

FAMILY BUSINESS IDENTITY AS SOURCE OF PERFORMANCE, EFFICIENCY AND COMPETITIVE ADVANTAGE

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Abstract: *This paper addresses the importance of understanding the creation and continuous development of organizational identity as a source of performance, efficiency and competitive advantage of family businesses in relation to non-family businesses. I present three stages of family business identity creation and development and their unique characteristics that drive performance and efficiency: founder or founding family controlled stage, extended family stage and non-family members and management stage.*

Keywords: *organizational identity, family business, founders, non-family members.*

1. Introduction

Family-owned organizations are central in the global economy since they represent 80% of businesses across the globe and more than a third of Fortune 500 companies, with 60% of total employment and 78% of all new jobs in the US alone (Groysberg & Bell, 2014). But what has allowed today's family businesses to manage the transition through ever-changing and turbulent environments and prosper?

This paper addresses the importance of understanding the creation and continuous development of organizational identity as a source of performance, efficiency and competitive advantage of family businesses in relation to non-family businesses.

Based on in-depth interviews with 37 family members from several small-size family businesses (up to 100 employees), I present three stages of family business identity creation and development and their unique characteristics that drive performance and efficiency: founder or founding family-controlled stage, extended family stage and non-family members and management stage.

In the founder or founding family controlled stage the founder's freedom to imprint the individual identity onto the new business, the decision to put his/her name to the company and the commitment of the spouse/immediate family to the new venture, thus generating a "copreneurial identity" represent family business' unique identity building characteristics that drive performance and competitive advantage.

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In the extended family stage, family members exhibit superior human capital that leads to strong identification with the organization. This strong identification generates organizational commitment, citizenship behaviour, family employee involvement and thus a more positive culture and a more favourable reputation.

In the final evolutionary stage of family business, the non-family members and management stage, the growth of the business can no longer be sustained by the family and entails professional employees and management. However, successful family businesses do not separate between family and business, but generate familiness and a meta-identity of “family business” as drivers for performance and competitive advantage.

2. Founder or Founding Family Controlled Stage

Founders of family businesses identify with their firm to such a degree, that personal and organizational identities overlap. The primary source of organizational identity formation, especially in the incipient stage, is the individual identity of the founder. This individual identity is untainted by social or organizational expectations, discourses and constraints. Instead of ephemeral bases of identification, such as culturally tribal fashionable codes of speaking, dressing, playing – mostly grounded in consumption rather than production (Bardon, Clegg, & Josserand, 2012), founders use a traditional source of authority (the family) to provide them with a collective sense of belonging around commonly taken for granted bases of identification.

Even though individuals in family businesses are assumed to passively conform to universal templates of individual behaviour which provide prescriptions for acceptable social behaviour in the business and family context (Shepherd & Haynie, 2009), this view limits the possibilities of a dynamic understanding of individual identity processes. There is no real (private) and fake (public/organizational) self (Tracy & Trethewey, 2005), and there is no need for dramaturgical tactics in identity creation efforts (Down & Reveley, 2009), since founders are free to create a core essence statement that encapsulates their true values. This core essence statement will serve as the foundation for the vision and mission of the future family business (Zellweger, Eddleston, & Kellermanns, 2010) and as a base for organizational distinctiveness.

Most founders put their name to the company which leads to several implications for identification: founders will be more attached to the company and delay its generational change; the company will be more easily perceived as a family business and will play a more proactive social responsibility role; there will be a more positive impact on the engagement of the company with its stakeholders (Olivares-Delgado, Pinillos-Laffón, & Benlloch-Osuna, 2016).

An entrepreneur’s decision to start a business is not only a product of rational analysis, but also a consequence of sharing a common vision about business goals with the spouse or immediate family. Spousal or immediate family commitment, “a continuum that changes over time or with circumstances either in the firm or family systems” (Danes & Jang, 2013), is an input of meanings about the new venture and influences founder’s attitudes, resources and motivation towards the business. The mutual verification and co-creation process between the spousal or immediate family identity and the founder’s

identity generates a “copreneurial identity” (Danes & Jang, 2013) which facilitates company’s success.

In conclusion, in the founder or family controlled stage, the freedom to imprint the individual identity onto the new business, the decision to put his/her name to the company and the commitment of the spouse/immediate family to the new venture, thus generating a “copreneurial identity” represent family business’ unique identity building characteristics that drive performance and competitive advantage.

3. Extended Family Stage

Sometimes the individual human capital of family businesses is thought to be inferior to that of non-family businesses, because in the extended family stage founders are usually hiring suboptimal employees by virtue of family ties and keep away qualified non-family managers. Still, family businesses have a competitive advantage over non-family businesses, since there is more to family human capital than family member’s knowledge, skills and abilities. Family human capital is theorized to contain attitudes of family members and their motivation, which lead to an alignment of interests between individual and organizational goals (Dawson, 2012). Human capital in family businesses is developed through learning by doing and apprenticeships provided by other family members and it implies an appropriate reward system, even though family members are willing to work without pay, a flexible job design and a strong socialization system. This leads to greater commitment and cooperation (Dawson, 2012). It is not only their head and hand (knowledge and abilities), but also their heart (willingness to exhibit productive behaviour and alignment between individual and organizational goals) that generate strong identification with the organization and thus a competitive advantage.

