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Resilience of Family Firms: An Introduction

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Family firms have long been a prominent feature of the organizational landscape and researchers have found some variations of this organizational form to be more resilient than others. The articles and commentaries in this special issue address some of the bases of this resilience including arranged marriages as a management succession strategy, long-term orientation and multitemporal perspectives, knowledge structures and opportunity identification, and social capital and social exchange. This introduction to the eighth special issue on "theories of family enterprise" discusses the contributions made by the articles and commentaries to our understanding about the resilience of family firms.

Introduction

This is the eighth special issue in an ongoing series on "theories of family enterprise" published in *Entrepreneurship Theory and Practice*. The series is intended to provide a forum for studies that enhance theory and thereby increase knowledge about family firms. We have found that welcoming a diverse set of contributions is the most effective way to achieve this end. Following the format used in the past (e.g., Eddleston, Chrisman, Steier, & Chua, 2010; Steier, Chua, & Chrisman, 2009), this introduction adds value by providing an overarching perspective that links the articles and commentaries contained in the special issue. In this introduction, the theme of family firm resilience has been chosen for that purpose.

As in previous special issues, the articles and commentaries contained herein represent a portion of those previously presented at the Theories of Family Enterprise Conference. The conference was sponsored by the University of Alberta and Mississippi State University and held on May 26–28, 2010 in Edmonton, Alberta, Canada. The articles and commentaries were accepted for publication after a double-blind review process and deal with the following family business topics: (1) arranged marriage as a management succession strategy; (2) long-term orientation and multitemporal perspectives; (3) knowledge and opportunity identification; and (4) internal social capital and social exchange. While an admittedly diverse selection, a common theme of each article and commentary is the characteristics and behaviors of some family firms that increase resilience, which is simply the ability of organizations to avoid, absorb, respond to, and recover from situations that could threaten their existence (Lengnick-Hall & Beck, 2005).

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Resilience is important for any organization. For family firms, resilience seems especially critical because many family business owners intend to pass the ownership and management of the firm to the next generation of family members (Steier, 2005). However, the literature suggests that the odds are against them (Ward, 1997). The articles and commentaries included in this special issue all deal with characteristics and behaviors that could increase resilience. Therefore, the purpose of this introduction is to briefly discuss aspects of family firm resilience and the contributions of the works included in this special issue.

Aspects of Family Firm Resilience

According to the institutional isomorphism view of organizations (DiMaggio & Powell, 1983), pressures and constraints should have led to homogeneity among family and nonfamily firms. But family firms have existed for thousands of years and continue to dominate economies around the world (La Porta, Lopez-de-Silanes, & Shleifer, 1999). The longevity of the organizational form does not necessarily mean, however, that family firms are more resilient than nonfamily firms. For example, family firms may continue to exist in large numbers because family involvement provides temporary advantages in early stages of venture development (Chang, Chrisman, Chua, & Kellermanns, 2008) or because human beings just naturally prefer to organize economic activity around the family unit (Nicholson, 2008). Thus, even if family firms are not resilient or will eventually evolve to become indistinguishable from nonfamily firms as predicted by institutional isomorphism, there can be more of them at any point in time. However, research has shown that family firms can survive and thrive for very long periods of time (Bertrand & Schoar, 2006) and that some firms even become family firms later in their life cycle as part of a natural evolutionary progression (Chua, Chrisman, & Chang, 2004). Consequently, there appears to be strong reasons to believe that at least some family firms are resilient. Furthermore, evidence continues to accumulate that the characteristics and behaviors of family firms are different from those of nonfamily firms and that considerable variation persists among family firms across economic systems (Steier, 2009).

These characteristics present special challenges and opportunities to family firms. Studying how they respond to those challenges and opportunities is therefore instructive because it helps us understand the diversity and resilience of this organizational form. For example, family firms are often constrained by both the quality and the quantity of their human capital (Verbeke & Kano, 2010). A common solution is professionalization, but this may lead to other problems that are equally difficult to resolve unless the fundamental governance systems and behaviors of the family firm are also changed (Chua, Chrisman, & Bergiel, 2009). The article by Mehrotra, Morck, Shim, and Wiwattanakantang (2011) in this issue identifies a strategy for management succession that may be adopted by family firms to avoid that potential trade-off when allowed or even encouraged by the prevailing culture.

