

EXTENT OF FAMILY INFLUENCE ON FAMILY FIRM INNOVATIVE BEHAVIOR: A STUDY ON SMALL SIZED FAMILY FIRMS IN ISTANBUL

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ABSTRACT

The main objective of this study is to find out the impact of family influence and organizational structure on the innovative behaviour of small family firms. In this study, it is proposed that for innovation the components of family influence that are power, experience and culture, have to be supported by organic organizational structure. The developed scale is applied to 75 independently owned and operated small family firms in Istanbul. Our findings show that for innovation the components of family influence have to be supported by mechanistic organizational structure. The implications are crucial since the Turkish small family firms have to improve themselves in order to compete in the national and international market. Strategic thinking and innovative behaviour would increase the competitive advantage of small family firms in the national and international arena.

INTRODUCTION

Family businesses constitute a major portion of the economies (Astrachan and Shanker, 2003; Chrisman et al., 2005; Morck and Yeung, 2003). Evidence from the studies shows that family businesses are prevalent throughout societies (Heck and Trent, 1999; Erdoğan, 2007; Karpuzoğlu, 2001), for example in 1996; over 8.6 million families (1 out of 10 households) owned a business: a family business in USA. These family businesses generated over US\$10 trillion in gross revenue (Heck and Stafford, 2001). Besides, families make a substantial contribution to family businesses (Olson et al., 2003). Based on data in the 1997 NFBS (Stafford, 2002), in 1996, family owners risked over US\$86 trillion in family assets-not business assets-for the sake of their businesses. In that same year, 21.6 million family members worked in their business without pay (Olson et al., 2003).

The situation is not so different in Turkey, %98 of the businesses are family businesses (Erdoğan, 2007; Karpuzoğlu, 2001) and 98.3 % of business establishments in Turkey are small businesses and 95.03% of total employment in Turkey is working in small businesses (National Statistical Institute, 2002). These facts make the situation critical as to support the small businesses and to understand the family nature of those businesses for the benefit of both the economy and the owning families.

In order to support the well being of the small family

businesses, the strategic thinking must be brought to their operations. Only through strategies, a firm competes and tries to reach its ultimate goals (Miller et al., 2000). As stated by Ray et al. (2004), resources and capabilities alone do not have an impact on the performance unless they are turned into a process and according to Barney, (1991) and Chrisman et al., (1998) the resources and capabilities of the small firm affect the performance indirectly through strategy. On the other hand, having the most valuable and rarest resources is not sufficient for better performance unless they are turned into a strategy (Chandler and Hanks, 1994; Chrisman et al., 1998).

However, only recently topic of family business has attracted the attentions of the researchers (Astrachan et al., 2002; Chrisman et al., 2005; Klein et al., 2005). One reason why family business has not been more widely accepted as a topic of serious research is that no accepted definition of what constitutes a family firm exists (Chrisman et al., 2005; Klein et al., 2005). Besides, according to Astrachan et al. (2002), efforts to give precise descriptions on family vs. nonfamily creates more problems than it attempts to solve, when there is no precise dichotomy. A detailed review of definitions employed in studies reveals that assessing the extent of family influence is important in order to capture the distinction between the family and non family types of entities (Astrachan et al., 2002). Penttila (2003) also states that the focus of attention of family business researchers seems to be shifting from simple categorizations to recognition of the importance of family influence. This is very crucial to understand one facet of the highly complex organizations- family firms. Although previous researchers have addressed the reciprocal nature of the family and the business within the family business setting, few have explored quantitatively the family and its interaction with, and effects on, the business (Heck and Stafford, 1999). The model employed in this study provides this quantitative measurement opportunity to the researchers. By having this opportunity, the family business research area can be moved to the strategic thinking as to investigate the resources of the businesses and analyze the strategic alternatives within the innovative nature.

Innovation is an important behaviour that has to be employed within all firms regardless of their types or sizes. Without an original idea or making a difference for the market, the firm cannot survive for a long period of time. Even after the establishment, the firm has to continue this innovative behaviour to protect its market share and survive in the market. As also stated by Pelham (1999), differentiation strategy is best suited for small firms with advanced marketing

capabilities because it requires external focus. Furthermore, the strategic management literature emphasizes the importance of the alignment of strategy and structure of an organization for superior performance. The organization implements its strategy through its structure, processes and systems (Chrisman et al., 1999; Covin and Slevin 1989, 1991; Duchesneau and Gartner, 1990; Miller, 1983; Slevin and Covin, 1990). Structure is one of the distinguishing characteristic of an organization because it determines the allocation of work and responsibilities among its members. Therefore, the structure of an organization is influential on many organizational activities (Miller, 1987).

