

ORGANISATIONAL RENEWAL IN FAMILY FIRMS

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Keywords

Family Business, Family Owned Firm, Organisational Renewal, Strategy, Familiness,
Morphing,

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ABSTRACT

We investigate whether organisational renewal impacts upon the performance of family firms, and identify aspects of “familiness” acting as facilitators or inhibitors of organisational renewal. A survey instrument captured data on relevant family-related characteristics, organisational renewal, and firm performance from CEOs of 140 family firms in Greece. Regression analysis was used to test hypotheses. We found strong evidence that organisational renewal impacts positively upon profit growth of family firms. Where CEOs had a strong growth aspiration for the future, were firm founders, and where succession planning was taking place, renewal was more likely to be enacted. Efforts are focused on creating a business which will thrive in the *future*, and not curating an organisational heirloom shaped and constrained by the *past*. Their strong future focus liberates these family firms from possible cross-generational path dependency, allowing the special resources of their family's business to act instead as a springboard for on-going organisational renewal. Conversely, those family firms with a high level of family altruism indicated by extensive kin-employment seemed to be more probably destined for stagnation than stewardship, as they promote (past-focused) historical family sentiment and tradition. The dangers of cross-generational path dependency indeed seem pronounced in such past-focused firms.

INTRODUCTION

The importance of stable continuity has repeatedly been asserted as a prime organisational advantage of the family firm (Habbershon et al., 2003). However, organisational renewal is ever more prioritized as a key strategic imperative (see for example: Dess and Lumpkin, 2005). The entrepreneurial culture of a family firm may enhance organisational renewal, but it is likely to evolve in some tension with the continuity imperative. And whilst the dangers of organisational stagnation have never been more pronounced, the risks associated with dramatic organisational change may also jeopardize the very positive qualities which differentiate the family firm. There is

thus a serious question to be asked about if and how family firms can address the organisational change imperative. The connections between family and enterprise are multiplex, dynamic and varied (Habbershon and Williams, 1999; Habbershon et al., 2003; Chrisman et al., 2005; Zahra, 2005; Miller and Le Breton-Miller, 2006). They can thus be expected to impact differently upon the firm's strategic practices, including – perhaps especially so – the practice of continual reinvention which enacts organisational transformations.

The literature appears polarised with regard to the influence that stability can have on their organisational and entrepreneurial dynamics of family businesses. Distinctive organisational advantages are often associated with stability (Tagiuri and Davis, 1996; Craig and Moores, 2006; Miller and Le Breton-Miller, 2006; Chrisman et al., 2009; Memili et al. 2010). On the other hand, conservative, established routines promoting “strategic simplicity” and sclerosis are associated, for example, with the longer CEO tenure of family firms (Shepherd and Zahra, 2003; Zahra et al., 2004; Zahra, 2005). We offer an operationalisation of organisational renewal for capturing the behavioural and action-oriented processes that characterise morphing in ever changing socio-economic environments. Moreover, we test the effects of organisational renewal on performance in family businesses.

Two key concepts are used for framing the discussion and the analysis: Rindova and Kotha's (2001) morphing and Habbershorn and Williams' (1999) familiness. Continuous morphing describes “the comprehensive ongoing transformations” that firms employ in order to “regenerate their transient competitive advantage” during turbulent environmental changes or in hypercompetitive markets (Rindova and Kotha,

2001, p.1263). Although widely used in the strategic management literature, morphing has been only marginally used for analyzing family business dynamics. This has been a neglected area of application, perhaps, as family businesses are often associated with long-term stability. However, even in the context of a general stability, family businesses engage with transformational activities, especially at times of uncertain socio-economic situations. Rather than focusing on the relationship with dynamic capabilities and strategic flexibility, morphing is used here to frame the expression of organisational renewal as a transformational and strategic approach designed to sustain environmental fitness in family businesses. The selection of a sample of Greek family businesses during a period of wide socio-economic transformation allows the paper to observe morphing dynamics during turbulent and uncertain times.

The notion of familiness offers the opportunity to observe transformations as they occur both in the family relations and in the entrepreneurial dynamics that characterise family businesses. Two main issues define the literature on familiness. The first is the ontological debate between the ones who consider it as an observable concept (Sirmon and Hitt 2003; Zahra et al. 2004; Chrisman et al. 2006; Habbershorn 2006; Pearson et al. 2008; Minichelli et al. 2010; Shulze and Gedajvolic 2010; Kansikas et al. 2012) and the ones who consider it a latent and diffuse concept (Frank et al., 2010; Irava and Moores, 2010; Cabrera-Suarez et al. 2011). Following the invitation of Frank et al. (2010) and Weismeier-Sammer et al. (2013) we propose to go beyond the current debate about the nature of familiness as an elusive or as a definitive concept. We thus propose that familiness occurs as a system of distinctive family characteristics that pervade the balance of family and business aspects during

strategic decisions. Some of the decision-making aspects are measurable while others remain difficult to capture quantitatively. The paper hence focuses on the ones that are observable during transformation in family businesses.