Likewise, family firms have been characterized as loss averse with respect to their socioemotional wealth (Gómez-Mejía, Haynes, Núñez-Nickel, & Monyano-Fuentes, 2007), which can be considered an indicator of the importance of the achievement of family-centered noneconomic goals. This loss aversion can, in some instances, lead to risk aversion (Gómez-Mejía, Makri, & Larraza-Kintana, 2010) and, in others, paradoxically promote risk taking that is so extreme that the survivability of the organization is reduced (Gómez-Mejía et al., 2007). The article by Lumpkin and Brigham (2011) and the commentary by Le Breton-Miller and Miller (2011) in this issue explain how the noneconomic and economic incentives of family firms can promote a long-term orientation and multitemporal perspective that could reconcile what many might consider incompatible motives.

The article by Patel and Fiet (2011) and the commentary by Sharma and Salvato (2011) in this issue further contribute to an understanding of family firm resilience by explaining how fundamental characteristics associated with some family firms (noneconomic goals, intentions for intrafamily succession, reciprocal altruism, and social capital) lead to governance systems that create advantages in the processes associated with the search, identification, and exploitation of opportunities. Stated differently, loss aversion may attenuate the size of the investments made in innovative activities by family firms but may not be indicative of the efficiency and effectiveness of the investments they do make over time.

Finally, although family firms may be vulnerable to disruptions owing to limitations in their ability to access human and financial capital, they appear to have unique advantages in the development and utilization of social capital (Gedajlovic & Carney, 2010; Pearson, Carr, & Shaw, 2008; Sirmon & Hitt, 2003). Unfortunately, we still have only an incomplete understanding of social capital in family firms owing to a paucity of measures and limited attention to the nuances of how social capital is formed (for an exception, see Arregle, Hitt, Sirmon, & Very, 2007). The article by Carr, Cole, Ring, and Blettner (2011) in this issue addresses the first problem by introducing a new, validated measure of internal social capital that pertains specifically to family firms. The commentary by Long (2011), also in this issue, addresses the second problem by reminding us that social exchange theory is uniquely suited to investigate how social capital emerges, one dyadic interaction at a time, in family firms.

In summary, among other factors, the resilience of family firms appears to be a function of how they respond to the need to infuse managerial talent in the firm without losing control, to the need to balance economic and noneconomic goals over varying time frames, to the need to use their unique governance systems to innovate, and to the need to extract maximum value from the social capital that exists among family members. The articles and commentaries in this special issue deal with these important factors, and it is to a discussion of their contributions that we now turn.

Arranged Marriages and Transgenerational Succession

Mehrotra et al. (2011) argue that intrafamily succession creates a problem for family firms because heirs are usually not as capable or driven as founders and are unlikely to have talent that is superior to what is available in the market for managerial labor, which includes a much larger pool of potential candidates. The authors note that the literature provides evidence that among large firms in the developed world, founder-controlled firms are superior performers and firms controlled by later-generation family members are inferior performers in comparison with firms run by professional managers (e.g., Miller, Le Breton-Miller, Lester, & Cannella, 2007). However, they also observe that family firms are the dominant organizational form in less developed economies (La Porta et al., 1999) and indeed perform better in those environments (Khanna & Palepu, 2000). Although not rejecting the argument that family firms are better able to compete in countries where property rights protection is weak (e.g., Burkart, Panunzi, & Shleifer, 2003), Mehrotra et al. present preliminary evidence of a complementary explanation that may also assist in understanding the performance discrepancies found in the literature.