This study investigates the relationship between the extent of family influence, organizational structure and innovation in small family businesses. It is proposed that the extent of family influence in small family firms have an impact on the innovative behaviour of the businesses. In addition, the family influence has to be supported by appropriate organizational structure for improved innovative behaviour. Therefore, this study also analyzes the relationship between family influence and organizational structure in small family firms. The implications are crucial since the Turkish small family firms have to improve themselves in order to compete in the national and international market. Successful and growing of family based SMEs distributed to each region of Turkey would improve regional development. Strategic thinking and innovative behaviour would increase the competitive advantage of small family firms in the national and international arena.

Resource-based view in family businesses

Resource-based view concentrates on the firm's specific resources and argues that these resources can provide competitive advantage to the organization (Khatri, 2000). In other words, internal resources enable the firm to survive and compete in the market (Teece, et al., 1997; Wernerfelt, 1984). Another assumption of the resource-based view is that the strategy of the firm should be based upon the resources of the organization (Barney, 1991; Wernerfelt, 1984). In this approach, the internal capabilities of the firm affect the strategy formation of the firm (Barney 1991; Wernerfelt, 1984). As Covin and Slevin, (1991) state resources and capabilities are extremely important for the management of a firm. These resources have to enable the organization to implement the strategies that will improve its efficiency and effectiveness. Thus, they are the foundations of a firm's strategy (Covin and

Slevin, 1991; Grant, 1991). In accordance with above explanations, resource-based view argues that organizations with different strategies will have significantly different characteristics because the resources that are the foundations of strategies are heterogeneous and immobile (Hewitt-Dundas and Roper, 2001).

Although employing valuable and rare resources is important; how these resources are used is vital for the organizational performance (Wiklund and Shepherd, 2003). The resources and capabilities of the small firm affect the performance indirectly through strategy (Barney, 1991; Chrisman et al., 1999). Developing the highest performing strategy is not enough for success; the organization should have access to necessary resources and appropriate capabilities to perform this strategy. On the other hand, having the most valuable and rarest resources is not sufficient for better performance unless they are turned into a strategy (Chandler and Hanks, 1994a; Chrisman et al., 1999). As stated by the resource-based view, resources enable firms to implement strategies and the strategy of an organization has to be designed in a way that makes the most of internal resources and capabilities (Barney, 1991; Chandler and Hanks, 1994a; Covin and Slevin 1991; Grant, 1991; Hewitt-Dundas and Roper, 2001).

In short, resource-based perspective emphasizes the importance of internal factors as the determinants of strategy and the growth of the firm (Davidsson and Wiklund, 2000) and resources are taken as important components of strategy (Carmeli and Tishler, 2004; McGee, et al, 1995; Miles and Snow, 1978).

In the following the organizational resources - power, experience, culture and structure, of the small family firm will be explained.

F-PEC Scale:

Family businesses are, by their nature, complicated by dynamics within the owning family (Olson et al., 2003). These dynamics not only affect business performance but also business culture, power, experience, structure and innovation over time. Based on this premise, the F-PEC model was chosen to guide the research. One of the reasons for this choice was the flexibility of the model. It emphasizes the extent of family influence on businesses. As Klein et al. (2005) state, the family influence on power, experience, and culture (F-PEC) helps to understand one facet of the complex organization, family influence, and by allowing measurement of this family influence, it can add to our understanding of under what conditions influence is exercised and with what effect .

In fact, family influence on family businesses has been attracted the researchers and the focus of attention of family business researchers seems to be shifting towards the recognition of the importance of family influence (Penttila, 2003). F-PEC scale has inspired various researchers in that way; Koironen (2002, p. 178) stated that this measure introduces a new conceptual model "which offers an excellent common ground or platform for sharpening family business definitions"; Niemelä (2003) in her study developed a model on the F-PEC scale, serving as a framework for her study on inter-firm cooperation and networking; and in their study Chrisman, Chua, and Sharma (2003) mentioned that the F-PEC scale "is a promising framework for characterizing a continuous spectrum of firms according to the components-of-involvement approach ".

