Research Applied: *FBR* Précis for *FFI Practitioner*

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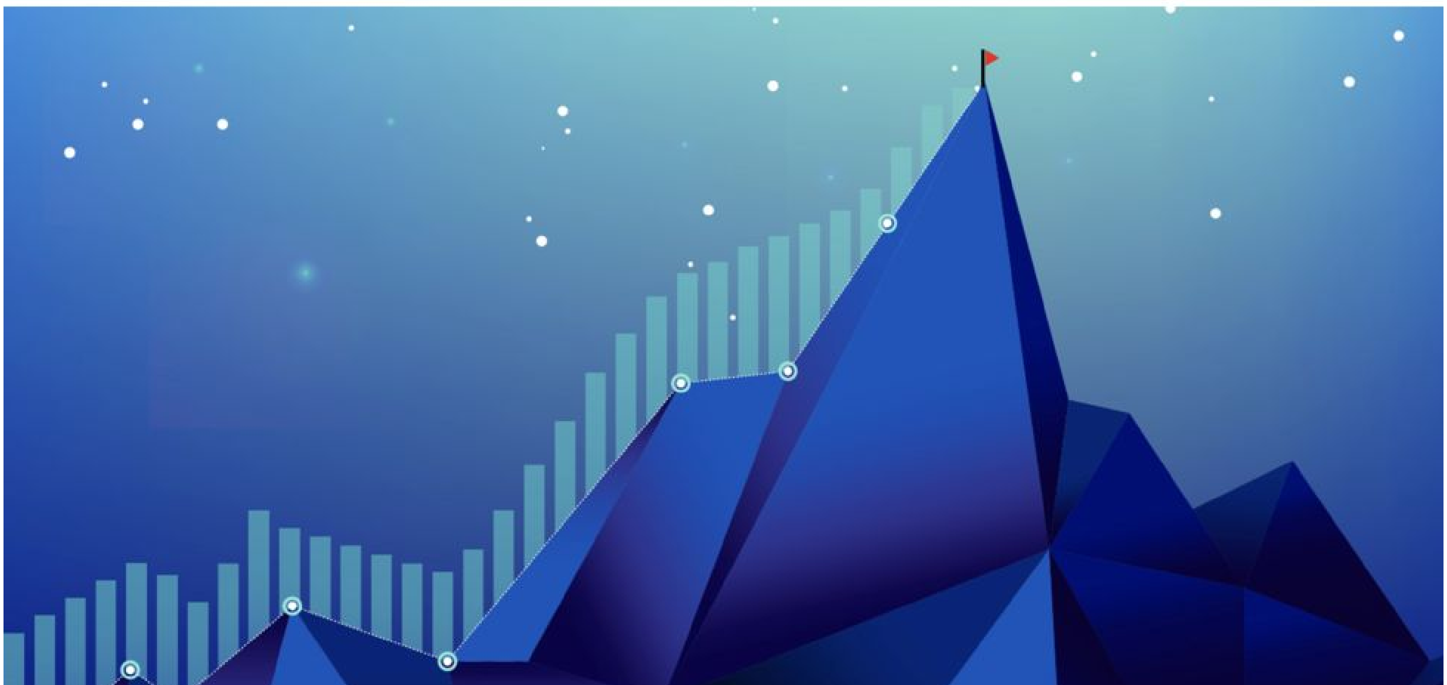

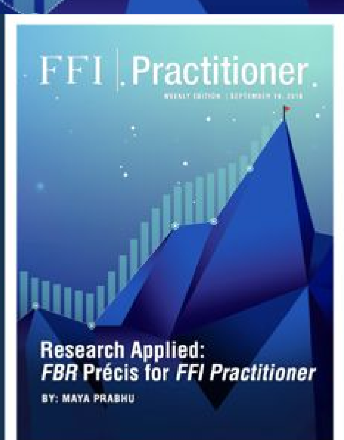

From *FFI Practitioner*

In a rapidly evolving and increasingly competitive environment, is the need for an Entrepreneurial Orientation critical to ensuring the long-term survival of family firms? In this week's edition, which is a précis of "Entrepreneurial Orientation and the Family Firm: Mapping the Field and Tracing a Path for Future Research," an article appearing in the September issue of *FBR*, Maya Prabhu explores this question and the important implications of this research on the field.