Thus, Mehrotra et al. (2011) suggest that marriage can sometimes provide family firms with the managerial talent they lack and that arranged marriages help ensure that such talent is made available. Since data on arranged marriages are difficult to obtain, they use several measures of culture (Hofstede, 1980)—e.g., high power distance, collectivism, risk avoidance—that appear to be conceptually related to arranged marriages. Mehrotra et al. then test the relationship between these measures and the prevalence of family firms among the 10 largest businesses, weighted by number of employees, in a sample of 41 countries that includes both developed and developing economies. Using their cultural proxies and controlling for *per capita* gross domestic product and the nature of a country's legal institutions, the authors find support for their contentions regarding the relationship between arranged marriages and family firm incidence. Specifically, risk avoidance, individualism, and power distance are all significantly associated with the dominance of family firms to varying degrees. The authors conclude that when cultural factors are conducive, arranged marriages may be a viable strategy for families to maintain control and for their firms to prosper across generations.

An obvious limitation of Mehrotra et al.'s (2011) study is that they are unable to directly test their main hypothesis, opening the door for alternative explanations for the relationship between culture and family business. However, if one accepts the plausibility of their arguments concerning arranged marriages (and even the adult adoptions the authors also mention), their findings have important research implications. Most directly, their study indicates that a conceptualization of intrafamily succession and family management that considers more than just blood relationships is needed. For example, we are unaware of any published studies that have directly addressed the influence of in-laws or adoptions in family firms even though their inclusion can be a source of new resources as well as conflict. Likewise, we can recall only a few studies that deal with concepts of kinship that go beyond consanguinity, such as affinity based on cultural, spiritual, ethnic, tribal, clan-based, and community ties (e.g., Karra, Tracey, & Phillips, 2006; Peredo, 2003; Stewart, 2003). Yet such considerations represent opportunities to expand our knowledge regarding the resilience of the family form of organization as well as the extent that knowledge is relevant to other venues. Thus, the most important contribution of the article by Mehrotra et al. may be to alert us to the need to expand our horizons when investigating and considering the resilience capacity of family firms.

Long-Term Orientation and Multitemporality

Perhaps the most obvious implication of an intention for transgenerational sustainability on the part of family owners is the long-term orientation toward the business that it tends to engender (James, 1999; Le Breton-Miller & Miller, 2006). Surprisingly, there has been very little research on the two concepts, perhaps because a strong theoretical understanding of their component parts has been lacking. Lumpkin and Brigham (2011) tackle this theoretical problem head-on. They argue that long-term orientation has three components: (1) futurity—the forecasting and planning of the long-range consequences of business decisions; (2) continuity—an understanding of the value associated with long-lasting assets; and (3) perseverance—the conscientiousness and persistence associated with an enduring commitment to a strategy. Aside from the influence of transgenerational succession intentions, Lumpkin and Brigham suggest that family firms are more likely to have a long-term orientation because of the greater length of the tenures of the chief executive officers of family firms (Gómez-Mejia, Núñez-Nickel, & Gutierrez, 2001), patient capital (Sirmon & Hitt, 2003), and noneconomic goals (Zellweger & Nason, 2008). They further propose that long-term orientation is likely to represent a dominant logic in family firms when such attributes are present. However, they also admonish that an inappropriate understanding of the relationships between the past, present, and future can damage the resilience-inducing properties of a long-term orientation.

Lumpkin and Brigham (2011) further contribute to the understanding of long-term orientation by discussing how characteristics of family firms can affect their intertemporal choices (Lowenstein & Thaler, 1989). For example, they note that representation—the way time-dependent choices are framed—could vary according to the extent of family involvement and the generation running the business. Likewise, they suggest that self-control—the ability to forego immediate gratification to achieve a desired future state—is particularly important for family firms to be able to balance the economic goals of the business with the noneconomic goals of the family. Finally, Lumpkin and Brigham emphasize the importance of anticipation—the positive emotions associated with an imagined future event—in long- versus short-term decision making. This discussion provides a reminder of the importance of a vision (Chua, Chrisman, & Sharma, 1999) as well as the dangers of relational conflict for family firms (e.g., Kellermanns & Eddleston, 2004).

However, in spite of the contribution Lumpkin and Brigham (2011) have made, we still need to know more about the long-term orientation of family firms and how it contributes to their resilience. Clearly, there are contingencies at work that we do not fully understand. For example, how does the combination of the pleasurable anticipation of preparing progeny for a future role in the firm and the less happy thought of letting go influence the long-term orientation of the incumbents in charge? What is an effective balance between continuity, perseverance, and the need for future change? When does the pursuit of family goals facilitate or impair a long-term orientation for the firm? Finally, what strategies and structures are most conducive to a long-term orientation, and are these indeed more prevalent in family firms than nonfamily firms?