Furthermore, identification is positively associated with organizational commitment, citizenship behaviour and family employee involvement. On the one hand, family members have higher levels of family identification than non-family members, which leads to a strong affective, normative and continuance commitment and to organizational citizenship behaviours (Matherne, Waterwall, Ring, & Credoia, 2017). On the other hand, higher levels of family business identification are positively associated with employee involvement and family stewardship behaviours and attenuate the negative consequences of resource paucity on firm survival (Lee, Phan, & Ding, 2016).

Family firms seem to perform better because of “who they are” and “what they do strategically” (Denison, Lief, & Ward, 2004). The founder’s role in identity and culture creation is dominant not only in the entrepreneurial stage, but also in successive stages, where his/her values and motivations are powerful cultural drivers. Founder’s values and belief system in an anchor, but will incorporate new learnings over time, as the organization interacts with the world at large (Denison et al., 2004). In family businesses, ownership carries with it the option for families to define success in their own terms.

Heightened identification not only generates a more positive culture, but also a more favourable reputation. Especially when the family name is in the firm’s name, family members pursue a favourable reputation because it allows them to feel good about themselves, thus contributing to their socioemotional wealth – a family’s affective value

gained from a firm (Deepphouse & Jaskiewicz, 2013). Family businesses make decisions based on socioemotional reference points, not just economic ones.

In conclusion, in the extended family stage, superior human capital that incorporates not only knowledge, skills and abilities, but also willingness to exhibit productive behaviour and alignment between individual and organizational goals leads to strong identification with the organization. This strong identification generates organizational commitment, citizenship behaviour, family employee involvement and thus a more positive culture and a more favourable reputation.

4. Non-Family Members and Management Stage

Even though numerous family-owned organizations are characterized by harmony, efficiency, and longevity, many of them struggle with issues of governance, leadership transitions and ultimate survival: only 30% of them make it into a second generation, only 12% into a third and only a tiny 3% into a fourth or further generation in their family-owned form (Fernández-Aráoz, Iqbal, & Ritter, 2015). Those who survive still place a strong emphasis on the values of founders and their successors, even though they usually turn to professional management.

In this stage there is a strong inclination to maintain boundaries between the family and the business to avoid negative spillover from the emotion of the family into the business, and from the stress of the business into the family. Moreover, there are different behavioural expectations for family identity (nurturing, caregiving, protection, commitment, loyalty etc.) as opposed to business identity (income growth, public success, social legitimacy, security etc.) that maintain the separation between the two spheres. But successful companies strive for a unified system approach in the sense of familiness, of a meta-system where the family, the business and the individual members continuously influence each-other and provide circular feedback (Knapp, Smith, Kreiner, Sundaramurthy, & Barton, 2013).

Familiness is thus one of the main drivers of performance and competitive advantage and refers to the involvement of the family in the business, the essence of the family business and family effect (Cano-Rubio, Fuentes-Lombardo, Hernández-Ortiz, & Vallejo-Martos, 2016). Familiness entails three types of capital: family capital (identification and reciprocal altruism), bonding social capital (shared goals and long-term orientation) and bridging social capital (market orientation and relations with stakeholders) (Cano-Rubio et al., 2016). Familiness implies the vision of the dominant family coalition and the intention of that dominant coalition to sustain such a vision across generations in order to maintain trust, loyalty and altruism internally, and a positive community reputation externally (Zellweger et al., 2010).

At this stage there are three sources of isomorphism (coercive, mimetic and normative), but family businesses develop a sense of pride in their distinctiveness, in the centrality of the family impact and in the enduring aspect of the family business identity. Although identity change is difficult and slow in family businesses, change occurs in unending conversations with stakeholders (Reay, 2009). To resolve these tensions and conflicts, a meta-identity that serves to inform “who we are as a family business”

(Shepherd & Haynie, 2009) is formed at the intersection of the competing lower level family (“who we are as a family”) and business (“who we are as a business”) identities. This higher-level identity resolves the conflict between family and business identity, expedites the opportunity belief formation (Shepherd & Haynie, 2009) and manages to maintain the family business identity as central, distinctive and enduring (Reay, 2009).

In conclusion, the final stage in family business evolution, the non-family members and management stage, entails a growth of the business that can no longer be sustained by the family and entails professional employees and management. However, successful family businesses do not separate between family and business, but generate familiness and a meta-identity of “family business” as drivers for performance and competitive advantage.

5. Conclusions

Family businesses represent a significant portion of businesses around the world. Family business sustainability, accomplishment, and their competitive advantage to non-family firms are tightly connected to their unique identity characteristics.

This paper aimed at understanding how the creation and continuous development of organizational identity are a source of performance, efficiency and competitive advantage of family businesses in relation to non-family businesses. Based on in-depth interviews with 37 family members from several small-size family businesses (up to 100 employees), I presented three stages of family business identity creation and development and their unique characteristics that drive performance and efficiency: founder or founding family-controlled stage, extended family stage and non-family members and management stage.

I am fully aware that the development of a stage model is always prone to criticism at least on two dimensions. First, it is hard to identify all possible stages that a family business and its correlative organizational identity go through. Industry, culture, size and other differentiating criteria can entail more, less or even totally different stages than those presented here. Second, different family businesses may not follow this precise stage evolution and skip steps, or go through them in a different order.

However, this is intended to be a pilot project that aims at revealing some unique characteristics of family business organizational identity that drive performance and competitive advantage in opposition to non-family business.

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