The second issue defining the literature is the assessment of the impact of familiness on financial performance. Previous studies failed to identify significant direct relationships between familiness and family businesses' performance (Astrachan et al., 2002; Arijs and Praet, 2010). In order to achieve less ambiguous results, the investigation moved on to exploring with more attention the indirect effects of familiness on performance (Rutherford et al., 2008; Weismeier-Sammer et al., 2013). The literature thus invited an exploration of mediating factors previously neglected by empirical research (Chrisman et al., 2010; Mazzi, 2011). Recently, the investigation focused on the impact of familiness on innovation (Luager et al. 2012); on strategic leadership (Kansikas et al. 2012); on relations with stakeholders (Zellweger et al. 2010); on market-oriented behaviours (Cabrera-Suarez et al., 2011); on day-to-day and strategic operations (Chrisman et al. 2006; Habbershorn 2006). These studies all explored singularly important elements of morphing finding weak empirical support. Differently, we explore organisational renewal as a notion that encompasses these transformational elements and mediates the effects of familiness on financial performance.

To summarise, the paper has two main aims to explore:

- To investigate the extent to which organisational renewal impacts upon the performance of family firms

- To identify which family-firm characteristics act as facilitators or inhibitors of organisational renewal

The next sections discuss the literature on organisational renewal and familiness and present the hypotheses tested.

ORGANISATIONAL RENEWAL IN FAMILY FIRMS

Iterative organisational renewal is an increasingly dominant management imperative, whereby the “ideal” organisation is one which continually adapts (Weick and Quinn, 1999). From strategic marketers (e.g., Dreyer and Grønhaug, 2004), to scholars of strategic flexibility (Volberda, 1996), from the dynamic capabilities literature (Eisenhardt and Martin, 2000; Bowman and Ambrosini, 2003; Sher and Lee, 2004) to corporate entrepreneurship (Dess and Lumpkin, 2005), and even some approaches to population ecology (Durand, 2001), continuous renewal is ever more strongly positioned at the heart of successful management practices.

Building on Romanelli’s (1991) notion of organisational form, Rindova and Kotha (2001) conceptualise continuous morphing as “comprehensive, continuous changes in products, services, resources, capabilities and modes of organising through which firms seek to regenerate competitive advantage” (ibidem, p.1276). In this conceptualisation, higher levels of morphing help to produce enhanced organisational performance, as continually adapted fit creates a positive effect on firm survival, success and growth. It may be especially important to study such processes within the family firm environment, since:

“the study of the link between family business and firm performance raises many aspects that need to be further explored. The inconsistencies raised in previous studies suggest that the relationship is complex and very likely to be moderated or mediated by factors not included in the analyses” (Mazzi, 2011, p. 176; see also Chrisman et al., 2010).

Whilst environmental dynamics may shape the renewal process, nevertheless a firm’s pattern of response depends on “an organisation’s self-understanding” (Tsoukas and Chia, 2002, p.578). For family firm scholars it is therefore necessary to consider organisational self-understanding given the specific contingencies of a range of family characteristics, and family - enterprise interconnections.

Recent empirical evidence also suggests that “continuity and command priorities make family firms a more stable organisational form” than non-family firms (Chrisman et al., 2009, p.754). Morck and Young (2003, 2004) suggest that successors may be more prone to political rent-seeking, than to entrepreneurship. Successors often consider it their duty to show respect to foregoing generations by continuing to enact their decisions (Bertrand and Schoar, 2006). Family-specific altruism also emerges, constraining kin behaviour in the making of commercial decisions (Lubatkin et al., 2005; Schulze et al., 2002). These characteristics, intensified by concentration of ownership, are likely to have a special impact upon innovation, venturing and firm re-vitalization (Eddleston et al., 2008, pp.29-30). Taken together it is conceivable that these characteristics may inhibit family firms from engaging in organisational renewal.

Indeed, Miller et al. (2008) go so far as to describe these approaches collectively as the “stagnation perspective”, and contrast it with the “stewardship view”, where continuity, command and control are understood to provide positive strategic coherence to family firms. In larger, older firms the cluster of renewal-restricting variables include “change-resistant family factions, owners with crony-like associations with governments, and owners who have become entrenched, exploitative of other shareholders, and remote from day-to-day operations” (Miller et al., 2008, p.57). For smaller firms, renewal-restricting elements include a lack of resources, conservatism, a reluctance to grow, and their short life¹ (ibidem, p.70).