The commentary by Le Breton-Miller and Miller (2011) provides preliminary answers to some of these questions. First, the authors make it clear that a firm's success depends upon balancing short-, medium-, and long-range considerations rather than an exclusive focus on any one, a concept they refer to as multitemporality. Second, they also make it clear that multitemporality should be more commonly found in family firms owing to the large financial, emotional, and reputational stakes of family owners and managers. Then, building upon the concepts discussed by Lumpkin and Brigham (2011), Le Breton-Miller and Miller argue that (1) the *futurity* of family firms is enhanced when the family *anticipates* a positive future for the firm through family control; (2) *continuity* is augmented through *representations* based on the heritage, accumulated wisdom, and history of the family and the firm; and (3) *perseverance* is ensured by the *self-control* associated with governance mechanisms that incorporate noneconomic goals, stewardship, and parsimonious use of resources.

Based on past research and experience, Le Breton-Miller and Miller also offer conjectures on the appropriate strategies and organizational characteristics needed to facilitate multitemporality. These include, among others, time layering of product and project portfolios, competitive focusing and leveraging, continual resource building in downturns as well as upturns, and human resource practices that promote training and an organization-wide family culture. The main message Le Breton-Miller and Miller seem to impart is that past, present, and future stakeholders are all salient for the resilience of the family form of organization (cf. Mitchell, Agle, Chrisman, & Spence, 2011).

Knowledge and Opportunities

The literature suggests that the loss aversion of family firms seems generally to lead to lower risk taking (e.g., McConaughy, 1999). For example, Chen and Hsu (2009) have shown that family firms invest less in research and development than nonfamily firms (see also Munari, Oriani, & Sobrero, 2010). However, lower levels of investment do not necessarily mean that family firms are less effective innovators. Indeed, Zahra (2005) and Zahra, Hayton, and Salvato (2004) have shown that in some situations, family firms can be relatively more innovative and entrepreneurial than their nonfamily firm counterparts. The article by Patel and Fiet (2011) assists in making sense of this apparent contradiction in the literature. Building on the work of Carney (2005), the authors argue that the noneconomic goals, long-term orientation, and social capital of family firms lead to systems of governance with dominant propensities toward parsimony, personal control, and particularistic decision making. They conclude that when directed toward entrepreneurial initiatives, these characteristics can provide family firms with advantages in developing the knowledge structures and constrained systematic search processes necessary for successful opportunity identification.

According to Patel and Fiet (2011), the noneconomic goals of family firms make their knowledge structures more difficult to copy. Furthermore, they argue that the social capital and shared knowledge structures of family members lead to economies of scope in exploiting the information channels made available through specific knowledge, which they term combination sets. Moreover, the long-term orientation of family firms increases the incentives for knowledge sharing and the investment in firm-specific routines for opportunity search. Thus, they suggest that family firms have advantages in the durability, adaptiveness, responsiveness, economies, and continuity of their knowledge structures and opportunity search routines.

From a resilience point of view, one of the most interesting aspects of Patel and Fiet's (2011) theory is how family governance can overcome the uncertainties associated with the allotment of property rights among owners and managers. They suggest that when the windows of opportunity are narrow and the contributions of different organizational actors have not been fully determined, the incentive for knowledge sharing can be adversely affected. On the other hand, in family firms where continued family ownership is expected and a culture of reciprocity and stewardship exists, apprehensions about the short-term allocation of property rights might be diminished. Although we find their arguments compelling, we wonder how concerns for the ultimate distribution of property rights might vary by ownership structure and the extent to which nonfamily members are important participants in the innovation process. For example, will family firms controlled through sibling partnerships and cousin consortiums respond in the same way as founder-led firms? Research on such issues would be useful.

