Chapter 3
Entrepreneurial Orientation and Dynamic Capabilities:
The Case of Family Firms

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ABSTRACT

Currently, small and medium enterprises that are family businesses (SMEFs) assume an important role in the global economy. Further, innovation and flexibility became vital to firms' survival and prosperity in the market during these volatile times. Firms should not only possess critical resources, but also be able to recombine them. Characterized by resource restrictions, SMEFs can rely on dynamic capabilities to access resources and be competitive in the market. In this regard, networking capabilities (NC) and resource combinations (RC) such as exploitative and explorative product development and on market-related capabilities emerge as key dynamic capabilities. This chapter examines the role of Entrepreneurial Orientation (EO) on NC and RC. Using a qualitative method of in-depth case study, the chapter analyzes 12 Portuguese SMEFs.

INTRODUCTION

Small and medium-sized enterprises (SMEs) have an important weight worldwide. They contribute to the majority of the economies' value creation and jobs (Burke & Jarratt, 2004; Lubatkin, Simsek, Ling & Veiga, 2006). In the USA, SMEs represent 70% of all jobs, while in Europe, including Portugal, that contribution is as high as 99.8%, (Caldeira & Ward, 2003; European Comission, 2017). Despite

DOI: 10.4018/978-1-5225-8479-7.ch003

its relevance, SMEs are characterized as possessing scarce resources (e.g. human, physical, financial and intangible resources), scarce bargaining power, less structured organizational hierarchies, informal management practices (process), and possess limited information available to the firm (Caldeira & Ward, 2003; Lubatkin et al., 2006; Weerawardena, Mort, Liesch & Knight, 2007; Wiesner, Macdonald & Banham, 2007). In consequence, SMEs are highly sensitive to the increasing globalization of the world economy (Caldeira & Ward, 2003; Kraus, Rigtering, Hughes, & Hosman, 2012).

A significant among of SMEs are of family nature (Donckels & Frohlich, 1991; IFERA, 2003). The small and medium-sized enterprises that are family business (SMFEs) provide important contributions to gross national products, job generation and wealth creation (Anderson & Reeb, 2003; Astrachan & Shanker, 2003; Family Firm Institute, 2017). Specifically in the case of Portugal, 70%-80% of firms are family businesses, which represent 50% of the workforce and contribute for more than 60% of the Portuguese GDP (APEF, 2018; Coimbra, 2008). Still, family businesses are mainly underrepresented in the literature (e.g. Dyer, 2003).

Nevertheless, family businesses have peculiarities that call for academic interest. A family business is characterized by the interplay of three distinct subsystems: family, ownership and management (Gersick, Davis, Hampton, & Lansberg, 1997). In what regards the first subsystem, the family's specific role in the business makes these firms unique (Astrachan, 2010) and influences the way they manage and deploy resources (Chrisman, Chua, & Zahra, 2003). In fact, family businesses benefit from the support of family members and committed workforce, and have goals, values, relationships and resources different from the ones from non-family businesses (Dyer, 2003). For instance, values such as altruism and paternalism are cherished by family businesses and influence value creation of these businesses (Chirico, Nordqvist, Gianluca, & Edoardo, 2012; Dyer, 2003). The second subsystem, ownership, allows family firms the power of undertake the final strategic decisions (Chrisman, Chua, Pearson, & Barnett, 2012). Finally, concerning the management subsystem, family firms tend to focus on business longevity, and provide for long-term strategies (Miller & Le Breton-Miller, 2005; Zellweger & Sieger, 2012). In that regard, the owner/manager takes advantage of past experiences and accumulated firm-specific knowledge and skills, which consequently allows him to adopt the best decision-making strategies for the firm (Hirigoyen & Labaki, 2012). Moreover, these firms develop valuable social relationships (Kellermanns, Eddleston, Barnett, & Pearson, 2008), and favor a combination of financial and non-financial goals (Stafford, Duncan, Dane, & Winter, 1999).

With all their particularities, SMFEs are a flexible and customer oriented source of innovation, (Arregle, Naldi, Nordqvist, & Hitt, 2012; Classen, Carree, Gils, & Peters, 2013; Welsh & Raven, 2006). However, today they face a new reality. The world economy has been changed dramatically in the last decade. The globalization and the rapid market alterations, with the increasing complexity and demanding character of customers along with the environmental turbulence represent major challenges to SMFEs (De Massis, Frattini; Majocchi, & Piscitello, 2018; Kraus et al., 2012; Zain & Kassim, 2012). In these circumstances, firms need to rethink their operations and find new ways to compete.

Previous literature stated that firms could gain momentum over others due to the possession of strategic resources, such as entrepreneurial orientation (EO) (Barney, 1991; Covin & Slevin, 1991; Habbershon & Williams, 1999; Lumpkin & Dess, 1996). According to Lumpkin & Dess, EO consists of the *processes, practices, and decision-making activities that lead to new entry* (1996, p. 136). It involves not only the actions, but also the intentions of decisions makers. EO is perceived as an important strategic resource that can lead the firm to seek out new business opportunities and benefit from them. However, the mere possession of resources, even if valuable, rare, inimitable, and nonsubstitutable, doesn't seem to fully

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