

# Chapter 7

## Performance Determinants in Family Business: Linking Innovation and Internationalisation

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### ABSTRACT

*Family businesses (FBs) are central to economies: in Portugal the impact of these structures reaches 2/3 of the GDP, 1/2 of the labour force, and 4/5 of the firms in operation, most of them being SMEs. These organisations play a central role in terms of job creation, local development, knowledge transfer, and territorial cohesion. Innovative activities are key factors for competitive economies; yet innovation increases risk exposure and FBs are conservative and risk adverse, resisting change, relying on internal factors rather than opening to the external environment, consequently postponing innovation and thus pledging their future. Their embedded culture reduces innovative propensity; still, the existence loyalty trust and informal networks enhance individual or collective innovation processes. Using a dataset of 110 FBs innovation and internationalization along with other structural characteristics are connected to their economic performance, shedding light on the determinants FB economic efficiency. Given their importance, made-to-measure policy schemes should be designed.*

### INTRODUCTION

All over the world family businesses (FBs) play a central role in entrepreneurial dynamics. Despite the assortment of numbers concerning the proportion of FFs in business, research repeatedly reinforces the worldwide dominance of this type of organisations. According to the Family Firm Institute (2015), these businesses are the most important job creator as well as the most significant contributor to income generation, sources of regional and national growth, promoting job creation and inclusion, smoothing adverse phases of the business cycle. Given the singularities of their organisational structures they are a heterogeneous amalgamation (Chua et al., 2012).

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Since Schumpeter's (1939 and 1942) seminal works, innovation has been considered to be the holy grail of firms' long-term success being therefore accepted as a critical success factor in globalised environments, empowering firm competition, promoting growth, and sustainable development. FBs are the most common form of business being considered as crucial for the economic progress and sustainability (Anderson and Reeb, 2003).

Developing innovative activities is central in a competitive economy; yet innovation exposes firms to additional risks due to the uncertainty concerning the outcomes; FBs are often classified as risk adverse, with conservative managerial styles, consequently resisting change. Additionally, very often, preferring the reliance on internal factors rather than opening to the external environment, which tend to postpone innovation risking the organisation survival (Kellermanns et al., 2012).

Two major branches of research can be identified when linking innovation with FBs. The first evidences that these firms have a reduced propensity to innovate due to their traditional culture; and the second points towards the existence of values such as loyalty trust and informal networks, which will raise the innovative dynamics based in both the individual or collective innovation cycles.

Relying on a dataset of 110 FBs (from a purposive survey) located in Portugal, the analysis of innovation and internationalisation as drivers of the firm performance were appraised, including a set of other controls (structural characteristics) usually connected to the firm efficiency literature. A multivariate analysis was run to identify the existing connections between those variables and performance. The importance of innovation was highlighted along with the existence of a solid human capital stock, and operations in external markets.

Despite the inexistent measurement of the differences between family and non-family firms, the literature evidences clear dissimilarities in terms of the innovative strategies of these organisations compared to others. Ignoring these specificities in the innovation policy may constitute a hindering factor for the extending innovation practices in these organisations. Existent analysis seems to be insufficient to draw a policy package devoted to FBs and their singularities, so it is aimed to shed some light on the inter-relation among factors as understanding the effective role of innovation, internationalisation and human capital on FBs performance will enhance their productive potential, success and survival.

Given the increased importance of these structures among the entrepreneurial fabric in an economic scenario urging for fast and sustainable recovery, designing measures to sustain and leverage their activities should grasp the attention of practitioners, the academia and policy makers.

## **BACKGROUND**

In most countries FBs are the foundations of economic activity at the regional, sectoral and national level. In Portugal FBs are responsible for the generation of almost 2/3 of the Gross Domestic Product; generate half of the job opportunities, and, are 4/5 of the total numbers in terms of firms in operation (PWC, 2016). Despite most of them being small, there are also FBs quoted on the stock market (e.g. Sonae, Amorim, Jerónimo Martins). Due to their singularities, these forms promote local development, knowledge transfer and promote local cohesion.

The fact that the country is a Moderate Innovator (European Innovation Scoreboard, 2019), generates increased interest on its analysis as it needs a deeper effort for innovation practices to be disseminated among companies in operation being a generalised practise to leverage the overall performance of firms.

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