Likewise, Patel and Fiet's (2011) argument about how the lower frequency of end-game scenarios in family firms can have a positive influence on innovation is persuasive. However, we also suggest that the perceptions of family owner-managers who are approaching the end of their careers are likely to be a function of both their intention for transgenerational sustainability, which depends upon the feasibility and desirability of intrafamily succession (Ajzen, 1991), and their multitemporal perspective regarding the past, present, and future of the firm (Le Breton-Miller & Miller, 2011). Again, pursuing this line of reasoning presents many interesting and worthwhile research opportunities for understanding the resilience of family firms.

According to the commentary by Sharma and Salvato (2011), Patel and Fiet's (2011) theory about opportunity search and identification in family firms primarily applies to opportunities related to current lines of business. While fully agreeing with the need for and value of constrained systematic search, Sharma and Salvato contend that family firms must pursue a mixture of incremental, progressive (innovation into related fields), and radical innovations to be successful. In this regard, their arguments support the need for both the multitemporal orientation and the time-layering strategy proposed by Le Breton-Miller and Miller (2011). Where they add value is through their discussion about how both the needs and the approaches to innovation of a family firm may change according to the stage of development of both its products and markets.

The most obvious contribution of the commentary is to suggest the importance of effectuation logic to family firms when its products and markets reach maturity. Based on the findings of previous research, they further suggest that nonfamily managers should be charged with managing incremental and progressive innovations whereas family managers should be responsible for searching for more radical opportunities to innovate. This discrimination in the roles of family and nonfamily managers seems logical since it is the former rather the latter that have the discretion to investigate means that can potentially lead to new goals, as is inherent in effectuation reasoning (Sarasvathy, 2001).

However, in our minds, the most important insight the commentary by Sharma and Salvato adds to the article by Patel and Fiet is the recognition of the danger that family firms face owing to their intentions for transgenerational control and long-term orientation. Simply put, although a lack of an endgame can facilitate long-term investments in search routines that lead to opportunity identification, it can also have a constraining influence on the resilience of family firms if it prevents them from making a fresh start when the rent-creating potential in existing product markets is in decline.

Internal Social Capital and Social Exchange

Family firms are thought to have advantages in the development of social capital (Pearson et al., 2008) as well as its use in combination with other firm-specific assets (Gedajlovic & Carney, 2010). However, investigations of how social capital is developed and used, as well as its relationship with family firm performance, have been constrained to some degree by an absence of family firm-specific measures. In answer to this need, Carr et al. (2011) develop and validate a measure of internal social capital that specifically applies to family firms. The authors note that social capital can be both internal and external and have both individual and collective aspects (Payne, Moore, Griffis, & Autry, 2011). Given that each can have characteristic features that need separate consideration, they focus on internal social capital at the collective level, reasoning that through the shaping of the firm's vision, the relationships among members of the family unit is a key driver of family firm behavior. At the same time, Carr et al. recognize that social capital has structural, cognitive, and relational dimensions (Pearson et al.) and consequently attempt to incorporate all three dimensions into their measure.

Carr et al. (2011) are careful to follow accepted procedures for scale development. These include elaborate steps to generate appropriate items and to test their content validity. They use two samples of family firms to perform the tasks required for instrument validation including confirmatory factor analysis and tests for convergent, discriminant, prediction, and incremental validity. Furthermore, Carr et al. perform other analyses including a relative importance assessment, cross-validation and measurement equivalence tests, and fixed parameter estimates. As a consequence of their efforts, a 12-item internal social capital-family business (ISC-FB) measure that adheres to recommended psychometric guidelines for scale development is now available for research on social capital in family firms.

The work of Carr et al. (2011) is certainly welcome, but as noted earlier, similar scales are still needed to measure the external and individual dimensions of social capital. Furthermore, a limitation of the ISC-FB scale is that it cannot be directly used to compare family and nonfamily firms. However, research using the F-PEC (Family—Power, Experience, and Culture) scale (Klein, Astrachan, & Smyrnios, 2005) has shown that adaptations are quite possible (e.g., Chrisman, Chua, Pearson, & Barnett, 2010).