Conversely, however, there are some clear indications that family businesses may indeed be characterised by an ability for re-invention. Some family firms have been found to have cultural preferences for entrepreneurship (Zahra et al., 2004). Craig and Moores (2006) provided evidence that “family firms appear to place substantial importance on innovation practices and strategy” (p.7). Memili et al (2010, p.207) have similarly found that “family expectations provide incentives to maintain high levels of family firm image and encourage entrepreneurial risk taking.” It has recently been demonstrated that it is the strategic capabilities associated with entrepreneurial SMEs (rather than engineering or administrative SMEs) which tend to perform better in terms of R&D capability and product innovation (Raymond and St-Pierre, 2010, p. 209). Carney has argued forcefully that the personalism and particularism associated with the family firm form enhance rapid and flexible opportunistic investments based on intuitive heuristics (Carney, 2005). Concentration of control in family hands may

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This study, however, found no evidence that family-run firms were more likely to exhibit stagnating qualities than founder-run, non-family, small firms.

facilitate organisational renewal, by removing any potential outside interference (Miller and Le Breton-Miller, 2006). This “command” priority of family firms permits them to be “more aggressive in entering new markets” for example (Chrisman et al., 2009, p.745) ². Not least, evidence continues to accumulate that family firms outperform non-family firms, which argues for enhanced strategic competence (Chrisman et al., 2009, p.739). It is thus reasonable to suppose that “innovative capacity appears to be a particularly potent firm-specific resource that may significantly distinguish successful family firms from their less successful counterparts” (Eddleston et al., 2008, p.27; Gudmundson et al., 2003). Frank et al (2012) find that whilst Market Orientation, for example, appears indeed to foster new product success for family firms, and to sustain repeat business, it does not impact positively upon sales growth. They suggest that this may be because of the family nature of such firms, in as much as “the typically strong orientation towards customer bonding and loyalty may prevent family firms from the acquisition of new customers and therefore hinder sales growth” (ibidem, p.372). In summary, empirical evidence suggests that family firms experience both very specific inhibitors and facilitators of organisational renewal. Similarly, business-owning families can react in either very risky, or, conversely, very risk-averse, strategic behaviours, depending upon which is most likely to protect the *socioemotional* wealth invested within their ventures (Gómez-Mejía et al., 2007).

Does organisational renewal itself indeed have merit as a strategic practice for family firms? Does the benefit of such renewal outweigh the loss of overall continuity that

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Gulbrandsen, interestingly, found that it was family *management*, rather than ownership, which was associated with lower degrees of HR flexibility (Gulbrandsen, 2005).

this implies? The foregoing discussion suggests that renewal will indeed produce net positive performance outcomes for family firms (Schulze et al., 2002). The significance of this area of study is underlined by the importance of family firms for the wider economy (see, for example, Venter et.al. 2006, p.34).

The review of the literature highlighted that the notion of organisational renewal remains however fluid and there is no clear agreement on which aspects constitute it. Drawing from Rindova and Kotha's (2001) considerations, we designed a multi-item scale for operationalising organisational renewal during transformation in changing socio-economic environments. Moreover, the study explored whether this complex concept has direct effects on family firms' performance. We hence propose:

Hypothesis 1: Family firms with higher levels of organisational renewal will also report higher levels of financial performance.

FAMILY-RELATED CHARACTERISTICS INFLUENCING ORGANISATIONAL RENEWAL

Familiness is the second concept key to this study. In spite of some divergent views (Nordqvist, 2005); the literature seems to agree that familiness is an inherent aspect of family businesses (Pearson et al., 2008; Irava and Moores, 2010; Cabrera-Suarez et al., 2011). This also helps to distinguish family businesses from non-family businesses (Astrachan et al., 2002; Chrisman et al., 2005; Kansikas et al., 2012). More debated is the ontological nature of familiness and to its influence on the firm's performances.

Framing the argument within the resource based view of the firm (Barney 1991), familiness can be seen as a family resource (Pearson et al. 2008; Sarathy et al. 2010; Zellweger et al. 2010) or as a business resource (Sirmon and Hitt 2003; Chrisman et al. 2006; Habbershorn 2006). For others, familiness is indeed a distinctive construction, but it pertains to both the family's and the firm's sphere (Zahra et al. 2004; Shulze and Gedajvolic 2010; Minichelli et al. 2010; Kansikas et al. 2012). However, the attempts to measure familiness as a distinctive concept have not been able to fully capture its essence (Astrachan et al 2002; Arijis and Praet 2010; Frank et al. 2010; Minichilli et al. 2010; Kansikas et al., 2012).

