However, previous meta-analysis also found significant variability in the correlations between consensus and performance across studies, even after attempts to analyze out the effects of several contextual variables (Walter, Kellermanns, Floyd, Veiga, & Matherne, 2013).

Our study addresses this confusion. The overall objective of our study is to explain whether or not strategic alignment contributes to superior performance in family firms and what role external environment family involvement play. As such, our paper contributes to studies on family firms in three important ways. First, we introduce the idea of strategic alignment to family firm research and use contingency theory in order to support our arguments. In researching the business strategies, external environment and structures of family firms, we contribute to the development of a strategic management theory of family firms. Second, by considering that family firms are heterogeneous, this paper consorts to the research that identify differences among different kinds of family firms (Chrisman, Chua, Pearson, & Barnett, 2012). Specifically, we identify the degree of family involvement and external environment on strategy, organizational structure and firm performance relation; therefore, we pursue a rather neglected but promising line of research (Astrachan, 2010). Third, since we consider measures performance in both financial and perceived terms, it is consistent with the recent lines of argumentation in family firm literature (Wright & Kellermanns, 2011); which press that perceived measures capture family firm performance more accurately as compared to financial measures.

In the following two sections, we review the traditional concept of alignment and contrast the context of family firms. Subsequently, we integrate comprehensively family involvement and external environment into the traditional fit model and develop hypotheses for respective relationships. Following this, we describe the method employed for empirically testing our hypotheses.

2. Theoretical Background and Hypotheses Development

2.1. Strategic Alignment

The strategic alignment idea is one of the most influential paradigms in strategic management research (Avison, Jones, Powell, & Wilson, 2004; Natarajan Venkatraman & Camillus, 1984) described it as a sustainable competitive advantage skill and shows supernormal profit (Powell, 1992). In the dynamic co- evolutionary situation, if the organization align their strategies with the demand of environment, their performance is likely to be optimized (Tan & Tan, 2005). It is main part of knowledge management strategies, and important to identify where firm capabilities do not match is intended to require strategy (Earl, 2001).

On the basis of contingency theory, the idea of alignment asserts that a conditional association of two or more independent variables affects a dependent outcome (Van de Ven, Ganco, & Hinings, 2013). In specific, it argues that organization can enhance its performance by pursuing an alignment between strategy, environment and organizational structure or other firm characteristics (Nenkat Venkatraman & Prescott, 1990). Fundamental to this argument is a study by Chandler in 1962, who proposed this impact of a strategic alignment on organizational performance and received widespread empirical support (Blau & Scott, 1972). Using this research as a foundation, the concept of ensuring internal alignment between strategy and organizational structure at first then of new contingent of environment became a primary contingency for firm performance (Zhou, 2011).

Almost all existent literatures, however, only focus on the corporate performance comparison between family firms and non-family firms in normal. In bad days, demand cuts from customers and credit constraints (especially for those firms which largely rely on debt financing) from financial institutions may amplify intrinsic organizational fragility, which will be reflected in corporate performance (Kachaner, Stalk, & Bloch, 2012). Therefore, a superior organization, despite its performance premium during good days, is more likely to build a contingent and stabled profile relative to an inferior organization in bad days (Smith, 2011).

Next the structural contingency path, several scholars developed totalitarian effective ideal types of organizations (Dalton, Todor, Spendolini, Fielding, & Porter, 1980; Porter, 1980). In specific, the literature sincere great attention to typologies of competitive strategies (Pertusa-Ortega, Molina-Azorín, & Claver-Cortés, 2010). Among them, the fit-typology proposed by Miles and Snow (1978) became one of the most prominent (James & Hatten, 1995; Miller, 1996; Zahra & Pearce, 1990).

Essentially, Miles and Snow (1978) identified three ideal strategic types: the defender, the analyzer, and the prospector (Miles, Snow, Meyer, & Coleman, 1978). The defender and prospector strategic types take the opposite ends of a continuum chain of strategies (Miles & Snow, 1978). According to Miles & Snow typology, the effectiveness of any firm depends on how closely it resorts any one of the ideal strategic types (Fontana & Zubaedah, 2012). Strategies are proposed to be equally highly effective and alternative each other in the firms' environment (Li, Advisors, Ramanujam, & Hisrich, 2001).