The commentary by Long (2011) adds value to the work of Carr et al. (2011) and their predecessors (e.g., Gedajlovic & Carney, 2010; Pearson et al., 2008) by emphasizing the congruence and utility of social exchange theory (Homans, 1958) to the comprehension of social capital in family firms. Long suggests that social exchange theory can assist in understanding how social capital emerges in a family firm. As she points out, even at the group level, social capital is dependent upon repeated exchanges over time among individuals. These exchanges can be based on rational choice or social rituals, but regardless of the bases, the copredictive causal connections of social capital only occur after a very large number of such exchanges have occurred. A focus on social exchanges can therefore help us understand (1) how individuals affect collective social capital; (2) the role of interventions by family owners and managers in developing firm-level social capital; (3) the impact of changes in group membership; and (4) the positive and negative features of social capital. As just one applied example, taking a social exchange perspective is likely to be useful in studying how asymmetric altruism affects the relationships between the referent individuals, as well as among family and/or firm members who interact with the involved parties but are neither the altruists nor the direct recipients of the altruistic actions. Since social exchange appears to be both a cause and a consequence of social capital, incorporating that concept into studies of family firms should be of value.

Conclusions

This introduction discussed several characteristics and behaviors—arranged marriage as a management succession strategy, long-term orientation and multitemporal perspectives, knowledge structures and innovation, and social capital and social exchange—that could contribute to the resilience of family firms. Others, such as their ability to act as efficient monitors (Combs, Penney, Crook, & Short, 2010) and effective stewards (Davis, Allen, & Hayes, 2010), have been discussed in previous issues of this series. From our vantage point, understanding resilience and its antecedents can lead to a fuller appreciation of the role of family firms in national economies. For example, if as part of the literature suggests, successors are less capable than founders or professional managers (Bertrand & Schoar, 2006) and family control of a firm depends upon arranged marriages (Mehrotra et al., 2011), political rent seeking (Morck & Yeung, 2004), or the opportunistic exploitation of minority owners (e.g., Burkart et al., 2003), then the resilience of family firms may be artificial and detrimental. An extreme conclusion that might logically follow is that public policies that reduce or eliminate the possibility of intrafamily succession (e.g., through higher inheritance taxes) would have positive social welfare implications.

However, such a conclusion overlooks evidence suggesting that most new ventures begin as family firms (Chua et al., 2004), meaning that many owners intend to create an organization that can fulfill family-centered noneconomic goals and endure long enough to be passed on to their children. Indeed, there is a growing recognition in the literature that noneconomic goals can lead to more enlightened strategies (e.g., Dyer & Whetten, 2006), that family resources can be critical to new venture creation (Steier, 2007), and that the intention for transgenerational sustainability is a fundamental driver of family firm behavior (Chrisman et al., 2010; Chua et al., 1999).

This recognition suggests the paradoxical possibility that intentions for intrafamily succession and the noneconomic goals of founder-led family firms could have positive welfare implications, such as increasing the effectiveness of opportunity identification processes (Patel & Fiet, 2011), that potentially override the negative repercussions that occur if and when control is eventually transferred to family members across generations. How to minimize the damage of the latter while maintaining the incentives of the former seems to be a question worthy of investigation. Consequently, we need to know more about why family firms survive and thrive in the face of managerial capacity constraints and other limitations (Carney, 2005). Such knowledge is necessary before we will be able to determine whether the ubiquity of the family form of organization represents a net gain or a net drain on economies around the world. In that respect, we believe that the articles and commentaries in this special issue make an additional important contribution to the study of family businesses.

Much of the existing literature assumes a certain homogeneity among family firms that is largely derived from an Anglo-American view of capitalism (Steier, 2009). This special issue offers a further illustration of the considerable variation regarding the multifaceted role of family in economic organization. For example, Mehrotra et al. (2011) offer a salient reminder that many of the marriages throughout the world are arranged, often to achieve economic motives. Arranged marriages are clearly but one manifestation of familial capitalism in certain parts of the world. The Anglo-American and Western European contexts offer many other variations. Even in communist countries—wherein capitalism does not officially exist—we see manifestations of familial capitalism in spheres such as the underground economy and among certain privileged classes. These examples further suggest a resilience that is underappreciated and little understood. Indeed, as suggested by the articles and commentaries in this special issue, studying the resilience, adaptation, and heterogeneity of family firms in different contexts offers many opportunities for further research.

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