For other authors, familiness just exists, yet it is difficult to be observed and measured (Cabrera-Suarez et al. 2011). Although familiness represents a distinctive feature of both the firm and the family, it is a diffuse representation of distinctive family characteristics such as of the family culture; family governance; and family context. Building on these considerations, we follow the reasoning of Frank et. al. (2010), which in turn draws on Luhman's (1995; 2000) work on social systems and their implications for organisations. Specifically, we agree that “familiness is the specific result of the structural coupling of family and enterprise, which can bring forth a particular identity as a family business that has grown historically and incorporates different content relations such as particular abilities to innovate” (Frank et. al. 2010, p.119).

We thus propose that familiness is not to be measured as a single construct because it works as a diffused system expressing a set of distinctive multifaceted family-related characteristics of the business (Cabrera-Suarez et al., 2011). Each of these

characteristic includes both family and business aspects and contributes separately to construct *familiness* within a firm. This implies that during morphing these characteristics can act independently as facilitators or inhibitors of organisational renewal. The systemic approach allows the study to focus on individual and interrelated aspects of familiness such as the role of the founder on culture and growth aspirations; desire for involving younger generations; succession planning; and overall involvement of the family.

Recent evidence (Zahra et al., 2004) suggests that organisational culture plays a more prominent role in family than in non-family firms. In the former, the role of founder CEO is pivotal in shaping and re-shaping organisational culture (Alvesson, 2012). Being a firm founder will likely impact significantly upon strategic practices, not least because a firm founder has already and demonstrably enacted a dramatic adaptive organisational event: namely, the creation of a new venture (Gedajlovic et al., 2004). Miller et al. (2008, p.54) point out that founder CEOs prioritise rapid growth and innovation over longevity objectives, not least since their potential exposure to social risk is lower than that for CEOs from later generations. That is, founder family CEOs may have lower levels of socioeconomic and socioemotional wealth invested in their ventures than later heirs, thus permitting them greater flexibility with regard to hazarding this wealth through venturing risk (Gómez-Mejía et al., 2007). Zahra (2005) established a broad trend which indicated a positive relationship between being a founder CEO and a variety of risk-taking behaviours, although none of these correlations were statistically significant.

Gedajlovic et al. (2004) argue that founder managed family firms are particularly well fit for specific environments, given their governance structure (incentives, authority norms and legitimation). Decision-making, power, and symbolic legitimation are all vested more thoroughly in the person of the founder than could be the case for either non-family (“professional”) managers, or for subsequent generations. Such centralisation (both formally and symbolically), coupled with a demonstrated bent for opportunity perception and exploitation, provide the organisational agility and speed which facilitate morphing. Higher personal exposure to risk, however, may reduce more “extreme” forms of morphing due to the perceived potential down-side (Gedajlovic et al., 2004). By contrast, non-founder family CEOs (i.e., those from subsequent generations), can be strongly influenced by cultural beliefs that demand they protect the firm’s survival above all other objectives, resulting in excessive aversion to risk (Bertrand and Schoar, 2006). Therefore, whilst founder CEOs are entrepreneurial by definition, this culture may not be transmitted to future generations, who can instead find themselves trapped into a cross-generational path dependency reinforced by strong norms aimed at maintaining stability (Arregle et al., 2007). With some divergent views (see Zahra, 2005), stability seems therefore less likely to be exhibited by founder CEOs than by their in-family successors (Bertrand and Schoar, 2006; Gomez-Mejia et al., 2007; Miller et al., 2008). Nevertheless, recent studies have been unable to show a direct relationship between family firm generation and corporate entrepreneurship, suggesting that this question remains open (Kellermanns and Eddleston, 2006; Weismeier-Sammer, 2011).

We hence suggest that first generation family business are more prone to embrace organisational change because of a more entrepreneurial and morphing mindset

imprinted by the founder CEO. The effect of this family-related characteristic is explored in this study in order to see if, in turbulent environments, family firms can meet the “requirement to have managers with morphing mindsets who can create and maintain the flexible and fluid organisational forms and practices necessary for fast-paced, continuous whole-system change” (Marshak 2004, p.14).

Hypothesis 2: Founder family firm CEOs will display higher levels of organisational renewal.