The defender strategy is one of the radical strategic types operate in a stable and narrow product-market domain (Sabherwal & Chan, 2001). Because of the limited number of products, this strategy type dedicates primary attention to improve efficiency. There are limited needs for variation in processes within the on a single product or niche. At the same time, this kind of strategic type prefers a highly centralized organizational structure in order to be effective (Miles et al., 1978). The strategy of prospector, which is the other farthest strategic type, was defined as an organization that constantly efforts to specify new market opportunities and regularly tests with potential responses to emergent environmental trends. This strategy has high commitment for product and market innovation as well as a high demand for information processing, it also requests a highly de-centralized or organic organizational structure in order to keep on adaptations and reacting. The analyzer strategy type is a cross breed of defender and prospector strategies types. It focuses on relatively stable environment as well as dynamic product-market domains. In exercising in such a highly uncertain environment, this strategic type requires an intermediate centralized or mechanic organizational structure that allows the needful degree of flexibility (Miles & Snow, 1978).

The main idea of this typology is the alignment between firm characteristics and contingencies is important to achieve superior performance in the business firms. This consideration was picked in the previous family firm research, and it is highlighted in strategic management researches (Debicki et al., 2009). More attention drawn to the fact that family firms are different in the manner of strategy formulation and implementation (Chrisman, Steier, & Chua, 2008). Other scholars, like Sharma et al. (1997), have been concerned about the implementation of strategy and if it is related family firm performance when they asked about the best family organizational structure, system, and process, and whether these differ according to the situation.

2.2. Family Firm Performance

The argument of the important of strategy in firm performance is part of the basics of strategic management, regards to the presented heterogeneity of family firms, the strategic management domain was successfully used the concept of alignment to explain performance differences among organizations (Van de Ven & Drazin, 1984). Regard to the indirect performance effects which was neglected for a while, strategic management in the family firms occur in the connection of family and business system (Gudmundson, Hartman, & Tower, 1999). As a result, family drives possible affect strategic options and procedures in a way that is different among various family firms (Reid, Dunn, Cromie, & Adams, 1999).

Numerous studies have investigated the family influence impacts on firm performance (Astrachan & Jaskiewicz, 2008; Klein, Astrachan, & Smyrnios, 2005). The studies have used different theoretical approaches, the most used was the agency theory (Jensen & Meckling, 1976), stewardship theory (Davis, Schoorman, & Donaldson, 1997) and the resource-based view (Peteraf, 1993; Wernerfelt, 1984). Every one of these perspectives emphasized certain key reasons why family influence is important in the determinants of family firm performance. They used different predictors include family ownership (Anderson & Reeb, 2003; Yammeesri & Lodh, 2004). Some recent studies have distinguished family resources in relations to firm performance (Chrisman, Chua, & Kellermanns, 2009; Rutherford, Kuratko, & Holt, 2008), family leadership and firm performance (Sorenson, 2000), entrepreneurship orientation

(Lumpkin & Dess, 1996; Wiklund & Shepherd, 2003) or family identity (Van Knippenberg, 2000). Almost all studied results are lacking consistency (Westhead & Howorth, 2006), and divided between degrees of performance (Lee, 2006), contradictions (Dyer, 2006), mixed (Martínez, Stöhr, & Quiroga, 2007), they indicate positive, negative and no associations. Most of these studies were done in done in stable economic situation; they neglect the dynamic external environment effects on firm performance (Zhou, 2011).

2.3. Strategic Perspective and Organizational Structure

According to Miles and Snow (1978), proposing strategic alignment for the defender strategic type needs a more centralized organizational structure, whereas in the prospector strategic type needs a more decentralized organizational structure. The strategy type of defender focuses on strict product-market domains and, as a result, seldom need to change major adjustments in their technology, structure, or methods of operations. Defenders assign main attention to improve the efficiency of their existing operations methods instead of searching for new opportunities outside of their field.

Because of their narrow fields, simple coordination methods, and often single technologies, defenders are assumed to need more centralized organizational structures to support their strategies and achieve strategic alignment (Miles & Snow, 1978). While prospector strategy, in general it continually searches for market opportunities in new environment. Holding such a high concern for product and market innovation, prospectors required frequent adjustments changes in their technology, structure, or method of operation. Because of their wide fields, compound coordination techniques, and multiple technologies, prospectors usually require more decentralized organizational structures to support their strategies and achieve strategic alignment (Miles & Snow, 1978).

H_1: Family Firms pursue a defender strategy alignment with organizational structure will achieve superior family firm performance.

H_2: Family firms pursue a prospector strategy alignment with organizational structure will achieve superior family firm performance.

