

# Chapter 45

## Strategic Behavior in Family Firms: A Theoretical Insight Into Dynamic Familiness

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### **ABSTRACT**

*Previous research emphasizes that the participation of the family in business operations is the source of resources and capabilities that conditions the strategic behavior of the family firm. This influence has been recognized as “familiness.” However, this definition is contextualized from static reasoning that ignores the effect of family dynamics on the behavior and value generation of the family-owned business. Prior literature has recognized that the family influence has a dynamic character based on the idiosyncratic process of knowledge management that manifests itself in the company, dynamic familiness. This family capability is shaped by family organizational routines through the family influence and aims to increase its knowledge portfolios for the strategic use of its resources. This chapter addresses the relationship between family influence and the process of learning and knowledge management. The analysis of this relationship allows assessing how family influence can promote the generation of family organizational routines based on knowledge management processes.*

## INTRODUCTION

How does the family contribute to the success of the family business? This question is relevant because it has been shown that the interaction between family and strategic management creates value (Astrachan, 2010). However, research that helps to understand the strategy in the family business is still scarce (Chrisman et al., 2005). Indeed, the relationship between the family dimensions and the strategies of the family business has not been examined in depth (Goel et al., 2012). Previous studies have used various theoretical models to explain the strategic differences between family and non-family businesses (Chrisman et al., 2008) and variations in strategic behavior among family businesses (Chua et al., 2012). The resource-based view and agency theories have dominated research on family business strategy (Chrisman et al., 2005).

In particular, it has been from the agency theory applied to the strategic field in the family business (Gómez-Mejía et al., 2001; Schulze et al., 2001; Anderson & Reeb, 2003; Morck & Yeung, 2003; Schulze et al., 2003a; Schulze et al., 2003b; Chrisman et al., 2004; Carney, 2005; Villalonga & Amit, 2006), which have studied the relationships between ownership, management and performance, ownership structures, altruism and self-control, agency conflicts and the comparison of agency costs between family and non-family businesses and the government structures.

On the other hand, the application of the resource-based view theory in the family business (Cabrera-Suárez et al., 2001; Habbershon et al., 2003; Sirmon & Hitt, 2003) and in the specific field of strategy (Chrisman et al., 2005; Moores, 2009; Astrachan, 2010) has verified how the presence of the family in the company affects the strategic choice (Chrisman et al., 2009). It is argued that the resources provided by the family to the company facilitate decision-making processes (Arregle et al., 2007); in particular, as a consequence of the simultaneous participation of the family in property, government and management (Klein et al., 2005), family relations (Eddleston et al., 2008) or desire for succession (Cabrera-Suárez et al., 2001).

These two theories develop static arguments about the effects of the resources of the family business, for example, relying on the concept of familiness, analyzing only its resource endowment, but neglecting its use over time in value creation activities (Eddleston et al., 2008). These approaches have made it difficult to identify possible strategic behaviors of family businesses associated with achieving more familiar and less economic objectives; which could explain some performance differences between family businesses (Chirico et al., 2012). On the other hand, these theories do not clearly define what resources and capabilities the family can transmit, based on the dynamic interaction between family and business (Habbershon et al., 2003). Their application does not allow to consider the dynamics, variety, and nature of social relations in the family system and within the company (Goel et al., 2012).

The dynamic capabilities theory (Eisenhardt & Martin, 2000; Zollo & Winter, 2002; Helfat et al., 2007; Teece, 2007, 2014, 2018) has contributed to overcoming some of the limitations exposed in the study of other phenomena not contextualized in family firms. For example, the study of the creation of new business and corporate strategies (Bowman & Ambrosini, 2003); the entry to new markets (King & Tucci, 2002); conducting successful mergers (Bowman & Ambrosini, 2003); learning new skills (Zollo & Winter, 2002); the creation of new products (Deeds et al., 2000; Newey & Zahra, 2009; Prieto et al., 2009; Parente et al., 2011); the generation of R&D and innovation activities (Tripsas & Gavetti, 2000; Galunic & Eisenhardt, 2001; Verona & Ravasi, 2003; Narayanan et al., 2009), and the management of social capital (Sirmon & Hitt, 2009; Hsu & Wang, 2012). However, this theory put at the disposal of the analysis of family business, has only started to show some specific results (Colombo et al., 2006;

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