An important family related characteristic of the business is the growth aspiration of the entrepreneur (or top management team). A desire, willingness, or proclivity for change is of critical importance for shaping the context for organisational renewal. Intentionality is vital, and may be difficult to develop and sustain in a family firm setting where conservative normative forces might prevail (Shepherd and Zahra, 2003; Zahra et al., 2005; Bertrand and Schoar, 2006). Wiklund and Shepherd (2003) provide empirical support for Covin and Slevin’s (1997) argument that “growth is a function of growth aspiration”, noting the importance of entrepreneurs having a positive vision of post-growth scenarios. Conscious management intentionality enables proactivity (Whittington, 1988; Bloodgood and Morrow, 2003; Flier et al., 2003). There are some empirical indications that CEO's willingness to grow is indeed associated with corporate entrepreneurship in family firms (Kellermanns and Eddleston, 2006; Weismeier-Sammer, 2011).

Hypothesis 3: Strong family CEO growth aspiration will lead to higher levels of organisational renewal.

Other distinctive elements characterizing familiness within family firms refer to the relation between the CEO and subsequent generations. Effects of succession issues upon family firm performance and practice are widely recognized in the literature. Where parent CEOs provide employment for their offspring, agency issues might arise caused by this possibly overly altruistic behaviour. Where they desire to hand the venture over to their offspring, similar effects may also be predicted. An intention to transfer business ownership to subsequent generations is likely to enhance stewardship issues, including caution in strategy, and financial conservatism (Miller and Le Breton-Miller, 2006). The altruism associated with parenthood may cause family CEOs to act in risk-averse and conservative ways to protect their children's future livelihoods (Schulze et al., 2001). It has recently been argued, however, that both CEO's self-control and the fairness inspired by organisational justice, can play an important role in mitigating the potentially negative impact of parental altruism on family firm performance (Lubatkin et al., 2007). We propose that lower expectations about a future involvement of the family might encourage stewardship and promote a revision of strategies based on historical family sentiment.

Hypothesis 4: A desire to employ younger generation family members will lead to lower levels of organisational renewal.

Aspects of familiness fashion not only how family firms engage with their past, but also how they might thrive in the future. A planned and structured succession process can promote stability and, with it, some key organisational advantages: heightened commitment; longer-term perspectives; patient capital; sustained values and vision;

continuity, specialized knowledge (Tagiuri and Davis, 1996; Habbershon and Williams, 1999; Sirmon and Hitt, 2003; Habbershorn et al., 2003; Chrisman et al., 2005; Habbershon et al., 2006). More importantly, it shapes a strong family vision of the firm's future (Le Breton-Miller et al., 2004). This strategic understanding of how the family and the business systems interface is a specific kind of growth and survival aspiration, and as such may be expected to enhance morphing activities. The undertaking of planning activities aimed at readying the firm for cross-generation transfer invites organisational renewal and re-invention (Lansberg, 1988). Although both expressions of familiness as a system, planning practices are expected to influence morphing differently than the desire for in-family succession.

Hypothesis 5: Higher levels of succession planning lead to higher levels of organisational renewal.

The degree of family involvement in the firm can also be anticipated to act as a brake on organisational renewal. The more family employees dominate a firm numerically, the more their familial norms, mind-sets, behaviours, and values will also dominate the firm, and the more resistant these will be to change. Convincingly, Miller and Le Breton-Miller (2006) propose that “a growing cast of family members” (ibidem, p.83) can cause a reduction in overall firm performance and an increase in conflict, resource depletion and succession / leadership challenges. Rather than focusing on the overall firm performance, we reflect on how such issues divert the family's attention towards intra-family allocation of status and resources and away from continuous organisational renewal. Furthermore, the more the salary income of family members

is contingent upon the firm, the lower the likelihood that its activities will be routinely jeopardized by organisational re-invention (Miller et al., 2008).

Hypothesis 6: The higher the percentage of family employees within the firm, the lower the level of organisational renewal.

Figure 1 presents our hypotheses.

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METHODOLOGY

The objective of our study was explicitly to compare characteristics and practices *between* family firms, rather than the comparing of family and non-family firms. To provide adequate diversity amongst types of family related characteristics, Greece was selected as an environment munificent in family firms. In the country, between 50% and 65% of very large firms and 100% of middle sized firms are in family control (La Porta et al., 1999; Morck and Yeung, 2004). This cultural context also avoided the more polarized institutional environments of either highly developed, or still developing, economies (Peng and Luo, 2000; Carney and Gedajlovic, 2003).