Accordingly, firms should adapt their organizational structures to the pursued respective strategy in order to achieve strategic alignment (Donaldson, 1996). However, as presented before, family firms demonstrate to be positively disposed to adopting centralized organizational structures for either strategic type pursued. However, some recent empirical opposed this point showing that family businesses are doing well in both positive and negative environment (Kachaner et al., 2012). Moreover, family influence may prevent or encourage such necessary structural adaptation processes. The general argument in this manner is that family firms peruse alignment between strategy and structure achieves positive family firm performance.

We propose the following hypotheses:

H_3: Strategic perspective alignment with organizational structure is positively associated with family firm performance.

Furthermore, we propose additional moderating effect of family influence and external environment on family firm performance. In fact the contingent classical model has manipulated on the idea of the alignment between two or more variables to achieve superior performance, strategy and environment are included (Nenkat Venkatraman, 1989).

Recent findings support our central thesis that the alignment between strategic priorities and the external environment needs to be taken into account to more fully explain the influences of organizational performance (Walter et al., 2013). Our focal point on strategic alignment straightforward acknowledges the widely shared introduction of strategic management research that the fit or alignment of an organization’s strategy with its context is crucial to organizational performance (Andrews, 1971; Hofer & Schendel, 1978). This preface has its theoretical roots in the contingency perspective formulated in the original strategy paradigm of matching or aligning organizational resources with environmental opportunities and threats (Andrews, 1971; Chandler, 1962) and has since received substantial empirical support. Prior studies have conceptualized strategic alignment broadly as the fit between a firm’s external environment and its strategic orientation (Prescott, 1986; Venkatraman & Prescott, 1990), organizational structure (James & Jones, 1976) and processes (Paine & Anderson, 1977), the role of policy makers which is mainly a family influence in our study (Paine & Anderson, 1977) a combination of the above (Ravasi & Phillips, 2011).

Several researchers argued that the interaction of family involvement with strategic management that include the external environment create value (Astrachan, 2010; Sciascia, Mazzola, Astrachan & Pieper, 2013; Sharma, 2008). Family organization sometimes keeps unique corporate governance structures with family members taking on various roles within the firm. These interlock roles of family members have an important positive effects on the decision making efficiency in family organizations (Tagiuri & Davis, 1992). Furthermore, a stronger involvement of the family in the firm can help of close monitor the firm's actions by family members to improve strategic actions and implementations (Chua, Chrisman, & Steier, 2003; Steier, 2003). In this manner we propose the following hypotheses:

H_4: Family influence moderates the relationship between strategic perspective alignments with organizational structures to achieve superior performance.

Beside family influence we integrated external environment as a second moderator to explain the inconclusive results of previous family business performance results, While scholars such as (Aronoff & Ward, 1995) have argued that the family firm is a superior model for success, studies do not indicate unconditional superiority. Rather, the results are consistently described as lacking consensus, (Westhead & Howorth, 2006), mixed (Bennedsen, Nielsen, Pérez-González, & Wolfenzon, 2007), conflicting (Sciascia & Mazzola, 2008), and ambiguous and equivocal (Zellweger & Astrachan, 2008). Using the environment has long been considered one of the critical contingencies in strategic management (Child, 1972).

There are allot of environment conceptualization are mostly consistent with (Dess & Beard, 1984) three dimensions of munificence, complexity, and dynamism. These dimensions depend on two major used ways to conceptualize environments, one as a resource of resources, and the second is the source of information (Aldrich & Mindlin, 1978). In extract, dynamism and complexity reflect the uncertainty degree that faces the organization and munificence is a signal of a firm's dependence on the environment resources. Our research uses dynamism and hostility consistent with earlier research and theory building. Dynamism is related to the rate of unpredictable change in a firm's environment (Child, 1972; Tosi & Slocum, 1984). It also articulate uncertainty that reduce the managers ability to predict the future events and its impacts on the organization (Khandwalla, 1977) Dynamism is also referred to as uncertainty and is defined as the rate of change of innovation in the industry as well as the uncertainty or unpredictability of the actions of competitors and customers (Lawrence, Lorsch, & Garrison, 1967).

In environments of low levels of complexity and dynamism it is not be necessary for firms to make large fixed investments for sustaining low unit costs and hence the risks can be minimized (Marlin, Lamont, & Hoffman, 1994). In such environments organizations need not go for high levels of innovation and product enhancement because the main competitors do not normally make huge changes in their strategies (Kabadayi, Eyuboglu, & Thomas, 2007). Hostility is the indicative of the sacristy and intensity of competition for environmental resources (Zahra & Pearce, 1990). Hostility also shown as the degree of threat to the firm show by the intensity of competition and the downswings and upswings of the firm's principal industry (Khandwalla, 1977).