The F-PEC scale provides a means to explore all businesses along a continuum from intensive family involvement to no family at all. Actually, family is a source of distinct resources via the channels of Power, Experience, and Culture. In the scale power represents regulatory and financial resources; experience represents positional resources based on previous endeavours; and culture represents resources such as shared values, vision, and the aptitude of the organization. As stated by Klein et al., (2005) these three sources combined can lead to functional resources, including knowledge and skills.

Power: Ownership, Governance, and Management

The F-PEC Power subscale measures the proportion of shares, the percentage of top management positions, and the proportion of board seats held by the family. Power subscale assesses the degree of overall influence or dominance of family members. As Klein et al., (2005) mention this level of influence via ownership, management, and governance is viewed as interchangeable and additive, although this is an empirical question as well.

Experience: Generation in Control

The Experience according to Klein et al., (2005) refer to the summed experience that the family brings into the business and is operationalized by the generation in charge of management and ownership (the more generations, the more opportunity for relevant family memory). The Experience subscale relates to succession and to the number of family members contributing to the business. In some studies business can be viewed only as a family business when a transfer to the next generation is intended (Barach and Ganitsky, 1995; Heck and Scannell Trent, 1999).

Culture: Family versus Business Values

In the F-PEC scale, culture refers to values and commitment; an underlying assumption is that commitment is rooted in and shaped by the values of a family. According to Carlock and Ward (2001), "the family's commitment and vision of itself are shaped by what the family holds as important . . . For these reasons, core family values are the basis for developing a commitment to the business" (p. 35). In this perspective, family that is highly committed to the business is likely to have a fundamental impact on the business. A number of items comprising the Carlock and Ward (2001) Family Business Commitment Questionnaire are integrated into the F-PEC Culture subscale. As Klein et al., (2005) states family commitment is seen in the overlap of business and family values.

Structure

The organizational resources and capabilities of the small family firms are mainly resembled within their structures. As Covin and Slevin, (1990) state, organizational structure is an important resource and capability for the small firms. The organization implements its strategy through its structure, processes and systems (Chrisman et al., 1999; Covin and Slevin 1989, 1991; Duchesneau and Gartner, 1990; Miller, 1983; Slevin and Covin, 1990). Structure is one of the distinguishing characteristic of an organization because it determines the allocation of work and responsibilities among its members. Therefore, the structure of an organization is influential on many organizational activities (Miller, 1987). Mechanistic structures inhibit innovative strategies whereas innovation prospers in organic structures (Miller and Friesen, 1982; Romano 1990). Organic structure is usually related to better performance amongst small firms since most of the small firms operate in hostile and dynamic environments. The structure dimension in this research is the level of organic structure the small family firms have. Organic structure is characterized by the extent to which loose, informal control is emphasized, and being flexible is underlined in every aspect of the work (Brown et al., 2001).

Innovation

Innovation is important benefit of the small family firms. It is assumed that around 95% of all innovations are developed by new and smaller organizations. Innovation per employee in the fast growing small businesses is twice the innovation per employee in the larger firms (Daft, 2000). In order to establish a

new business, the individual entrepreneur should have a new idea of some sort. He has to develop a new product, a different production process or an unusual service. New and small firms may sometimes even create new industries (Wiklund, 1998). Innovation is defined by Lumpkin and Dess (1996, p. 142) as "the tendency of a firm to engage in and support new ideas, novelty, experimentation and creative processes that may result in new products, services or technological processes". Innovation is measured by the scale developed by Covin and Slevin (1989).

Based on literature review, the following research model which aims to measure the extent of family influence on family firm innovative behaviour is developed.

H1: Small family businesses, having higher levels of family influence- power, experience, and culture are associated with higher levels of innovation.

H2: Small family businesses, having higher levels of family influence- power, experience, and culture when supported by higher levels of organic characteristics in their structural design are associated with higher levels of innovation.



Figure 1: The Proposed Research Model

METHODOLOGY

Survey Instrument

A survey was used as a research instrument and was applied to the owner/managers. The questionnaire is composed of 3 parts which are F-PEC scale, innovation and structure. The questionnaire has 20 items in total. Each of these will be explained in the following parts.

The extent of family influence is measured by a standardized and valid instrument, the F-PEC which is developed by Astrachan et al. (2002). This enabled the study to assess family influence on a continuous scale rather than restrict its use as a categorical (e.g., yes/no) variable. The F-PEC comprises three subscales: power, experience, and culture. For the culture subscale the participants were asked to indicate their degree of agreement with the statements on a six-point scale ranging from "strongly disagree"=1 to "strongly agree"= 6.