We surveyed the Chief Executive Officers (CEOs) of small and medium family firms. Although we focused on a specific group of individual decision-makers, these people were nonetheless exceptionally well placed to report on their organisation as a wider unit. All respondents identified themselves as family-firms CEOs. Our sample was drawn from the ICAP (the Gallup International Association member in Greece)

company directory. Since we are taking an etic approach (Berry, 1969) (using constructs developed in one cultural context and applying them in another), we tested for construct equivalence by conducting several in-depth interviews. The constructs were translated into Greek and translation equivalence was tested through back translation. Further, there were two pre-testing waves that allowed for minor questionnaire refinements and ensured that all scaling and measurement units are usable. After identifying and pre-notifying the appropriate person at each firm, 520 surveys were faxed to the CEOs. Similarly with previous studies (Brown et al., 2001), our sampling frame was balanced in order to include firms from business services and products as well as consumer services and products. Companies with less than 10 employees, micro-enterprises, were excluded.

Two weeks later, a second copy of the survey was sent to non-respondents. We collected 141 usable surveys corresponding to a 27.1 percent response rate. This is a relatively favorable result given the fact that a large instrument (eight pages) was targeted to top company executives (Diamantopoulos and Schlegelmilch, 1996). To assess the presence of non-response bias, we compared first wave survey responses with those of the second. The fact that we did not find any differences in responses between first and second wave respondents provided us with an indication that our survey does not suffer from non-response bias (Armstrong and Overton, 1977).

The survey instrument included psychometric scales to measure morphing, succession planning, family involvement, growth aspiration, management structure and sustainable competitive advantage. Each of the multi-item measures (Table I) was based on 5-point Likert-type scales anchored as described below.

--- insert Table I about here ---

As Jones et al (2005, 372) note, “the choice of instruments to measure reshaping capabilities is limited”. In the present study, we operationalised a broad, but still holistic, conceptualization of dramatic organisational change as a behavioural, action-oriented, process (Tsoukas and Chia, 2002). In Rindova and Kotha’s (2001) conceptualisation, morphing processes involve the continuous re-creation of organisational structures, processes, and products. This is similar to some parts of the innovation literature, where innovativeness is conceived of as initiation of new structures and processes, as well as new products or services (West and Anderson, 2003). Measures were developed to survey renewal of key firm modalities, especially: products and services; resources and capabilities; procedures and systems; employee job content and work method; and new ways of achieving goals.

Measures relating to a desire for family involvement in the firm, and to succession planning, developed specifically for family businesses, were also used drawn from Sharma et al. (2003). Further, the aspiration of the CEO to grow the company is based on measures developed by Wiklund and Shepherd (2003b). Financial performance used common measures such as overall profitability, margins, ROI and sales volumes with respect to the competition.

Several demographic variables that expected to be related with organisational renewal were also collected. Specifically respondents were asked about the family generation that operated the company, the number of employees, the percentage of family

employees and the percentage of family ownership. Further, given that renewal has often been described as adaptation to environmental dynamics, respondents also reported on the competitive environment they faced. Given plausible alternative explanations for financial performance and organisational renewal in family firms, we also included control variables capturing the age of the firm, the size of the firm (number of employees), and industry type (service or manufacturing).

FINDINGS

Table II shows the means, standard deviations and correlations of the variables in the model. We initially conducted an exploratory factor analysis using principal components extraction with varimax rotation that confirmed that each item has its highest loading on the factor it conceptually belongs to. The discriminant and convergent validity of our measures was tested by conducting a Confirmatory Factor Analysis (CFA) that was judged based on the overall fit, t and R-squared values of each relationship in the model (Bagozzi and Phillips, 1982). Further, all multi-item measures proved to be very reliable with Cronbach alpha values exceeding the typical .70 threshold (Table I).

--- insert Table II about here ---

In order to test our hypotheses we first examined the ability of family related variables to explain organisational renewal (Model 1 - Table III). Second, we examined how all our variables (including organisational renewal) explain financial performance (Model 2 – Table III). Third, given that only organisational renewal was found to explain financial performance, a simplified model of the effect of organisational

renewal on financial performance was examined (Model 3 – Table III). Overall, while our regressions were significant, we find that the financial performance of our family firms was only explained by organisational renewal (H1)³. We find that all of our hypotheses relating to the CEO are supported (Table III). More specifically, we find that founder CEOs (H2) and those with higher growth aspirations (H3) enjoy higher levels of organisational renewal. For succession related issues, we found that succession planning does enhance morphing (H5), but the intention to transfer ownership to following generations does not have a significant effect (H4). Higher levels of family employment within the firm are negatively correlated with organisational renewal. Market competitiveness does not have an effect on organisational renewal. This indicates that organisational renewal is not a reaction to the environment, but more of a function of the CEO and their intention. It is possible that family firms may be rather special in this regard, given the previous evidence emphasizing the significant of environmental turbulence. None of our remaining control variables – age, size and type of firm – showed a significant impact on organisational renewal.

