Chapter 5
Keys to the Survival of the Family Firm:
Long-Lived Family Firms

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ABSTRACT

The purpose of this research is to carry out an in-depth exploration of the causes of the family firm's success over short and long term, analysing which capabilities are the most valuable sources of sustainable competitive advantage in every time horizon. The results confirm only functional capabilities have a positive and significant effect on short-term economic performance, whereas dynamic capabilities are the only ones that have a positive and significant impact on long-term economic performance.

INTRODUCTION

Family firm research has attracted a great deal of interest due to the importance of this type of business in the worldwide economy. In fact, they are the most common form of organization among small and medium-sized enterprises (Gersick et al., 1997; Westhead & Howorth, 2007), and they represent the majority of businesses in many countries (Ifera, 2003). While their crucial role in global wealth creation makes these firms an important focus of study, their long-term survival is made more difficult by certain aspects that are intrinsic to family firms. However, some have managed to sustain themselves over several generations, achieving an enviable long-term success (Miller & Le Breton-Miller, 2005). There is, in fact, a debate in the literature about the real internal causes of family firm competitiveness, in both the short and long term.

DOI: 10.4018/978-1-6684-3550-2.ch005

The matter of how firms create value cannot be analysed in isolation from how they create and sustain competitive advantages. This is one of the main issues that the field of strategic management has attempted to resolve (Teece, Pisano & Shuen, 1997). Internal analysis of the firm is key to shedding light on how it creates value; indeed, the resource-based view, along with subsequent related developments such as the dynamic capabilities view (Teece et al., 1997) have proven critical to gaining an understanding of this value creation (Barney, 1997). The dynamic capabilities view analyses how the firm's resources are generated, renewed and combined to yield new capabilities that can create value over time (Teece et al., 1997). These theories are therefore crucial to understanding the sources of family firms' competitiveness (Chirico & Salvato, 2008). In fact, these approaches have given rise to the concept of *familiness*, which captures how the specific interaction between the family and the business produces its specific set of resources and capabilities (Habbershon & Williams, 1999). In turn, these resources and capabilities can contribute positively or negatively to the family firm's sources of competitive advantage (Habbershon et al., 2003; Habbershon, 2006).

The purpose of this research is to carry out an in-depth exploration of the causes of the family firm's success over different time horizons, analysing which capabilities are key to its development. Specifically, the objective is to determine the different short-and long-term effects of the family firms' capabilities, in order to identify the most valuable sources of sustainable competitive advantage. To that end, the study compares the relative importance of the three types of business capabilities: functional, coordination and cohesion, and dynamic.

The wide variety of family firm definitions in the academic literature has given rise to a broad range of concepts and measures (Miller et al., 2007; Sharma et al., 1996). In particular, Handler (1989) identified three basic dimensions underlying the definitions of the family firm: the family having an ownership interest; the family and the business being considered interdependent subsystems; and the desire for continuity through intergenerational transfer. Based on these dimensions, Shanker & Astrachan (1996) classify family firms according to three concepts—broad, middle and narrow definitions—referring to an increasing level of family involvement in the organization. Influential authors such as Gallo et al. (2004) and Chua et al. (1999) argue that when it comes to defining the concept of a family firm it is more reasonable to use broad definitions that are inclusive, rather than exclusive ones. This criterion is also applied in other works (e.g., Gallo, Tàpies & Cappuyns, 2004; Dibrell & Moeller, 2011; Neubaum, Dibrell, & Craig, 2012). Along the same lines, this study takes the position that a family firm is one in which majority ownership and control of strategic decisions lie with the founder or his/her descendants; there must be family capital in the firm's capital structure and the family must hold a majority of the voting capital, endowing family members with sufficient power over the firm to influence and determine the strategy.

Following this introduction, the rest of this chapter is structured in three additional sections. The first section presents the theoretical framework and the hypotheses to be tested, analysing the different types of firm capabilities that the literature identifies as sources of competitive advantage, and how these affect performance in both the short and long term. The second section presents the methodological considerations that have guided the empirical research. The third section details the results of the empirical analysis carried out to test the hypotheses. Finally, the fourth section explains the main conclusions drawn from the analysis of the results, notes the limitations of the study and suggests future lines of research.

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