Innovation is measured by the scale developed by Covin and Slevin (1989). The structure dimension which shows the level of organic structure that small firms have, is measured by the scale developed by Brown et al., 2001. The participants were asked to

indicate their degree of agreement with these statements on a six-point scale ranging from "strongly disagree"=1 to "strongly agree"= 6.

Study Sample

Our unit of analysis was small sized family firms. Data was collected from 75 independently owned small sized family firms that employ less than 150 employees in Istanbul.

Results

In this study, the collected data was initially analyzed by reliability and factor analysis. The relationships between dependent and independent variables were tested by hierarchical regression analysis.

Reliability and Factor Analysis of Culture Subscale

The culture subscale has 12 items in total. After the first factor analysis, 3 factors emerged and no item was eliminated due to low factor loadings or reliability. These factors were labeled as "shared values", "commitment", and "family values".

Reliability and Factor Analysis of Innovation

The 3 items measuring innovation were loaded on a single factor. One item had to be eliminated due to low levels of reliability. The remaining two items were labeled as innovation.

Table 1. Reliability and Factor Analysis of Culture Subscale

	Factor loadings	Variance Explained	Cronbach alpha	Number of items
<i>Shared Values</i>		24.256	0.794	5
There is so much to be gained by participating with the family business on a long-term	0.763			
I understand and support my family's decisions regarding the future of the family business.	0.755			
Deciding to be involved with the family business has a positive influence on my life.	0.730			
Family members agree with the family business goals, plans, and policies.	0.654			
Family members really care about the fate of the family business.	0.592			
<i>Commitment</i>		19.095	0.749	4
Family members support the family business in discussions with friends, employees, and other family members	0.747			
Family members feel loyalty to the family business.	0.701			
Family members are proud to tell others that we are part of the family business.	0.683			
Family members are willing to put in a great deal of effort beyond that normally expected to help the family business be successful.	0.637			
<i>Family Values</i>		16.992	0.699	3
Your family and business share similar values.	0.815			
Your family has influence on your business.	0.749			
Your family members share similar values.	0.694			
Total Variance Explained		60.344	0.844	12
Kaiser-Meyer-Olkin Measure of Sampling Adequacy	0.720			
Bartlett's Test of Sphericity				
App. Chi-Square	387.101			
df	66			
Sig.	0.000			

Table 2. Reliability Analysis of Innovation

	Cronbach alpha	Number of items
Environment for Innovation	0.653	2
In our firm There is a very strong emphasis on R&D, technological leadership and innovation.		
During the past 3 years our firm has marketed, excluding mere . minor variations no new lines of products or services (R)		

Table 4. Pearson Correlation Results for Innovatio

Pearson Correlation	D	1	2	3
Innovation (D)	1			
Loose Control (1)	-.500**	1		
Freedom (2)	-.355**	.284*	1	
FPEC (3)	.172	.035	-.081	1
*p<0.10				
**p< 0.05				

Table 3. Reliability and Factor Analysis of Structure

	Factor loadings	Variance Explained	Cronbach alpha	Number of items
Loose Control		39.197	0.652	2
We prefer tight control of funds and operations by means of sophisticated control and information systems. (R)	0.871			
There is a strong emphasis on getting line and staff personnel to adhere closely to their formal job descriptions. (R)	0.831			
Freedom		37.635	0.685	2
We strongly emphasize getting things done even if this means disregarding formal procedure.	0.914			
Employees' operating styles are allowed to range freely from very formal to very informal.	0.799			
Total Variance Explained		76.832	0.641	4
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.	0.582			
Bartlett's Test of Sphericity				
	App. Chi-Square	54.520		
	df	6		
	Sig.	0.000		

Table 5. Hierarchical Regression Results for Innovation

Independent Variables Entered	Model 1			Model 2		
	B	SE B		B	SE B	β
F-PEC	0.455	0.326	0.172	0.455	0.276	0.172
ORGANIC STRUCTURE						
Loose Control				-0.594	0.137	-0.472*
Freedom				-0.168	104	-0.176
Adjusted R Square	0.014			0.298		
R Square	0.030			0.331		
Δ in R Square	0.030			0.301		
Sig. F Change	0.167			0.000		
F for Δ in R Square	1.950			13.949		
F for ANOVA	1.950			10.213		
N=75 / *p< 0.05						

Reliability and Factor Analysis of Structure

The 5 items measuring structure were loaded on two factors after the 1st factor analysis. One item had to be eliminated due to low levels of reliability. The factor analysis was run again and two factors emerged. They were labeled as "loose control" and "freedom".