According to Beal (2000), firms employing integrated strategies by combining cost-leadership and differentiation in mature industries need to scan the external environment and analyze information regarding their own resources and capabilities. Previous studies have been inconclusive about the nature of impact of the external environment in the relationship between business strategy aligned with structure and performance and hence there is a gap in the literature. We formulated hypothesis in order to clarify this relationship.

H_5: Environmental dynamism moderate the relationship between strategic perspective aligned with organizational structure and firm performance.

H_5: Environmental hostility moderate the relationship between strategic perspective aligned with organizational structure and firm performance.

3. Methodology

3.1. Research Design and Sample

In order to test the proposed hypotheses, we will use the questionnaire to collect data from 380 Palestinian family businesses. The addresses list was provided by registered federation of Palestinian Chambers of Commerce, Industry and Agriculture (PCBS, 2013; Sabri, 2008). In Palestine, family firms represent more 90 percent of more than 131 thousand of businesses. More than 87 thousand are concentrated in the West Bank and 79 percent focus in the main cities. More than 35 percent have accounting and financial system, while more than 43 percent have strategies and accounting system (PCBS, 2011). We will distribute the questionnaire to key owner-managers in the organization and the top management of the family firm in the year 2014. To assure of reliability of the instrument we used a pilot study of 100 respondents of family business firms in Bethlehem Province.

3.2. Measurement

3.2.1. Family Influence

We proposed for family influence, the multidimensional F-PEC scale that was proposed by Astrachan, Klein, & Smyrnios (2002) and validated by Klein et al.(2005) as well as Holt Rutherford, and Kuratko (2010). Our questionnaire has assessed three dimensions of family influence; they are the power, the experience, and the culture. The power dimensions relates to the family business governance, it will be measured using three items of questions, asking respondents about the percentage of family members that share the ownership, then the percentage of family members share in management, and the share in the board of directors. The experience dimension is related to the successive generations share in ownership, governance, and management. It is measured using three items of the generation owning the company, the generation managing the company and the generation active in the company board of directors. The greatest experience was between the first and the second generation (Klein et al., 2005). According to Klein et al., (2005) the first generation was recorded as zero (0) no benefit of generational experience, the second generation will be 0.5, the third generation will be 0.75 and the fourth generation is 0.875 and so on. The culture dimension shows the family commitment, pride and loyalty of the company, and it is measured using thirteen items. This scale enables us to use the family influence as independent variable and to make comparisons of effect between the three family influence dimensions (Cliff & Jennings, 2005).

3.2.2. Strategy

Miles and Snow (1978) strategic typology will be adopted using self-typing approach and the nominal measure has been used as an indicator of strategic type for previous strategic management (James & Hatten, 1995) as well as in family firm researches (Daily & Dollinger, 1992; McCann III, Leon-Guerrero, & Haley Jr, 2001) and it has been validated by (James & Hatten, 1995). In this approach the questionnaire items requesting respondents to identify which of the four unlabeled paragraph strategies describe their present strategy (Hrebiniak & Snow, 1982). Using this approach enable us to determine whether or not the strategy has been stable over the last years or not.

3.2.3. Organizational Structure

Previous measurements of organizational structure that referred to the degree of centralization consistent were modified and adopted (Markides & Williamson, 1996). The respondents have been asked to estimate the degree to which the operative, the strategic, and financial decision making powers are done by high level managers; this part was modified instead of delegated to lower level managers. The construct was measured on the degree of centralization, using the five-point Likert scale measurements; Strongly Agree that show decisions were done by the high level managers, which means more centralization decisions, and to Strongly Disagree that the decisions were done by the high level managers which mean more decentralization decisions.

3.3.4. External Environment

We operationalized the external environment using the construct dynamism and hostility scale used by Miller (1987). We asked the respondents to value the changes in their organizations external environment in the last three years. The dynamism scale examined the range of change taken place in the areas of innovation, technology, and R & D. In the hostility scale we looked at the changes in market activities of the main competitors. We modified the 7 Likert scale to five point Likert scale in this manner consistent with (Achrol & Stern, 1988).

3.3.5. Firm Performance

We follow the recommendation of previous results in measuring the firm performance by using the financial and subjective measurements (Chrisman, Chua, & Litz, 2004). For financial measurements we used the five point Likert scale of return on equity, return on assets, profit after tax and interest rate and gross sales in the last 3 years for the period of 2012 and 2014. This measure is widely used for non- listed family firms (Zellweger & Nason, 2008) . In addition to the financial measure we used the subjective perceived measure.