There has been a renewed focus and interest from academics and practitioners alike in entrepreneurship (as a way of being and working as well as in the creation of new processes or business opportunities within family firms). In a rapidly changing world, is the need for an entrepreneurial mindset, and/or new business processes and new business ideas crucial for the survival and success of family firms? Is the notion of stewardship at odds with it? Are there some special characteristics within family businesses (e.g., the quality of 'familiness' or the pursuit of business as well as family goals) that lead to greater or lesser Entrepreneurship Orientation and what is the impact of it on a firm's performance?

This paper is timely as it sweeps the landscape of research globally on the subject of Entrepreneurial Orientation in family firms, draws out some trends, and identifies gaps — creating a roadmap for future research.

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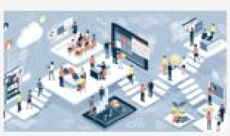


Entrepreneurial Orientation and the Family Firm:

Entrepreneurial Orientation and its dimensions

Entrepreneurial Orientation (EO) first emerged in the 1980s (Covin & Slevin 1989; Miller 1983) as a way to study and explain how companies face the challenges of a dynamic and ever-changing environment. Miller (1983) proposed that an entrepreneurial firm is "one that engages in product-market innovation, undertakes somewhat risky ventures and is first to come up with 'proactive' innovations, beating competitors to the punch." He views EO as a framework with three dimensions:

1. *Innovativeness:* the exhibition of experimentation, exploration and creative acts
2. *Risk-taking:* a 'willingness to commit resources to projects, ideas or processes whose outcomes are uncertain and for which the cost of failure would be high'

3. *Proactiveness:* engaging in forward-looking actions targeted at the exploitation of opportunity in anticipation of future circumstances as would be typical of firms that lead and/or pre-empt the actions of others

Two further dimensions were conceived of by Lumpkin & Dess (1996):

4. *Competitive Aggressiveness:* the intensity of a firm's efforts to outperform industry rivals, characterised by combative posture and a forceful response to competitor's actions
5. *Autonomy:* independent action by an individual or team aimed at bringing forth a business concept or vision and carrying it through to completion

Scholars have studied and concluded that the impact of EO on corporate performance is positive. But to what extent do the various dimensions of EO exist in family firms and if EO does exist, how does it impact performance?

The authors' extensive literature review reveals some studies on EO in family businesses are purely qualitative in nature, some are purely quantitative (a small number are longitudinal studies), and one used a mixed methodology. The most studied countries are Spain and the United States followed by Austria, Switzerland, and Turkey. In the few multi-country studies, the results from different countries have not been compared.

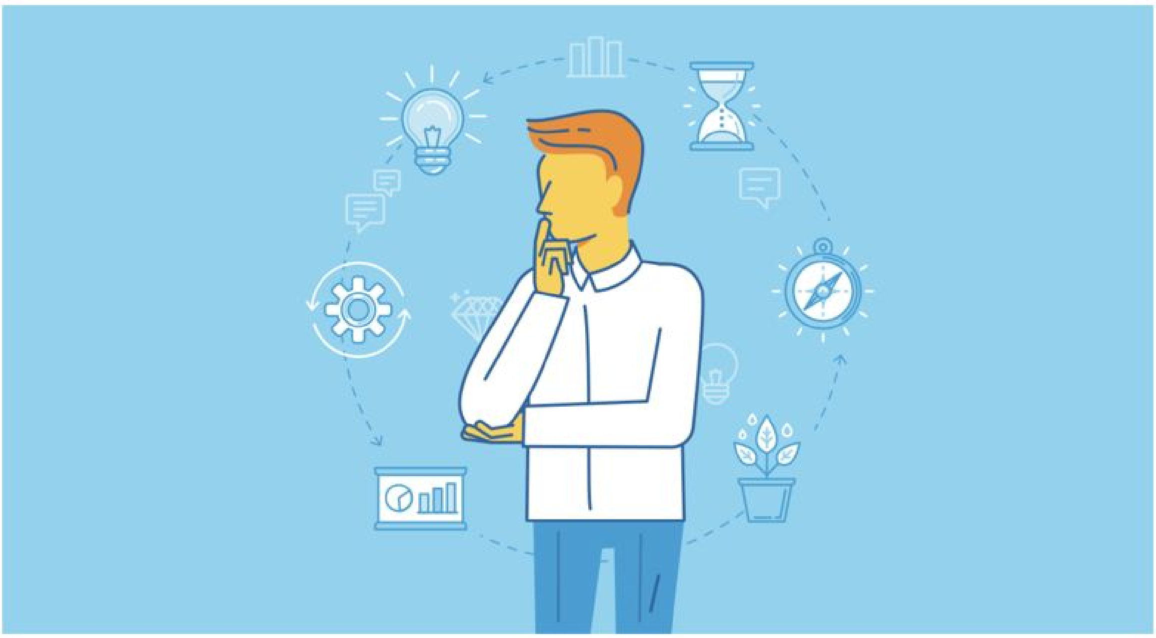
Theoretical frameworks used to interrogate some of the causal factors of EO in family firms

The literature reviewed also interestingly reveals that in more than 30% of the articles no theoretical basis was provided to support conclusions on the causes for the presence/lack of EO in its different dimensions, and the remainder that did employed a diverse range of theoretical frameworks. The most commonly occurring frameworks are two that have been widely employed in the family business field: Resource-Based View and Agency Theory followed by Stewardship Theory.