--- insert Table III about here ---

More importantly, while controlling for all other variables, organisational renewal is a strong predictor of performance (Model 2 and 3 – Table III). Further, we tested the mediating effects of organisational renewal using the Baron and Kenny procedure

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A structural equation model using EQS reconfirmed these findings with the hypothesized model providing an acceptable fit to the data (CFI = 0.93, RMSEA = 0.051).

(Baron and Kenny, 1986). We found that organisational renewal fully mediates the relationship between our antecedents and financial performance.

DISCUSSION

This study aimed at investigating the extent to which organisational renewal impacts upon the performance of family firm. We operationalized organisational renewal as an expression of morphing activities in ever changing socio-economic conditions (Rindova and Kotha, 2001). A robust multi-item scale for organisational renewal was developed and tested and findings showed how it clearly impacts financial performance.

Rindova and Kotha (2001) originally developed the concept of morphing observing fast growing and young service providers in hypercompetitive markets (D'Aveni, 1994; Volberda, 1996). Our study showed that age, size, and industry appear to have no influence on organisational renewal, increasing the generalizability of the morphing concept. Interestingly, Rindova and Kotha (2001) also suggested that hypercompetitive dynamics spur morphing dynamics. However, this study did not support that extreme market competitiveness invited any change of form within family businesses.

A second aim of the study was to identify and measure observable characteristics of familiness as a system and to assess their influence on organisational renewal. We also explored the interface between the family and the business spheres of family firms. We went beyond the debate of familiness as a distinctive and measurable concept (Astrachan et al., 2002; Minichelli et al. 2010; Shulze and Gedajvolic, 2010)

or as a diffuse characterization of the family-business interface (Irava and Moores, 2010; Cabrera-Suarez et al. 2011). The study hence focused on family firms characteristics that can have an influence during the decision-making processes in transformation.

This approach allowed us to explain why the literature has struggled to decide whether familiness has generally a positive (Pearson et al., 2008) or a negative (Zellweger et al., 2010) effect on family businesses' dynamics. This debate dissipates when looking at familiness not as a specific resource (Kansikas et al., 2012); but as a system of decision-making processes that facilitate the interface between family dynamics and firm-management. Our data demonstrate that, during transformation, key decisions-making processes are defined by the balance between recognition of the *past* of the firm and considerations about its *future*. The model suggests how some of these characteristics act as facilitators (tenure of the founder; growth aspiration; succession planning), while others act as inhibitors (levels of family employment). This challenges not only the view that familiness is a distinctive resource, but also that it can be acted upon in a univocal way (Habbershorn and Williams, 1999; Kansikas et al., 2012).

The study contains several limitations. With regard to the sample, family firms were selected by self-identification. The generation of such convenient samples is however common in the literature as, although other measures are available, their effectiveness is not recognized (Astrachan et al., 2002; Arijs and Praet, 2010). Moreover, the observation of familiness and morphing dynamics in a single country allow accounting for clear macro-environmental changes. However, this might limit the

generalizability of findings. In addition, the homogeneity of the sample also made it impossible to distinguish different types of situations in family firms such as family owner-managers as against family owners employing non-family managers (Gulbrandsen, 2005).

With regard to the methodology, the quantitative nature of the study did not allow us to capture some of the more latent issues characterizing familiness as a system (Frank et al., 2010). A focus on more elusive aspects such as how language shapes the family business culture could have helped in making sense of how the elements of familiness interact.

CONCLUSIONS

Family firms have to carefully balance stability so to benefit from stewardship and avoid stagnation. This paper showed that, when successfully engaging with organisational renewal family firms achieve higher degrees of financial performance. The paper also showed that decision-making processes such as founder tenure; higher growth aspirations; and succession planning could characterise familiness as future-focused. Efforts are focused on creating a business which will thrive in the *future*, and not curating an organisational heirloom shaped and constrained by the *past*. Their strong future focus liberates these family firms from possible cross-generational path dependency, allowing the special resources of their family's business to act instead as a springboard for on-going organisational renewal, and indirectly, higher financial performance.

Conversely, those family firms with a high level of family altruism indicated by extensive kin-employment seemed to be more probably destined for stagnation than stewardship, as they promote (past-focused) historical family sentiment and tradition. Future research might usefully examine this notion of past-focused and future-focused family firms in more detail, as a mechanism for explaining strategic divergence.

The paper highlighted the importance of the founder CEO in shaping a future-oriented culture. This seems a key mechanism for coordinating the elements that constitute familiness as a system. Future research might explore both the role of the founder CEO and of temporal contexts in moderating how familiness emerges in family firms and shapes decision-making.

