COUNTERPOINT: HOW HETEROGENEITY AMONG FAMILY FIRMS INFLUENCES ORGANIZATIONAL CHANGE

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ABSTRACT

Kotlar & Chrisman (this issue) examine how family involvement influences organizational change resulting in change behavior distinctive from that of non-family firms. Family firms, however, are heterogeneous in terms of their goals, governance, and resources; therefore, the behavioral distinctions proposed by Kotlar & Chrisman are not common to all family firms. In this article, we briefly discuss these sources of heterogeneity and their implications for organizational change and change management in family firms.

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INTRODUCTION

A substantial body of research has focused on understanding the differences between family firms and non-family firms with respect to change (e.g., Kotlar, De Massis, Frattini, Bianchi, & Fang, 2013); but recent studies note that the heterogeneity of family firms influences firm strategies and management behaviors, in some situations leading to a greater variation among family firms than that between family firms and non-family firms. Differences in goals (Chrisman, Chua, Pearson, & Barnett, 2012; Kotlar & De Massis, 2013), governance (Steier, Chrisman & Chua, 2015; Le Breton Miller & Miller, 2006; Miller & Le Breton-Miller, 2006), and resources (Eddleston, Kellerman's & Sarathy, 2008; Sirmon & Hitt, 2003) appear to be the most important sources of family firm heterogeneity (Chua, Chrisman, Steier, & Rau, 2012; De Massis, Kotlar, Chua & Chrisman, 2014). In this article, as a counterpoint to Kotlar & Chrisman (this issue), we discuss how heterogeneity in family firm goals, governance, and resources influences organizational change. We hope these initial insights about the main drivers of change and change management among different types of family firms will help stimulate future research at the intersection of change management and family business research.

FAMILY FIRM HETEROGENEITY AND INNOVATION

As pointed out by Kotlar and Chrisman (this issue), family firms behave, on average, differently from their non-family counterparts in many ways, including innovation. This difference in behavior arises partly from the family firms' pursuance of family-centered non-economic goals (FCNE) that are rarely salient in non-family firms; partly from the resources unique to family firms; and partly from governance (Chua, Chrisman, & Sharma, 1999; Gomez-Mejia, Haynes, Nunez-Nickel, Jacobson, & Moyano-Fuentes, 2007; Chrisman, Chua, Pearson, & Barnett, 2012; Miller & Le Breton-Miller, 2014; Chua, Chrisman, & De Massis 2015). For example, the goal of keeping control and power within the family makes the family firm less willing to involve external non-family financial and human capital which are typically needed in innovation, thus limiting the innovation resources available to family firms in general (e.g., Chrisman & Patel, 2012). In addition, aside from the extensive resource inputs required, outcomes from innovation are highly uncertain. As a result, family firms tend to adopt a more risk averse governance approach to investing in Research and Development (R&D). This is because the family investing its own savings and innovation failures would dissipate both economic and FCNE benefits (Chrisman & Patel, 2012). Consequently, family firms tend to invest more in process than product innovation because of the former's higher probability of success (Broekaert, Andries, & Debackere, 2016). This could be why the lower investment in R&D does not appear to have resulted in lower innovation outcome in family firms (Classen, Carree, Van Gils, & Peters, 2014). However, although these differences in average behavior pointed out by Kotlar and Chrisman (this issue) are supported by both theory and suggested by evidence, heterogeneity of scope and intensity in family firms' pursuance of non-economic goals, preservation of unique family governance mechanisms, and protection of specific family resources can cause wide variations in family firms' attitudes and behaviors in innovation (Chrisman, Chua, De Massis, Frattini, & Wright, 2015).