- *Resource-Based View* describes the behaviours and results of family firms based on some of their special characteristics and resources (e.g., familiness). The study by Zahra et al. (2004) applying this theory proposes that family firms are more sensitive to the influence that their culture has on their EO than nonfamily firms. In the studies that cover the application of a Resource Based View to the outcomes from having an EO, the literature review reveals that this is a "complicated matter" involving a confluence of the type of EO, resources in the firm, and the level of inter-generational participation amongst others.

- *Agency Theory* (Jensen & Meckling 1976) describes the "potential conflict between the principal, usually the company's owner, and the agent, generally a non-owner manager." The various articles that have employed this theory use it to explain a range of conclusions, such as that the agency advantage of family firms may be reduced due to owner related difficulties resulting in low risk-taking. Conversely, this theory is also used to explain the negative effect of risk-taking on family firm performance.

- *Stewardship Theory* states that a "steward whose behaviour is ordered such that pro-organizational, collectivistic behaviours have higher utility than individualistic, self-serving behaviours" (Davis et al. 1997). Employing this theory predominantly demonstrates that stewardship factors such as long-term decision making, and inter-generational continuity of the business can impact the EO of a family firm.



So, what are some of the conclusions in the published research on the EO of family firms along Miller's EO dimensions?

The literature review reveals a general view that there is a lower level of EO among family firms. This result seems to be confirmed when each dimension of EO is studied, and it primarily suggests the presence of lower levels of risk taking and competitive aggressiveness among family firms, and mixed results for levels of proactiveness and autonomy. Articles suggest that one of the main reasons for the lower levels of competitive aggressiveness in family firms is due to their "roots in the community and concern for maintaining a good reputation" (Peters & Kallmuenzer 2015). Is this a problem or a good thing? In the current environment where business is being increasingly called to account, I would posit (based on my anecdotal experience) that this is perhaps a good thing and positions family businesses for longer term success!

In examining the different background factors for the presence of EO, most articles research how familiness or family involvement (in any capacity – ownership, management, etc.) influence the EO in the firm. The studies using longitudinal data found that family involvement tended to result in lower EO; those that use other methods found that EO declines beyond "moderate" levels of family involvement.

The research generally proposes that despite the lower levels of EO in family businesses, where it does exist, it has a positive impact on performance. Some scholars, however, suggest that EO has a greater influence on the performance of nonfamily firms – however, others posit that it greatly influences family business performance!

On viewing the impact of the presence of each dimension of EO on performance, the conclusions to date are startling: that the effect of risk-taking on family business performance is negative or not significant. Others suggest that proactiveness and innovativeness have a mostly positive impact. Some scholars believe that the autonomy dimension has a positive impact on performance and argue that this is the most relevant dimension for family firms.

Some studies focus on the international aspect of EO and suggest that this orientation results in the international performance of family firms and facilitates the involvement of non family members in governance and the internationalisation of the firm.

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While there is an important and diverse body of research, the literature review identifies a number of questions that require further investigation to inform our understanding and practice to a greater extent. Some examples are:

- How does succession influence EO in family firms?
- How do the qualities of 'familiness' and concern for maintaining 'Socio-Economic Wealth' influence a family firm's EO? This will be particularly interesting as they are strong features of family firms.
- How does the family's nationality, religion, and culture affect the EO within a family firm?
- How does EO impact the achievement of family-oriented goals? Could it help achieve non-financial objectives?

I hope the academic community is 'on it'(!), and I cannot wait to learn more about this important and fascinating topic that will advance our theoretical knowledge and inform our practice. I have worked with many families where one of their challenges has been for family members to view stewardship (in ownership and/or management) as an active process of learning, growing, contributing, and innovating as opposed to a passive one and with families where the next generation are buzzing with ideas for innovation and risk-taking. But where do families wish to be along this spectrum and why – and, indeed, does it matter! Further study will tell us more!

About the contributor

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