Finally, future research might also examine if processes of exploitation (i.e. target and incremental change) rather than exploration (i.e. organisational renewal) in family firms can effectively express morphing and indirectly affect financial performance. Availability of resources and their optimal allocation might in fact limit the engagement of family firms with organisational renewal.

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Figure 1 The hypothesized effects of “familiness” on organisational renewal

Table I: Summary of Scales and Items (Reliability)

<i>Item #</i>	<i>Scale and Items</i>
<i>Organisational Renewal (alpha=.859)</i>	
Renew1	We continuously renew our competitive advantage through comprehensive redefinition of our products and services
Renew2	We have frequently re-organized our business to create and use new capabilities We are more innovative than our competitors...
Renew3	... in deciding what methods to use in achieving our targets and objectives
Renew4	... in initiating new procedures or systems
Renew5	... in developing new ways of achieving our targets and objectives
<i>Succession Planning (alpha=.857)</i>	
SucPI1	We have a succession plan for transferring management control
SucPI2	Explicit efforts are made to train potential successors
SucPI3	Explicit attention is given to familiarize potential successors with the business prior to succession
<i>Desire for Younger Generation Employment (alpha=.800)</i>	
DesKidJob1	If none of the younger family members joins our family firm, the preceding generation would be very disappointed
DesKidJob2	The boss of our business wanted/wants his/her children to enter the business
<i>Growth Aspiration (alpha=.783)</i>	
If your firm doubles in size, how would you feel about the following?	
Grow1	My own workload
Grow2	I will work more on job tasks that I like best
Grow3	I will have control over the firm's operation
Grow4	We will be able to significantly improve our relationship with customers
Grow5	We will be able to significantly improve the quality of our products and services
<i>Financial Performance (alpha=.886)</i>	
FinPerf1	Overall profit levels achieved compared to competition
FinPerf2	Profit margins achieved compared to competition
FinPerf3	Return on investment compared to competition
FinPerf4	Sales volume achieved compared to competition
<i>Competitive Environment (alpha=.752)</i>	
Compet1	Competition in our market is extremely aggressive
Compet2	There is intense price competition in our market
Compet3	We face strong competitor sales, promotion and distribution systems

Table II Measure correlations and descriptive statistics

Variables	Mean	S.D.	1	2	3	4	5	6	7	8
1. Organisational Renewal	3.51	0.70	1							
2. Growth Aspirations	3.19	0.73	0.16*	1						
3. Succession planning	3.40	1.03	0.30**	0.05	1					
4. Desire for Young Gen Empl	3.47	1.06	0.08	0.04	0.40**	1				
5. % family employees	0.10	0.10	-0.21*	0.11	-0.08	-0.04	1			
6. Founder CEO	0.59	0.49	0.17*	0.25**	-0.16	-0.07	0.05	1		
7. Competitive Environment	3.23	1.08	-0.06	-0.10	0.23**	0.14	0.01	-0.22**	1	
8. Number of Employees			0.05	-0.19*	0.09	0.14	-0.42**	-0.12	-0.07	1
9. Age of Firm			0.02	-0.5	0.3	-0.21*	-0.06	0.04	-0.04	0.03
10. Industry Type ⁱ			-0.01	-0.18*	0.08	0.09	-0.05	-0.08	0.24*	-0.05
11. Financial Performance	3.40	0.79	0.45**	-0.06	0.21*	0.06	-0.10	-0.07	-0.08	0.18*

**p<.01, *p<.05

ⁱ Manufacturing = 1; Services = 0

Table III. Regression Results

Dependent variable	Model 1		Model 2		Model 3
	Organisational Renewal		Financial Performance		Financial Performance
	betas	t-values	betas	t-values	betas
Founder CEO	0.207	2.153*	-0.124	-1.036	
Growth aspiration	0.256	2.694**	-0.083	-0.724	
% family employees	-0.208	-2.068*	0.073	0.625	
Younger Gen Empl	-0.061	-0.597	- 0.029	-0.241	
Succession Planning	0.303	2.885**	0.139	1.061	
Mkt Competitiveness	-0.147	-1.466	-0.174	-1.486	
Number of Employees	0.014	0.140	0.169	1.404	
Age of Firm	-0.012	-0.123	-0.068	-0.629	
Industry Type	-0.007	-0.069	0.020	0.180	
Org. Renewal	-	-	0.329	2.923**	0.447
R ²	0.260		0.178		0.200
F-model	3.550**		1.685 ⁺		29.223**

**p<.01, *p<.05, + p<.10