The nature of family owners' goals plays a key role in determining the valence of family ownership's influence on R&D investments (Sciascia, Nordqvist, Mazzola, & De Massis, 2015) and family firms do vary in the willingness and intensity with which they pursue FCNE goals such as family harmony (Astrachan & Jaskiewicz, 2008; Sharma, Chrisman, Pablo, & Chua, 2001); family social status (Dyer & Whetten, 2006; Zellweger & Astrachan, 2008); and family/firm identity linkage (Gomez-Mejia et al., 2007; Milton, 2008). For example, when the equilibrium favors FCNE goals, innovation could be compromised to preserve family harmony if innovation would affect the livelihood of a family member. Each functioning family firm will have its own equilibrium in emphasis between economic and FCNE goals based on its history, values, culture and vision. From the longitudinal view, this equilibrium will change with the family's growth and transition. For example, Litz and Kleysen (2001) observe that the dreams and vision of family members from different generations are not always congruent. In their study of the Brubeck jazz musician family, they show that the different combinations of dreams and vision between two generations result in different attitudes toward innovation. Since family firms are not at the same stage of growth and transition, their innovation behaviors will vary. This also means that the innovation behavior of those family firms whose equilibrium in goal-emphasis shifts over time to focus more on economic (FCNE) than on FCNE (economic) goals would evolve to become more (less) like non-family firms.

Taking a cross-sectional view, Kammerlander & Ganter (2014) show that the family CEOs' specific non-economic goals, such as maintaining power and control in the hands of the family, preserving family values, maintaining family reputation, and sustaining personal ties determine how these firms respond to the emergence of technological change. The goal to maintain family power and control may call for an immediate strategic and innovative change but the goal of conserving the business' financial value may require a longer-term view and re-evaluation prior to responding to a technological change. Thus, heterogeneity in family firm CEOs' non-economic goals can cause wide variations in family firms' responses to technological change. Family firms' FCNE goals may also interact with their economic status to influence these firms' innovation strategies. Among family firms with financial performance below aspirations, some non-economic goals, such as maintaining family control, become more urgent and will align with economic goals to encourage R&D input (Patel & Chrisman, 2014; Sciascia, Nordqvist, Mazzola, & De Massis, 2015)). To summarize, although some theoretical predictions and the empirical evidence show that family firms' innovation behavior is different, on average, from that of non-family firms, there will be great variation among family firms' innovation behavior because of heterogeneity in the relative emphasis of economic and FCNE goals (Chrisman, Chua, De Massis, Frattini, & Wright, 2015).

Family firms adopt a diversity of governance structures that affect their strategic behaviors. Consequently, the relationship between family firm governance structure and performance is non-linear and context-dependent (De Massis, Kotlar, Campopiano, & Cassia, 2013). For example, although existing empirical studies suggest that family firms, in general, have lower innovation input but higher innovation output (De Massis, Frattini & Lichtenthaler, 2013), these effects may be contingent on how many generations, and which generations, are involved in the multi-generation dynamics of family firm governance. Through a meta-analysis of 108 studies from 42 countries, Duran, Kammerlander, van Essen, & Zellweger (2016) find that such effects are stronger in firms with later-generation family member CEOs and weaker in firms with founder CEOs.

Given that many dominant families own or control not only one business but a portfolio of businesses, the strategic behavior of the business units may also depend on the unit's importance in the portfolio (Carney & Gedajlovic, 2003). Whether a business unit facing innovation challenges is categorized as core or peripheral in the portfolio will affect the family's investments in business unit's innovation (Michael-Tsabari, Labaki, & Zachary, 2014).

Therefore, heterogeneity in how the controlling family classifies a business unit causes variation in the innovation behavior of family firms.

According to the resource-based view (RBV), family firm innovation behavior may vary due to heterogeneous family-specific and firm-specific resources (Habbershon & Williams, 1999). Within environments rich in innovation opportunities, family firms economizing both family-specific and firm-specific resources could achieve better performance (Eddleston, Kellermanns, & Sarathy, 2008). Some scholars also point out that the family firm's non-family human resources could be affected by bifurcation bias – systematic treatment of family managers as stewards and of non-family managers as agents (Verbeke & Kano, 2012). Heterogeneity in the severity of the bifurcation bias, especially among family firms operating in an environment of fast growth and technological change, will affect a family firm's access to external knowledge and resources, the lack of which leads to innovation inefficiency and ineffectiveness. To summarize, heterogeneity in goals, governance, and resources of family firms will cause variations in their innovation behaviors. This is consistent with the notion that unlocking the innovation potential of family firms requires a fit between the heterogeneity of their innovation decisions and their distinctive characteristics in terms of goals, governance, and resources (De Massis, Di Minin & Frattini, 2015).