Using this measure enables to cover the financial shortages that in most are available in small profit non-listed firms (Westhead & Howorth, 2006) . Furthermore, sometimes it is difficult to reach the financial performance in privately owned firms (Dess & Robinson, 1984). At the same time financial measures could fail to indicate the scope of short and long term objectives have been achieved (Geringer, 1991). In general, perceived performance have increasingly been employed in family business researches (Naldi, Nordqvist, Sjöberg, & Wiklund, 2007), and it is valid for objective performance measurements (Dess & Robinson, 1984). For objective performance we asked the respondents to value their firm financial performance compared to their main competitors and against their objectives (Olson, Slater, & Hult, 2005). The rating scale of five point Likert begins from 1 of significantly worse to 5 of significantly better.

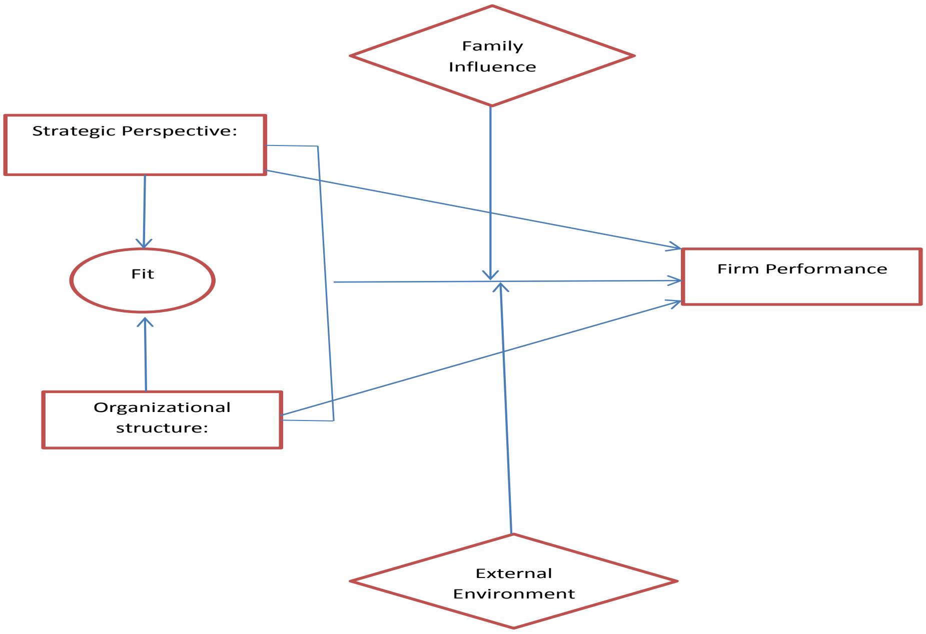
3.3.6. The Control Variable Measurement

In order to control the firm and industry effects we add firm age, firm size and industry membership measurements to the model. We measure the firm age using number of years, since the inception and firm size using the number of employees (Daily & Dollinger, 1992) . Both measurements of firm age and firm size are related to firm structure and believed to have influence firm performance (Miguel A Gallo & Vilaseca, 1996). At the same time we use the industry dummies in order to control the effect of industry on firm performance (Chrisman et al., 2009).

4. Proposed Research Framework

Building on the forgoing discussions and literature review, this paper proposes a conceptual framework as illustrated in Figure 1.

Figure-1.



The proposed conceptual framework shows the moderating effect of family influence and external environment on the relationship between strategic perspectives aligned with organizational structure and family firm performance. Based on Figure 1family influence and external environment moderated the relationship between the alignment of strategies and firm structure comprehensively will achieve superior firm performance (Miles & Snow, 1978). However, it is proposed that strategic perspective or organizational structures alone are insufficient to reach the superior performance. Hence, using these framework variables will be an effective manner in explaining the previous variances.

5. Conclusion

This paper has proposed the moderating role of family and external environment on the relationships between strategic perspectives, the organizational structure and family firm performance. Considering the indirect relationship in the family context, we integrated the family influence and external environment in the traditional alignment model of Donaldson (1987, p.3) and we will test it with strategy, organizational structure and the indirect comprehensive relationship between them and family firm performance. Implementing this framework is important to provide important insights of the family firm performance determinants in the way to propose family firm performance theory.

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