Results of Multiple Regression Analysis

The relationships between dependent and independent variables were tested by hierarchical regression analyses.

Table 4 gives the correlation results of the dependent and independent variables. The results show that variables loose control ($r = -.500$, $p < 0.05$), and freedom ($r = .355^{**}$, $p < 0.05$), in respective order are negatively correlated with the dependent variable of innovation.

Hierarchical Regression Results for Innovation

The first model includes F-PEC where F-PEC does not have a significant relation with innovation. Therefore, H1 is rejected. When organic structure dimensions are included in the second model, the model becomes significant and R square increases to 0.331 from 0.030. H2 is accepted. In this model, loose control has a significant but negative relationship with innovation with $\beta = -0.472$.

CONCLUSION AND IMPLICATIONS

The results of the factor analysis revealed same results with the previous studies. The hierarchical regression results showed that f changes between the models were significant. In the first model the F-PEC does not have a significant contribution to innovation however when structural elements were included, the model becomes significant.

In line with the suggestions of Miller (1987), the structure of an organization is influential on many organizational activities. This is consistent with our findings. In this study, F-PEC concept when supported by "structural" design elements of the organizations lead to higher level of "innovation" in small family firms. However, the findings were conflicting with the previous studies in such a way that the structure was supposed to be organic for innovation. This is mentioned in their studies of Miller and Friesen, (1982) and Romano (1990). They stated that, mechanistic

structures inhibit innovative strategies whereas innovation prospers in organic structures. Besides, organic structure is usually related to better performance amongst small firms since most of the small firms operate in hostile and dynamic environments.

In summary this means that the F-PEC concept when supported by "structural" design elements of the organizations lead to higher level of "innovation" in small family firms. However, it has to be noted that in this study "the structure" was found to be more mechanistic rather organic in order to lead to higher level of innovation which is contradictory to literature.

This paper makes some valuable contributions to the study of small family business and strategic thinking. First of all, family influence-power, experience and culture, were measured in a quantitative manner. The factor analysis findings were supporting the previous studies. This would encourage the researchers to measure the effects of family influence in different settings.

Furthermore, there are studies investigating the relationship between innovation and structure exists, but this relationship is mostly investigated in larger establishments. However, because innovation is usually considered as a large firm phenomenon, this can still be researched in the small family firms where it is not so common. The case of family business is a bit different. Although it is widely used as a concept, the use of influence of family in empirical studies is rare. There is also limited knowledge about the relationship between influence and innovation. In addition, family influence and innovation are rarely combined and their interaction with each other is not a widely researched area. Innovation is taken as a strategy and family influence and structural design characteristics were taken as strategic resources of the business. This study proves that there is an interaction between these resources and strategies which has a positive impact on small family businesses in Turkey. In other words, these concepts are thought as complimentary. The findings of hierarchical regression confirms this assumption and significant results show that family influence when supported by structure lead to higher innovation in small family businesses.

For researchers, the operationalization of family vs. nonfamily firms has been a matter of concern from the very beginning and the application of the F-PEC scale in a different setting is a valuable contribution to the family business research.

The findings of this study are also valuable for the small firm owner/managers. The importance of

innovation can not be underestimated and these findings provide useful information to the owner-managers to the small size family firms to how to support their innovative behaviour within their firms. This study provides them guidance about the strategic orientation and management practices they have to employ for better performance. In fact, the Turkish small firms have to improve themselves in order to compete in the national and international market. Successful and growing of family based SMEs distributed to each region of Turkey would improve regional development and entrepreneurial potential of individuals. Innovations and creative products/services would increase the competitive advantage of small family firms in the national and international arena.

In conclusion, we can say that there is limited knowledge about the relationship between the extent of family influence and innovative behaviour of the small family firms and this study examines this interaction. Besides it also provides evidence on the combined impact of the family influence and the structure on small family firm innovative behaviour.

There are some limitations of this study. First of all, this study covers only the relationship between family influence and structural characteristics and their impact on innovation. However, further studies may cover further concepts like entrepreneurial behaviors of the small family businesses.

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