FAMILY FIRM HETEROGENEITY AND MANAGEMENT SUCCESSION

Intra-family management succession is a central topic in family business research (Marler, Botero, & De Massis, 2017) because it affects family firm performance (Smith & Amoako-Adu, 1999; Bennedsen, Nielsen, Perez-Gonzalez, & Wolfenzon, 2007). Scholars (e.g., Gomez-Mejia, Haynes, Nunez-Nickel, Jacobson & Moylan-Fuentes, 2007; Chua, Chrisman, & De Massis, 2015) suggest that family firms accumulate future flows of FCNE benefits into a stock of socio-emotional wealth (SEW), and preservation of the accumulated SEW is a major driver of family firm behavior. They further suggest that maintaining family control and sustaining such control through generations is the best way of preserving SEW. Hence, the intention for intra-family succession distinguishes family firms from their non-family counterparts because such succession is very rarely possible in the latter (Chua, Chrisman, & Sharma, 1999). Besides, it is an important driver of FCNE goal pursuance (Chrisman, Chua, Pearson & Barnett, 2012) and affects the controlling family's valuation of the business (Zellweger, Kellermanns, Chrisman & Chua, 2012). Furthermore, intra-family management succession may be an organizational response to less protective institutions and a means to protect the family firms' financial and human resources (Burkart, Panunzi, & Shleifer 2003).

Heterogeneity in individual, relational, contextual, and financial conditions can promote or hinder the controlling family's goal for intra-family succession (De Massis, Chua & Chrisman, 2008). For example, family incumbents' attitude toward intra-family succession, which precedes intention and behavior, is influenced by heterogeneity in situational and relationship factors (De Massis, Sieger, Chua, & Vismara, 2016). In addition, diversity in family firm governance structures makes the intra-family management succession process even more complex. For example, Nordqvist, Sharma, & Chirico (2014) identify nine configurations of family firm governance varying in terms of involvement in ownership and management. In relation to management, family members may be involved in operation, supervision, and/or capital investment decisions within different fora: top management team, board of directors, advisory board, and/or family meetings. Thus, the management succession process is very industry- and firm-specific, affected by the knowledge and capabilities required to perform the governance and managerial duties and responsibilities. Some scholars (e.g., Dyer, 1989; Hall &

Nordqvist, 2008; Stewart and Hitt, 2012) also find that despite the advantages of management professionalization, many family firms do not do so or only do so partially.

Heterogeneity in the resources that family firms possess could also influence intra-family management succession. Small and medium family firms tend to have an adequate number of family members to fill the management positions in their simple organizational structures. However, as family firms grow, the families' human resource pools are no longer sufficient to meet the firms' needs for the increased number of management positions, thus requiring greater non-family manager participation (Fang, Randolph, Memili, & Chrisman, 2016). Furthermore, contextual factors, such as the legal system, property rights protection, and the professional manager market also influence resource access and preservation in family firms. In sum, heterogeneity in the goals, governance, and resources of family firms will cause differences in their intra-family succession behavior.

CONCLUSION

In this article, we have briefly outlined some of the implications of heterogeneity among family firms for organizational change and change management. Although the family business literature has only begun to scratch the surface of the issues that need to be investigated, research on family firm innovation and management succession suggests that heterogeneity in family firm goals, governance, and resources is likely to be an important driver of change and change management behaviors among different family firms. Our conclusion is that merely considering family involvement is not enough to fully understand the distinctive change behaviors of family firms, since the nature and extent of the involvement vary *among* family firms depending on their goals, governance, and resources. Therefore, we agree with Kotlar and Chrisman (this issue) that more research is needed on the wide variety of changes to the strategies, structures, systems, and processes of family firms (cf., Chrisman, Chua, De Massis, Minola, & Vismara, 2016). Existing theory needs to be further extended and enriched to provide more nuanced predictions about how heterogeneity among family firms influences organizational change as well as the role of key contingencies producing such heterogeneity. We hope that this article will help motivate scholars to conduct further theoretical and empirical investigations on how heterogeneity affects change and change management among family firms.

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